



Manistee Area Public Schools

**MANISTEE AREA PUBLIC SCHOOLS
MANISTEE COUNTY, MICHIGAN
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018**

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	5
BASIC FINANCIAL STATEMENTS	
<hr/>	
District-wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds	
Balance Sheet	15
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balance	17
Reconciliation of Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances with Statement of Activities	18
Fiduciary Funds	
Statement of Fiduciary Assets and Liabilities	19
Notes to the Financial Statements	21
REQUIRED SUPPLEMENTARY INFORMATION	
<hr/>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	51
Schedule of School District's Proportionate Share of Net Pension Liability	52
Schedule of School District's Pension Contributions	53
Schedule of School District's Proportionate Share of Net OPEB Liability	54
Schedule of School District's OPEB Contributions	55
OTHER SUPPLEMENTARY INFORMATION	
<hr/>	
Nonmajor Governmental Funds	
Combining Balance Sheet	57
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	58

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Manistee Area Public Schools
Manistee, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of Manistee Area Public Schools, Manistee, Michigan (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 entity'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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, and the aggregate remaining fund information of the School District as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 13 to the financial statements, the School District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing

procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual 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 31, 2018, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

Gabridge & Company, PLC
Grand Rapids, MI
October 31, 2018

Management's Discussion and Analysis

**Manistee Area Public Schools
Management's Discussion and Analysis
June 30, 2018**

This section of Manistee Area Public Schools (the "School District"), Manistee County, Michigan's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2018. It is to be read in conjunction with the School District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2018.

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

Financial Highlights

- For fiscal year ended 2018, the Board of Education originally adopted a balanced general fund budget with a projected change in fund balance of \$(170,000). The operating millage rate remained the same for 2018 as it was for 2017, which was 18.00. The actual results of operation in the general fund showed that actual expenditures were \$661,873 less than the final general fund budget, that actual revenues were \$7,839 more than the final general fund budget, and that actual other financing uses (transfers out) were \$509 less than the final general fund budget.
- At June 30, 2018 the total net position was a deficit of \$(10,834,522) of which \$(24,304,897) was deficit unrestricted net position.
- The total net position increased \$2,282,496 from \$(13,117,018) as of June 30, 2017 to \$(10,834,522) as of June 30, 2018. Refer to the district-wide financial statements – change in net position for fiscal year ended June 30, 2017 and June 30, 2018 for explanations regarding the net position increase.
- At June 30, 2018, the total fund balance for the general fund was \$2,896,662.

Overview of the Financial Statements

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

- The first two statements, the statement of net position and the statement of activities, are *district-wide financial statements* that provide both short-term and long-term information about the School District's overall financial status.

**Manistee Area Public Schools
Management's Discussion and Analysis
June 30, 2018**

- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the district-wide statements.
 - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
 - *Fiduciary funds statements* provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others.

The basic financial statements also include the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary information follows and includes combining and individual fund statements as well as a budgetary comparison schedule for the general fund.

District-wide Financial Statements

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

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

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

To assess the School District's overall health, one should consider additional non-financial factors such as changes in the School District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the School District's activities are presented as governmental activities. *Governmental activities* include the School District's basic services, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Financial Analysis of the School District as a Whole

The following is a comparative highlight of the current and prior year financial activities:

**Manistee Area Public Schools
Management's Discussion and Analysis
June 30, 2018**

ASSETS	2018	2017
<i>Current Assets</i>		
Cash and Investments	\$ 4,730,463	\$ 3,468,174
Receivables	5,760,818	5,790,420
Due from Other Governments	69,492	148,746
Prepaid Items and Inventories	158,343	46,751
Total Current Assets	10,719,116	9,454,091
<i>Noncurrent Assets</i>		
Capital Assets, Net	25,805,759	25,327,319
Total Assets	36,524,875	34,781,410
DEFERRED OUTFLOWS OF RESOURCES		
Pension	4,986,797	3,447,168
OPEB	404,972	401,216
Total Deferred Outflows of Resources	5,391,769	3,848,384
LIABILITIES		
<i>Current Liabilities</i>		
Accounts Payable	568,260	608,961
Salaries Payable	626,082	675,166
Accrued Employee Benefits	282,117	405,424
Interest Payable	100,887	109,228
Due to Other Governmental Units	4,065,591	3,808,029
Current Portion of Long-term Debt	1,272,508	1,292,882
State Aid Note Payable	949,861	1,011,870
Total Current Liabilities	7,865,306	7,911,560
<i>Noncurrent Liabilities</i>		
Long-term Debt	13,053,888	12,910,450
Compensated Absences	120,709	155,497
Net Pension Liability	22,299,506	21,685,158
Net OPEB Liability	7,626,799	8,044,584
Total Liabilities	50,966,208	50,707,249
DEFERRED INFLOWS OF RESOURCES		
Pension	1,527,117	1,039,563
OPEB	257,841	-
Total Deferred Inflows of Resources	1,784,958	1,039,563
NET POSITION		
Net Investment in Capital Assets	12,139,832	11,534,473
Restricted	1,330,543	926,330
Unrestricted	(24,304,897)	(25,577,821)
Total Net Position	\$ (10,834,522)	\$ (13,117,018)

**Manistee Area Public Schools
Management's Discussion and Analysis
June 30, 2018**

Restricted net position increased from \$926,330 as of June 30, 2017 to \$1,330,543 as of June 30, 2018. Net investment in capital assets increased from \$11,534,473 as of June 30, 2017 to \$12,139,832 as of June 30, 2018 due to building improvements associated with the Honeywell Project.

The results of the fiscal year's operations for the School District as a whole are presented in the statement of activities, which shows the change in total net position for the year.

The statement of activities presents the following changes in net position from operating results:

	<u>2018</u>	<u>2017</u>
Revenues		
Program Revenues		
Charges for Services	\$ 1,243,894	\$ 1,178,006
Operating Grants & Contributions	3,748,609	3,752,829
<i>Total Program Revenues</i>	<u>4,992,503</u>	<u>4,930,835</u>
General Revenues		
Local Sources	5,123,575	5,215,982
Unrestricted State Sources	6,863,553	7,055,931
Non-educational Entity Sources	765,640	642,516
<i>Total General Revenues</i>	<u>12,752,768</u>	<u>12,914,429</u>
<i>Total Revenues</i>	<u>17,745,271</u>	<u>17,845,264</u>
Expenses		
Instruction	7,640,020	9,146,709
Supporting Services	4,982,564	5,284,688
Community Services	223,621	231,734
Food Services	763,799	821,281
Athletics	422,904	360,457
Debt Service	582,816	586,608
Unallocated Depreciation	847,051	1,026,200
<i>Total Expenses</i>	<u>15,462,775</u>	<u>17,457,677</u>
<i>Change in Net Position</i>	<u>2,282,496</u>	<u>387,587</u>
<i>Net Position at Beginning of Period</i>	<u>(13,117,018)</u>	<u>(13,504,605)</u>
<i>Net Position at End of Period</i>	<u>\$ (10,834,522)</u>	<u>\$ (13,117,018)</u>

Instruction and supporting service expenses decreased by \$1,808,813 during 2018. This decrease is largely related to the better than expected change in the School's net pension and OPEB liabilities. The application of the new pension and OPEB reporting standards showed a reduction of expenses of \$601,427 during the year (compared to an increase of expenses of \$407,434 reporting during FYE 2017).

Manistee Area Public Schools
Management's Discussion and Analysis
June 30, 2018

Fund Financial Statements

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

The School District utilizes two kinds of funds:

- *Governmental funds*: Most of the School District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.
- *Fiduciary funds*: The School District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and student activities funds. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the School District's Funds

The School District uses funds to record and analyze financial information. The School District has one major fund, its general fund.

The ***general fund*** is the School District's primary operating fund. The general fund had revenues of \$15,432,536, expenditures of \$13,599,631, and net other financing sources and uses of \$(954,554). The general fund ended the year with an \$878,351 increase in fund balance for a total fund balance of \$2,896,662 as of June 30, 2018, up from \$2,018,311 as of June 30, 2017.

The nonmajor governmental funds had an increase in fund balance for the year of \$404,213 for total nonmajor governmental fund balances of \$1,330,543 as of June 30, 2018, from \$926,330 as of June 30, 2017.

**Manistee Area Public Schools
Management's Discussion and Analysis
June 30, 2018**

General Fund Budgetary Highlights

During the year the School District revised its budget to attempt to match changes in the school funding environment and current needs of students and faculty. State law requires that budgets be amended during the year so actual expenditures do not exceed appropriations. The initial budget for the year ended June 30, 2018, was adopted by the Board of Education on June 28, 2017, with the final amendments made on June 27, 2018.

Original budget compared to final budget. The original budget was amended during the year as actual results needed adjusting from the original budgeted estimates. The original budget for Elementary Instruction decreased from \$3,472,379 to \$3,086,379 and the original budget for Middle School Instruction increased from \$1,184,153 to \$1,570,153.

Final budget compared to actual results. The School District had the no expenditures in excess of the amount appropriated during the year ended June 30, 2018.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2018, the School District had \$25,805,759 invested in capital assets. This included a net decrease during the past fiscal year of \$478,440 consisting of depreciation charges of \$847,051 and capital asset purchases of \$1,325,491.

The School District's current year additions totaled \$1,325,491, principally in two areas:

- \$841,045 for work-in-process for the Honeywell Project
- \$341,475 for one new vehicle and four new buses

The following table represents the School Districts investment in capital assets for each of the two past years:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Work-in-Process	\$ 841,045	\$ 452,834
Buildings and Improvements	33,033,819	32,479,240
Vehicles and Buses	1,023,675	982,449
Contents and Equipment	1,286,698	945,223
Subtotal	<u>36,185,237</u>	<u>34,859,746</u>
Accumulated Depreciation	<u>10,379,478</u>	<u>9,532,427</u>
<i>Net Capital Assets</i>	<u>\$ 25,805,759</u>	<u>\$ 25,327,319</u>

More detailed information about the School District's capital assets can be found in the notes to the financial statements section of this document.

**Manistee Area Public Schools
Management's Discussion and Analysis
June 30, 2018**

Long-term Debt

At year end, the School District had total long-term debt of \$14,326,396.

- The School District continued to pay down its debt, retiring \$1,293,360 of outstanding bonds, loans, and leases during the year.
- The School District issued a capital improvement bond for the Honeywell Project in the amount of \$1,416,424.
- The School District's other long-term obligations are for accumulated sick/vacation leave in the amount of \$120,709.

The State limits the amount of general obligation debt that schools can issue. The School District is well under the State limit as of June 30, 2018.

More detailed information about the School District's long-term debt can be found in the notes to the financial statements section of this document.

Economic Factors and Next Year's Budget and Rates

The School District's budget for the 2019 fiscal year projects total revenues of \$15,419,100 and total expenditures of \$15,419,100. The School District continues to work to balance its expenditures while providing an excellent education to the District it serves.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Manistee Area Public Schools
550 Maple Street
Manistee, MI 49660

Basic Financial Statements

Manistee Area Public Schools
Statement of Net Position
June 30, 2018

ASSETS

Current Assets

Cash and Investments	\$	4,730,463
Receivables		5,760,818
Due from Other Governments		69,492
Inventories		23,995
Prepaid Items		134,348
Total Current Assets		10,719,116

Noncurrent Assets

Capital Assets not being Depreciated		841,045
Capital Assets being Depreciated		24,964,714
Total Assets		36,524,875

DEFERRED OUTFLOWS OF RESOURCES

Pension		4,986,797
OPEB		404,972
Total Deferred Outflows of Resources		5,391,769

LIABILITIES

Current Liabilities

Accounts Payable		568,260
Salaries Payable		626,082
Accrued Employee Benefits		282,117
Interest Payable		100,887
Due to Other Governmental Units		4,065,591
Current Portion of Long-term Debt		1,272,508
State Aid Note Payable		949,861
Total Current Liabilities		7,865,306

Noncurrent Liabilities

Long-term Debt		13,053,888
Compensated Absences		120,709
Net Pension Liability		22,299,506
Net OPEB Liability		7,626,799
Total Liabilities		50,966,208

DEFERRED INFLOWS OF RESOURCES

Pension		1,527,117
OPEB		257,841
Total Deferred Inflows of Resources		1,784,958

NET POSITION

Net Investment in Capital Assets		12,139,832
<i>Restricted for:</i>		
Athletics		44,395
Aquatics		76,887
Food Service		338,210
Debt Service		483,205
Capital Projects		387,846
<i>Unrestricted</i>		(24,304,897)
Total Net Position		\$ (10,834,522)

The Notes to the Financial Statements are an integral part of these Financial Statements

**Manistee Area Public Schools
Statement of Activities
For the Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue
					Total
Instruction	\$ 7,640,020	\$ 738,137	\$ 2,276,893	\$ --	\$ (4,624,990)
Supporting Services	4,982,564	5,955	731,704	--	(4,244,905)
Community Services	223,621	161,318	--	--	(62,303)
Athletics	422,904	40,299	--	--	(382,605)
Food Service	763,799	219,747	657,747	--	113,695
Unallocated Depreciation	847,051	--	--	--	(847,051)
Interest on Long-term Debt	554,488	78,438	82,265	--	(393,785)
Bond Issuance Costs	28,328	--	--	--	(28,328)
Total	\$ 15,462,775	\$ 1,243,894	\$ 3,748,609	\$ --	\$ (10,470,272)

**General Purpose Revenues:
Revenues**

Local Sources	5,123,575
State Sources	6,863,553
Non-educational Entity Sources	765,640
Total General Revenues	12,752,768
Change in Net Position	2,282,496
<i>Net Position at Beginning of Period (Restated, Note 13)</i>	<i>(13,117,018)</i>
Net Position at End of Period	\$ (10,834,522)

The Notes to the Financial Statements are an integral part of these Financial Statements

**Manistee Area Public Schools
Balance Sheet
Governmental Funds
June 30, 2018**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Investments	\$ 3,216,646	\$ 1,513,817	\$ 4,730,463
Receivables	5,760,818	--	5,760,818
Due from Other Governments	62,206	7,286	69,492
Inventories	--	23,995	23,995
Prepaid Items	133,772	576	134,348
Due from Other Funds	85,451	56,804	142,255
<i>Total Assets</i>	<u>\$ 9,258,893</u>	<u>\$ 1,602,478</u>	<u>\$ 10,861,371</u>
LIABILITIES			
Accounts Payable	\$ 392,867	\$ 175,393	\$ 568,260
Salaries Payable	626,082	--	626,082
Accrued Employee Benefits	278,008	4,109	282,117
Due to Other Governmental Units	4,058,609	6,982	4,065,591
State Aid Note Payable	949,861	--	949,861
Due to Other Funds	56,804	85,451	142,255
<i>Total Liabilities</i>	<u>6,362,231</u>	<u>271,935</u>	<u>6,634,166</u>
FUND BALANCE			
Nonspendable	133,772	24,571	158,343
Restricted	--	1,305,972	1,305,972
Unassigned	2,762,890	--	2,762,890
<i>Total Fund Balance</i>	<u>2,896,662</u>	<u>1,330,543</u>	<u>4,227,205</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 9,258,893</u>	<u>\$ 1,602,478</u>	<u>\$ 10,861,371</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Manistee Area Public Schools
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018

Total Fund Balance - Governmental Funds	\$	4,227,205
General government capital assets of \$36,185,237, net of accumulated depreciation of \$10,379,478, are not financial resources and, accordingly, are not reported in the funds.		25,805,759
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(14,326,396)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. This amount represents the sum of accrued interest of \$100,887 and compensated absences of \$120,709.		(221,596)
Certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds. This represents the sum of the net pension liability and its related deferred inflows and deferred outflows.		(18,839,826)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(7,479,668)
Total Net Position - Governmental Funds	\$	<u>(10,834,522)</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Manistee Area Public Schools
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local Sources	\$ 4,281,341	\$ 1,568,960	\$ 5,850,301
Non-educational Entity Sources	765,640	53,950	819,590
State Sources	9,138,394	27,044	9,165,438
Federal Sources	460,170	660,981	1,121,151
Interdistrict Sources	713,773	1,800	715,573
Other Revenue	73,218	--	73,218
<i>Total Revenues</i>	<u>15,432,536</u>	<u>2,312,735</u>	<u>17,745,271</u>
Expenditures			
Instruction	7,993,564	--	7,993,564
Supporting Services	5,081,656	183,579	5,265,235
Community Services	--	223,621	223,621
Food Service	--	763,799	763,799
Athletics	--	422,904	422,904
Capital Outlay	358,743	966,748	1,325,491
Debt Service - Principal	165,668	1,127,692	1,293,360
Debt Service - Interest	--	562,829	562,829
Debt Service - Bond Issuance Costs	--	28,328	28,328
<i>Total Expenditures</i>	<u>13,599,631</u>	<u>4,279,500</u>	<u>17,879,131</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,832,905</u>	<u>(1,966,765)</u>	<u>(133,860)</u>
Other Financing Sources (Uses)			
Capital Improvement Bonds Issued	--	1,416,424	1,416,424
Transfers In	--	954,554	954,554
Transfers Out	(954,554)	--	(954,554)
<i>Net Other Financing Sources (Uses)</i>	<u>(954,554)</u>	<u>2,370,978</u>	<u>1,416,424</u>
<i>Net Change in Fund Balance</i>	<u>878,351</u>	<u>404,213</u>	<u>1,282,564</u>
<i>Fund Balance at Beginning of Period</i>	2,018,311	926,330	2,944,641
<i>Fund Balance at End of Period</i>	<u>\$ 2,896,662</u>	<u>\$ 1,330,543</u>	<u>\$ 4,227,205</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Manistee Area Public Schools
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2018

Total Net Change in Fund Balances - Governmental Funds	\$	1,282,564
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and expensed. This amount represents current year capital outlay expenditures of \$1,325,491 less current year depreciation expense of \$847,051.</p>		
		478,440
<p>Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net position.</p>		
		1,293,360
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the current year decrease in compensated absences of \$34,788 and the current year decrease in accrued interest of \$8,341.</p>		
		43,129
<p>Proceeds from Long-term capital lease obligations are reported as an other financing source of income in the funds, but is recorded as a long-term liability on the statement of net position. This represents the current year proceeds received for capital lease obligations.</p>		
		(1,416,424)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds. This amount represents the change in net pension liability, and the related deferred inflows and outflows, during the year.</p>		
		437,727
<p>The statement of net position reports the net OPEB liability and OPEB related deferrals related to the net OPEB liability as OPEB expense. However, the expenditures recorded on the governmental funds equals actual OPEB contributions.</p>		
		163,700
Changes in Net Position - Governmental Funds	\$	<u>2,282,496</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

Manistee Area Public Schools
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2018

	Agency Funds
ASSETS	
Cash and Investments	\$ 238,327
<i>Total Assets</i>	238,327
LIABILITIES	
Payroll Liabilities	3,829
Due to Student Groups	234,498
<i>Total Liabilities</i>	\$ 238,327

The Notes to the Financial Statements are an integral part of these Financial Statements

Notes to the Financial Statements

Manistee Area Public Schools

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Manistee Area Public Schools (the “School District” or “government”) conform to generally accepted accounting principles as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District’s significant accounting policies are described below.

Reporting Entity

The financial reporting entity consists of a primary government and its component units. The School District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the School District for financial statement presentation purposes, and the School District is not included in any other governmental reporting entity. Consequently, the School District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

The following entity is not included in the School District’s financial statements but does represent an ongoing financial interest or responsibility:

Michigan Great Lakes Virtual Academy

The Manistee Area Public Schools Board of Education entered into a contract with the Michigan Great Lakes Virtual Academy (the “Academy”) to provide monitoring of compliance with applicable laws and performance of the Academy’s targeted educational outcome. The Manistee Area Public Schools Board of Education is to receive an administrative fee of 3% of the state school aid payments received by the Academy to compensate the Manistee Area Public Schools Board of Education for issuing the contract and overseeing the Academy’s compliance with the contract and applicable law. The Contract became effective on April 1, 2013 and generated \$670,822 of administrative fees during the year for the School District.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues.

The *statement of activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a

Manistee Area Public Schools

Notes to the Financial Statements

given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements.

Major individual funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds also use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met.

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

Revenues susceptible to accrual are property taxes, state aid, federal and inter-district revenues and interest income and, accordingly, have been recognized as revenues of the current fiscal year. Other revenues are recognized when received.

The School District reports the following major fund:

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

Additionally, the School District reports the following fund types:

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

Manistee Area Public Schools

Notes to the Financial Statements

Debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, and leases) principal, interest, and related costs.

Capital projects funds account for the accumulation and disbursement of resources for the construction of governmental fund capital projects.

Fiduciary funds account for resources held for student activities.

Budgets and Budgetary Accounting

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The School District also prepares budgets for its capital project and debt service funds. The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, School District administrative personnel and department heads work with the Superintendent and Business Manager to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original general and special revenue funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the general and special revenue funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

Appropriations lapse at year-end and amounts may be reappropriated for expenditures to be incurred in the following fiscal year.

Property Taxes

Property taxes are recognized as revenue in the general and debt service funds on a levy year basis. The 2017 levy amounts are recognized as current property tax revenue to the extent that they are

Manistee Area Public Schools

Notes to the Financial Statements

collected during the year or within 60 days after year-end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues. Property taxes are levied December 1 on the assessed valuation of property located within the School District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the School District and are equalized by the State of Michigan.

Assets, Liabilities, and Fund Equity

Cash and Cash Equivalents

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

State statutes and School District policy authorize the School District to invest in:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan and its political subdivisions, that, at the time of purchase are rated as investment grade by at least one standard rating service.
- Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

Investments

Investments are stated at fair market value. Investments are exposed to various risks, such as significant external events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the

Manistee Area Public Schools

Notes to the Financial Statements

fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net position.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as “due to/from other funds” (i.e., the current portion of interfund loans).

All receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectable during the current year.

Inventories and Prepaids

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of food commodities and related supplies.

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

Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at acquisition value at the date of donation.

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

Land improvements, buildings and additions, furniture and equipment and vehicles are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and Improvements	30-50
Vehicles and Buses	5-10
Contents and Equipment	3-10

Manistee Area Public Schools

Notes to the Financial Statements

Pension

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

Postemployment Benefits Other Than Pensions

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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. They are the pension and other postemployment benefits related items reporting in the district-wide statement of net position. Deferred outflows are recognized for pension and other postemployment benefit related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The School District has three items that qualify for reporting in this category. The first is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension and other postemployment benefit contributions subsequent to the measurement period. The second and third items are future resources yet to be recognized in relation to the pension and other postemployment benefit actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension and other postemployment benefit liability and the actual results. The amounts are amortized over a period determined by the actuary.

Manistee Area Public Schools

Notes to the Financial Statements

Salaries Payable and Accrued Employee Benefits

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the School District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for the employee health insurance premiums for the months of July and August. The School District pays these insurances for this period as part of the compensation for services rendered in the preceding school year.

Compensated Absences

School District employees are granted vacation and sick leave in varying amounts based on length of service. Unused vacation time and sick leave accumulate from year to year at varying rates, depending on the employees' applicable rate of pay and/or employment category. The liability for compensated absences includes salary-related payments.

In the fund financial statements, only the matured liability for compensated absences is reported. The total liability is reported in the district-wide financial statements.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are recorded as a period expense. Bonds payable are reported at the total amount of bonds issued.

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

Net Position Flow Assumption

Sometimes the School District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

Manistee Area Public Schools

Notes to the Financial Statements

It is the School District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

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

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

Unassigned fund balance is the residual classification for the School District's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Board of Education.

Manistee Area Public Schools

Notes to the Financial Statements

Interfund Activity

Outstanding balances between funds are reported as due from/to other funds at year-end.

Use of Estimates

The preparation of financial statements requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated.

The School District's actual expenditures and budgeted expenditures for the budgeted funds have been shown at the department level. The approved budgets of the School District for these budgeted funds were also adopted at the department level.

Excess of expenditures over appropriations in budgeted funds – The School District had no expenditures in excess of the amount appropriated as of June 30, 2018.

District-wide Deficit

The School District has an unrestricted net position deficit for District-wide activities in the amount of \$(24,304,897) as of June 30, 2018.

Manistee Area Public Schools

Notes to the Financial Statements

Note 3 - Cash and Investments

The School District maintains pooled and individual fund demand deposits, certificates of deposit, and short-term investment accounts.

Following is a reconciliation of deposit and investment balances as of June 30, 2018:

Statement of Net Position	
Cash and Investments	\$ 4,730,463
Statement of Fiduciary Assets and Liabilities	
Cash and Investments	<u>238,327</u>
Total Deposits and Investments	<u>\$ 4,968,790</u>
Deposits and Investments	
Checking and Savings Accounts	\$ 4,965,306
Cash on Hand	<u>3,484</u>
Total	<u>\$ 4,968,790</u>

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be returned. State law does not require and the School District does not have a policy for deposit custodial credit risk. As of year-end, \$4,601,787 of the School District's bank balance of \$5,340,044 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the School District believes it is impractical to insure all bank deposits. As a result, the School District evaluates each financial institution with which it deposits School District funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Interfund Receivables, Payables, and Transfers

Interfund balances at June 30, 2018 consisted of fund receivables and payables listed below:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Athletics	\$ 1,185
General Fund	Capital Projects	283
General Fund	Aquatics	10,350
General Fund	Food Service	73,633
2011 Debt Service	General Fund	<u>56,804</u>
		<u>\$ 142,255</u>

Manistee Area Public Schools

Notes to the Financial Statements

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

The following schedule summarizes operating transfers during the year:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Athletics	General Fund	\$ 385,000
Aquatics	General Fund	85,000
2011 Debt Service	General Fund	156,462
2003 Debt Service	General Fund	124,450
QZAB Debt Service	General Fund	203,642
		<u>\$ 954,554</u>

Interfund transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 5 - State of Michigan School Aid

The School District reports State of Michigan school aid in the fiscal year in which the School District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding provided approximately 52 percent of the total revenues to the School District during the 2018 fiscal year.

Manistee Area Public Schools

Notes to the Financial Statements

Note 6 - Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Transfers	Ending Balance
Capital Assets not Being Depreciated:				
Construction in Progress	\$ 452,834	\$ 841,045	\$ (452,834)	\$ 841,045
Capital Assets Being Depreciated:				
Buildings and Improvements	32,479,240	101,745	452,834	33,033,819
Vehicles and Buses	982,449	41,226	-	1,023,675
Contents and Equipment	945,223	341,475	-	1,286,698
Total Capital Assets Being Depreciated	<u>34,406,912</u>	<u>484,446</u>	<u>452,834</u>	<u>35,344,192</u>
Less Accumulated Depreciation:				
Buildings and Improvements	8,069,826	700,559	-	8,770,385
Vehicles and Buses	629,961	87,620	-	717,581
Contents and Equipment	832,640	58,872	-	891,512
Total Accumulated Depreciation	<u>9,532,427</u>	<u>847,051</u>	<u>-</u>	<u>10,379,478</u>
Capital Assets Being Depreciated, Net	<u>24,874,485</u>	<u>(362,605)</u>	<u>(452,834)</u>	<u>24,964,714</u>
Capital Assets, Net	<u>\$ 25,327,319</u>	<u>\$ 478,440</u>	<u>\$ (905,668)</u>	<u>\$ 25,805,759</u>

Depreciation expense for the fiscal year ended June 30, 2018 amounted to \$847,051. The School District determined that it was impractical to allocate depreciation expense to the various government activities as the capital assets serve multiple functions.

Note 7 - Long-term Debt

Bonds and Installment Loans Payable

2003 School Building and Site Bonds

On June 3, 2003, the School District issued a bond for \$1,325,000 known as the 2003 School Building and Site Bonds. The bond matured during the 2018 fiscal year and had an interest rate range of 2.75-3.70%.

2011 General Obligation Unlimited Tax Refunding Bonds

On September 27, 2011, the School District issued refunding bonds for \$15,790,000 known as the 2011 Refunding Bonds (General Obligation – Unlimited Tax). The proceeds were used to retire the 2001 Refunding Bonds early. The 2011 bond matures in the 2029 fiscal year with annual principal payments ranging from \$510,000-\$1,140,000 and has an interest rate range of 2.00-

Manistee Area Public Schools

Notes to the Financial Statements

4.50%. The refunding is expected to save Manistee Area Public Schools approximately \$1,728,502 over the course of the 2011 refunding bond life.

2012 Energy Conservation Improvement Bonds (QZAB)

On December 21, 2012, the School District issued a bond for \$2,965,384 known as the 2012 Energy Conservation Improvement Bonds, which are Qualified Zone Academy Bonds (QZAB). The proceeds of the bond financed energy management system retrofits, building envelope improvements, water conservation improvements, and mechanical system replacements / retrofits. The bond matures in fiscal year 2028 and has an interest rate of 4.25%. Principal payments of \$197,692 are due May 1 of each fiscal year and interest payments are due each November 1 and May 1 of each fiscal year.

2017 School Improvement Bonds (QZAB)

On December 28, 2017, the School District issued a bond for \$1,653,750, with total draw-downs of \$1,416,424 at June 30, 2018, known as the 2017 Improvement Bonds, which are Qualified Zone Academy Bonds (QZAB). The proceeds of the bond financed the Honeywell Project. The bond matures in fiscal year 2033. Principal payments of \$110,250 are due December 15 of each fiscal year.

Capital Leases

2013 Copier Lease Purchase Agreement

On April 12, 2013, the School District entered into a lease purchase agreement to purchase for new copiers. The lease obligation began July 1, 2013 and was \$74,324 which equals the fair market value of the copiers. Monthly installments of \$1,397 are due with an interest rate of 4.84%, and the final payment is in July 2018.

2014 Cisco Equipment Lease Purchase Agreement

On July 1 2014, the School District entered into a lease purchase agreement to purchase new Cisco equipment. The obligation on July 1, 2014 was \$71,025 which equals the fair market value of the computers. Installments of \$14,205 are due with no interest each fiscal year, and the final payment is in October 2019.

2017 Apple Equipment Lease Purchase Agreement

On April 24 2017, the School District entered into a lease purchase agreement to purchase new Apple equipment. The obligation on April 24, 2017 was \$410,486 which equals the fair market value of the computers. Installments of \$137,795 are due with an interest rate of 0.59% each fiscal year, and the final payment is in July 2019.

Manistee Area Public Schools

Notes to the Financial Statements

The following is a summary of the changes in long-term debt (including current portion) of the School District for the year ended June 30, 2018:

	June 30, 2017	Additions	Reductions	June 30, 2018	Due Within One Year
Bonds & Installment Loans Payable					
2003 School Building & Site Bonds	\$ 120,000	\$ -	\$ (120,000)	\$ -	\$ -
2011 Refunding Bonds	11,555,000	-	(810,000)	10,745,000	830,000
2012 QZAB Bond	2,075,768	-	(197,692)	1,878,076	197,692
2017 QZAB Improvement Bonds	-	1,416,424	-	1,416,424	110,250
Total Bonds & Installment Loans Payable	<u>13,750,768</u>	<u>1,416,424</u>	<u>(1,127,692)</u>	<u>14,039,500</u>	<u>1,137,942</u>
Capital Leases					
2013 Copier Lease	13,668	-	(13,668)	-	-
2014 Cisco Equipment Lease	28,410	-	(14,205)	14,205	14,205
2017 Computer Lease	410,486	-	(137,795)	272,691	136,183
Total Capital Leases	<u>452,564</u>	<u>-</u>	<u>(165,668)</u>	<u>286,896</u>	<u>150,388</u>
Compensated Absences	155,497	-	(34,788)	120,709	-
Total Long-term Liabilities	<u>\$ 14,358,829</u>	<u>\$ 1,416,424</u>	<u>\$ (1,328,148)</u>	<u>\$ 14,447,105</u>	<u>\$ 1,288,330</u>

Annual debt service requirements, exclusive of compensated absences, for long-term debt outstanding as of June 30, 2018 follows:

Year Ending	Principal	Interest	Total
June 30,			
2019	\$ 1,288,330	\$ 527,148	\$ 1,815,478
2020	1,304,450	493,043	1,797,493
2021	1,192,942	456,958	1,649,900
2022	1,222,942	418,689	1,641,631
2023	1,262,942	378,261	1,641,203
2024-2028	6,600,866	1,112,874	7,713,740
2029-2033	1,453,924	51,300	1,505,224
Totals:	<u>\$ 14,326,396</u>	<u>\$ 3,438,273</u>	<u>\$ 17,764,669</u>

Accumulated unpaid compensation for termination leave pay at June 30, 2018 has been computed and recorded in the financial statements as a long-term liability as the liability is expected to be liquidated from future financial resources. At present, eligible School District employees are entitled to a termination leave payment based on their unused absence days at current pay rate and eligible teachers and certain administrators are entitled to supplemental retirement stipends according to guidelines set forth by the School District. At June 30, 2018, the accumulated liability (expected to be financed by general fund resources) amounted to \$120,709.

Manistee Area Public Schools

Notes to the Financial Statements

Note 8 - Short-term Debt

Short-term Debt Activity

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its general fund. These notes are necessary because the School District's cash flow obligation to operating expense precede the collection of state aid. Summary information for the state aid notes is listed below in the short-term debt activity schedule.

Summary information for the state aid notes payable are below:

	<u>June 30, 2017</u>	<u>Change, net</u>	<u>June 30, 2018</u>	<u>Due within One Year</u>
State Aid Revenue Notes	<u>\$ 1,011,870</u>	<u>\$ (62,009)</u>	<u>\$ 949,861</u>	<u>\$ 949,861</u>

Note 9 - Employee Retirement System

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www.michigan.gov/ors schools.

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

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

Manistee Area Public Schools

Notes to the Financial Statements

Benefits Provided - Overall

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

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

Benefits Provided - Pension

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

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

Pension Reform 2010

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

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit

Manistee Area Public Schools

Notes to the Financial Statements

in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

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

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

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

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

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

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

Manistee Area Public Schools

Notes to the Financial Statements

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

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

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

Pension Reform of 2017

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

Benefits Provided - Other Postemployment Benefit (OPEB)

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

Manistee Area Public Schools

Notes to the Financial Statements

Retiree Healthcare Reform of 2012

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

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

Regular Retirement (no reduction factor for age)

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

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

Member Contributions

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

Employer Contributions

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

Manistee Area Public Schools

Notes to the Financial Statements

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

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

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

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

The School District's pension contributions for the year ended June 30, 2018 were equal to the required contribution total of \$2,018,356.

The District's OPEB contributions for the year ended June 30, 2018 were equal to the required contribution total of \$670,521.

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

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

Pension Liabilities

At June 30, 2018, *the School District* reported a liability of \$22,299,506 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016 and rolled forward using generally accepted actuarial procedures. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.08605% which was a decrease of 0.00087% from its proportion measured as of September 30, 2016.

Manistee Area Public Schools

Notes to the Financial Statements

<u>MPSERS (Plan) Non-university Employers</u>	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Total pension liability	\$ 72,407,218,688	\$ 67,917,445,078
Plan fiduciary net position	46,492,967,573	42,968,263,308
Net pension liability	\$ 25,914,251,115	\$ 24,949,181,770
Proportionate share	0.08605%	0.08692%
Net pension liability for the School District	\$ 22,299,506	\$ 21,685,158

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

For the year ending June 30, 2018, the School District recognized pension expense of \$2,296,763.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between actual and expected experience	\$ 193,798	\$ 109,419
Changes of assumptions	2,443,088	-
Net difference between projected and actual earnings on pension plan investments	-	1,066,063
Changes in proportion and differences between Employer contributions and proportionate share of contributions	373,330	351,635
Employer contributions subsequent to the measurement date	1,976,581	-
Total	<u>\$ 4,986,797</u>	<u>\$ 1,527,117</u>

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

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

<u>Plan Year Ended September 30</u>	<u>Amount:</u>
2018	\$ 391,608
2019	791,018
2020	371,149
2021	(70,676)

Manistee Area Public Schools

Notes to the Financial Statements

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

OPEB Liabilities

At June 30, 2018, the School District reported a liability of \$7,626,799 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.08613 percent.

MPSERS (Plan) Non-university Employers	September 30, 2017
Total other postemployment benefits liability	\$ 13,920,945,991
Plan fiduciary net position	5,065,474,948
Net other postemployment benefits liability	\$ 8,855,471,043
Proportionate share	0.08613%
Net other postemployment benefits liability for the School District	\$ 7,626,799

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

For the year ending June 30, 2018, the School District recognized OPEB expense of \$510,977.

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 actual and expected experience	\$ -	\$ 81,203
Net difference between projected and actual earnings on pension plan investments	-	176,638
Changes in proportion and differences between Employer contributions and proportionate share of contributions	3,756	-
Employer contributions subsequent to the measurement date	401,216	-
Total	\$ 404,972	\$ 257,841

Manistee Area Public Schools

Notes to the Financial Statements

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Plan Year Ended	
September 30	Amount:
2018	\$ (61,469)
2019	(61,469)
2020	(61,469)
2021	(61,469)
2022	(8,209)

Actuarial Assumptions

Investment rate of return for pension - 7.5% a year, compounded annually net of investment and administrative expenses for the non-hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the hybrid group (Pension Plus Plan).

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

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

Inflation - 3.0%.

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

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

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

Manistee Area Public Schools

Notes to the Financial Statements

weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Cost of living pension adjustments - 3.0% annual non-compounded for MIP members.

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

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return*</u>
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
Total	100.0%	

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

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

Manistee Area Public Schools

Notes to the Financial Statements

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

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

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.5% (7.0% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

Pension		
1% Decrease (Non-Hybrid/Hybrid)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)	1% Increase (Non-Hybrid/Hybrid)
6.5% / 6.0%	7.5% / 7.0%	8.5% / 8.0%
\$29,048,839	\$22,299,506	\$16,616,997

Sensitivity of the net OPEB liability to changes in the discount rate -The following presents the Reporting Unit's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the Reporting Unit's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

Other Postemployment Benefits		
1% Decrease	Current Discount Rate	1% Increase
6.5%	7.5%	8.5%
\$8,933,186	\$7,626,799	\$6,518,086

Manistee Area Public Schools

Notes to the Financial Statements

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

Other Postemployment Benefits		
1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
6.5%	7.5%	8.5%
\$6,458,874	\$7,626,799	\$8,952,897

Pension and OPEB Plan Fiduciary Net Position

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

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

Other Information

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

Note 10 - 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; and natural disasters for which the School District carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years

Manistee Area Public Schools

Notes to the Financial Statements

Note 11 - Fund Balance

The School District reports fund balance in governmental funds based on the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Detailed information on fund balances of governmental funds is as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:			
Inventories	\$ -	\$ 23,995	\$ 23,995
Prepaid Items	133,772	576	134,348
Total Nonspendable	<u>133,772</u>	<u>24,571</u>	<u>158,343</u>
Restricted for:			
Athletics	-	43,819	43,819
Aquatics	-	76,887	76,887
Food Service	-	314,215	314,215
Debt Service	-	483,205	483,205
Capital Projects	-	387,846	387,846
Total Restricted	<u>-</u>	<u>1,305,972</u>	<u>1,305,972</u>
Unassigned	<u>2,762,890</u>	<u>-</u>	<u>2,762,890</u>
Total Fund Balances - Governmental Funds	<u>\$ 2,896,662</u>	<u>\$ 1,330,543</u>	<u>\$ 4,227,205</u>

Note 12 - Subsequent Events

Subsequent events were evaluated through October 31, 2018, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would have a significant impact on the financial condition of the District.

Manistee Area Public Schools

Notes to the Financial Statements

Note 13 - New Accounting Standards

For the year ended June 30, 2018, the School District implemented the following new pronouncements: GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Summary:

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

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

	Governmental Activities
Net position - July 1, 2017 - As previously reported	\$ (5,473,650)
Adoption of GASB Statement 75:	
Net other post employment benefit liability	(8,044,584)
Deferred outflows	401,216
Net position - July 1, 2017 - As restated	<u>\$ (13,117,018)</u>

Note 14 - Upcoming Accounting Pronouncements

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

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, was issued by the

Manistee Area Public Schools

Notes to the Financial Statements

GASB in June 2017 and will be effective for the District's 2021 year end. The objective of this Statement is to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use the underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Required Supplementary Information

Manistee Area Public Schools
Schedule of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance
	<u>Original</u>	<u>Final</u>		Positive (Negative) Final to Actual
Revenues				
Local Sources	\$ 4,344,000	\$ 4,251,000	\$ 4,281,341	\$ 30,341
Non-educational Entity	814,142	765,642	765,640	(2)
State Sources	9,082,855	9,082,855	9,138,394	55,539
Federal Sources	436,700	539,900	460,170	(79,730)
Interdistrict Sources	747,000	785,300	713,773	(71,527)
Other Revenues	--	--	73,218	73,218
Total Revenues	<u>15,424,697</u>	<u>15,424,697</u>	<u>15,432,536</u>	<u>7,839</u>
Expenditures				
Instruction				
Elementary Instruction	3,472,379	3,086,379	2,914,120	172,259
Middle School Instruction	1,184,153	1,570,153	1,516,780	53,373
High School Instruction	2,699,794	2,474,794	2,394,425	80,369
Special Education Instruction	1,090,600	961,200	918,839	42,361
Compensatory Instruction	406,419	354,000	302,863	51,137
Total Instruction	<u>8,853,345</u>	<u>8,446,526</u>	<u>8,047,027</u>	<u>399,499</u>
Supporting Services				
Vocational Instruction	140,000	98,000	98,000	--
Guidance Services	242,661	251,314	240,668	10,646
Other Pupil Services	482,103	506,500	485,153	21,347
Improvement of Instruction	121,921	98,200	82,151	16,049
Library Services	45,698	45,698	40,917	4,781
Board of Education	100,000	168,000	165,630	2,370
Executive Administration	288,158	288,159	275,004	13,155
Building Administration	1,060,158	1,014,248	986,020	28,228
Fiscal Services	330,334	339,334	321,850	17,484
Other Business Services	49,000	35,000	33,960	1,040
Operating & Maintenance	1,452,110	1,440,310	1,351,585	88,725
Transportation Services	1,152,699	1,078,699	1,031,497	47,202
Technology Services	451,516	451,516	440,169	11,347
Total Supporting Services	<u>5,916,358</u>	<u>5,814,978</u>	<u>5,552,604</u>	<u>262,374</u>
Total Expenditures	<u>14,769,703</u>	<u>14,261,504</u>	<u>13,599,631</u>	<u>661,873</u>
Other Financing Uses				
Transfers Out	824,994	955,063	954,554	509
Total Expenditures and Other Financing Uses	<u>15,594,697</u>	<u>15,216,567</u>	<u>14,554,185</u>	<u>662,382</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Uses				
Net Change in Fund Balance	<u>(170,000)</u>	<u>208,130</u>	<u>878,351</u>	<u>670,221</u>
Fund Balance at Beginning of Period	<u>2,018,311</u>	<u>2,018,311</u>	<u>2,018,311</u>	<u>--</u>
Fund Balance at End of Period	<u>\$ 1,848,311</u>	<u>\$ 2,226,441</u>	<u>\$ 2,896,662</u>	<u>\$ 670,221</u>

Manistee Area Public Schools
Schedule of School District's Proportionate Share of Net Pension Liability
Michigan Public School Employee Retirement Plan
Last Four Fiscal Years (Amounts were determined as of September 30 of each fiscal year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
School District's Portion of Net Pension Liability (%)	0.08605%	0.08692%	0.08415%	0.08585%
School District's Proportionate Share of Net Pension Liability	\$ 22,299,506	\$ 21,685,158	\$ 20,554,473	\$ 18,909,145
School District's Covered Payroll	\$ 7,122,097	\$ 7,450,929	\$ 7,125,910	\$ 7,176,147
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered Payroll	313.10%	291.04%	288.45%	263.50%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	64.21%	63.27%	63.17%	66.20%

Manistee Area Public Schools
Schedule of School District's Pension Contributions
Michigan Public School Employee Retirement Plan
Last Four School District Fiscal Years (Amounts determined as of June 30 of each year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contributions	\$ 2,018,356	\$ 1,951,773	\$ 1,623,427	\$ 1,333,529
Contributions in Relation to Statutorily Required Contributions	<u>2,018,356</u>	<u>1,951,773</u>	<u>1,623,427</u>	<u>1,333,529</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Payroll	\$ 6,944,832	\$ 7,162,096	\$ 7,125,910	\$ 7,176,147
Contributions as a Percentage of Covered Payroll	29.06%	27.25%	22.78%	18.58%

Manistee Area Public Schools
Schedule of School District's Proportionate Share of Net OPEB Liability
Michigan Public School Employee Retirement Plan
Last Fiscal Year (Amounts were determined as of September 30 of each fiscal year)

	<u>2017</u>
School District's Portion of Net OPEB Liability (%)	0.08613%
School District's Proportionate Share of Net OPEB Liability	\$ 7,626,799
School District's Covered Payroll	\$ 7,122,097
School District's Proportionate Share of Net OPEB Liability as a Percentage of its Covered Payroll	107.09%
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	36.39%

Manistee Area Public Schools
Schedule of School District's OPEB Contributions
Michigan Public School Employee Retirement Plan
Last School District Fiscal Year (Amounts determined as of June 30 of each year)

	2018
Statutorily Required Contributions	\$ 670,521
Contributions in Relation to Statutorily Required Contributions	670,521
Contribution Deficiency (Excess)	\$ -
School District's Covered Payroll	\$ 6,944,832
Contributions as a Percentage of Covered Payroll	9.65%

Combining and Individual Fund Statements and Schedules

**Manistee Area Public Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue			Debt Service			Capital Projects		Total Nonmajor Governmental Funds
	Athletics	Aquatics	Food Service	2003 Debt Service	2011 Debt Service	QZAB Debt Service	Capital Projects	Special Projects	
ASSETS									
Cash and Investments	\$ 52,640	\$ 94,166	\$ 392,191	\$ 21	\$ 426,358	\$ 22	\$ 548,351	\$ 68	\$ 1,513,817
Due from Other Governments	--	--	7,286	--	--	--	--	--	7,286
Inventories	--	--	23,995	--	--	--	--	--	23,995
Prepaid Items	576	--	--	--	--	--	--	--	576
Due from Other Funds	--	--	--	--	56,804	--	--	--	56,804
Total Assets	\$ 53,216	\$ 94,166	\$ 423,472	\$ 21	\$ 483,162	\$ 22	\$ 548,351	\$ 68	\$ 1,602,478
LIABILITIES									
Accounts Payable	\$ 654	\$ 6,929	\$ 7,520	\$ --	\$ --	\$ --	\$ 160,290	\$ --	\$ 175,393
Accrued Employee Benefits	--	--	4,109	--	--	--	--	--	4,109
Due to Other Governmental Units	6,982	--	--	--	--	--	--	--	6,982
Due to Other Funds	1,185	10,350	73,633	--	--	--	283	--	85,451
Total Liabilities	8,821	17,279	85,262	--	--	--	160,573	--	271,935
FUND BALANCE									
Nonspendable	576	--	23,995	--	--	--	--	--	24,571
Restricted	43,819	76,887	314,215	21	483,162	22	387,778	68	1,305,972
Unassigned	--	--	--	--	--	--	--	--	--
Total Fund Balance	44,395	76,887	338,210	21	483,162	22	387,778	68	1,330,543
Total Liabilities and Fund Balance	\$ 53,216	\$ 94,166	\$ 423,472	\$ 21	\$ 483,162	\$ 22	\$ 548,351	\$ 68	\$ 1,602,478

Manistee Area Public Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

	Special Revenue			Debt Service			Capital Projects		Total Nonmajor Governmental Funds
	Athletics	Aquatics	Food Service	2003 Debt Service	2011 Debt Service	QZAB Debt Service	Capital Projects	Special Projects	
Revenues									
Local Sources	\$ 40,446	\$ 105,643	\$ 220,309	\$ --	\$ 1,160,640	\$ 4	\$ 1,017	\$ 40,901	\$ 1,568,960
Non-educational Entity Sources	--	53,950	--	--	--	--	--	--	53,950
State Sources	--	--	27,044	--	--	--	--	--	27,044
Federal Sources	--	--	578,716	--	--	82,265	--	--	660,981
Interdistrict Sources	--	1,800	--	--	--	--	--	--	1,800
Total Revenues	40,446	161,393	826,069	--	1,160,640	82,269	1,017	40,901	2,312,735
Expenditures									
Supporting Services	--	--	--	--	--	--	160,290	23,289	183,579
Community Services	--	223,621	--	--	--	--	--	--	223,621
Food Service	--	--	763,799	--	--	--	--	--	763,799
Athletics	422,904	--	--	--	--	--	--	--	422,904
Capital Outlay	18,180	--	5,778	--	--	--	841,045	101,745	966,748
Debt Service - Principal	--	--	--	120,000	810,000	197,692	--	--	1,127,692
Debt Service - Interest	--	--	--	4,440	470,169	88,220	--	--	562,829
Debt Service - Bond Issuance Costs	--	--	--	--	--	--	28,328	--	28,328
Total Expenditures	441,084	223,621	769,577	124,440	1,280,169	285,912	1,029,663	125,034	4,279,500
Excess of Revenues Over (Under) Expenditures	(400,638)	(62,228)	56,492	(124,440)	(119,529)	(203,643)	(1,028,646)	(84,133)	(1,966,765)
Other Financing Sources (Uses)									
Capital Improvement Bonds Issued	--	--	--	--	--	--	1,416,424	--	1,416,424
Transfers In	385,000	85,000	--	124,450	156,462	203,642	--	--	954,554
Net Other Financing Sources (Uses)	385,000	85,000	--	124,450	156,462	203,642	1,416,424	--	2,370,978
Net Change in Fund Balance	(15,638)	22,772	56,492	10	36,933	(1)	387,778	(84,133)	404,213
<i>Fund Balance at Beginning of Period</i>	60,033	54,115	281,718	11	446,229	23	--	84,201	926,330
Fund Balance at End of Period	\$ 44,395	\$ 76,887	\$ 338,210	\$ 21	\$ 483,162	\$ 22	\$ 387,778	\$ 68	\$ 1,330,543



Manistee Area Public Schools

**MANISTEE AREA PUBLIC SCHOOLS
MANISTEE COUNTY, MICHIGAN
SINGLE AUDIT ACT COMPLIANCE
YEAR ENDED JUNE 30, 2018**

TABLE OF CONTENTS

SINGLE AUDIT ACT COMPLIANCE	Page
Independent Auditor's Report on the Schedule of Expenditures of Federal Awards	1
Schedule of Expenditures of Federal Awards	2
Notes to the Schedule of Expenditures of Federal Awards	4
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	6
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	8
Schedule of Findings & Questioned Costs	10

**INDEPENDENT AUDITOR'S REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
Manistee Area Public Schools
Manistee, MI

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manistee Area Public Schools, Manistee, Michigan (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. We issued our report thereon dated October 31, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Gabridge & Company, PLC
Grand Rapids, MI
October 31, 2018

Manistee Area Public Schools
Schedule of Expenditures of Federal Awards
June 30, 2018

<i>Federal Grantor / Pass-through Grantor / Program / Project Number</i>	<i>Federal CFDA Number</i>	<i>Program or Award Amount</i>	<i>Prior Year Expenditures (Memorandum Only)</i>	<i>Accrued Revenue at July 1, 2017</i>	<i>Current Year Receipts *</i>	<i>Current Year Expenditures</i>	<i>Accrued Revenue at June 30, 2018</i>
U.S. Department of Agriculture:							
<i>Passed Through Michigan Department of Education:</i>							
Child Nutrition Cluster:							
170900 / 171900 SFSP	10.559	\$ 15,216	\$ -	\$ 4,223	\$ 12,866	\$ 10,993	\$ 2,350
171970 Breakfast	10.553	16,998	-	4,734 ¹	21,732	16,998	-
181970 Breakfast	10.553	139,556	-	-	139,556	139,556	-
171960 NSLP Section 4 - All Lunches	10.555	-	-	7,379 ²	44,665	37,286	-
181960 NSLP Section 4 - All Lunches	10.555	-	-	-	302,973	302,973	-
171980 NSLP Section 4 - All Lunches	10.555	-	-	51 ³	170	119	-
181980 NSLP Section 4 - All Lunches	10.555	-	-	-	1,313	1,313	-
Non-cash Assistance (Entitlement Commodities)	10.550	51,328	-	-	51,328	51,328	-
Non-cash Assistance (Bonus Commodities)	10.550	18,150	-	-	18,150	18,150	-
Total U.S. Department of Agriculture		241,248	-	16,387	592,753	578,716	2,350
U.S. Department of Education:							
<i>Passed Through Michigan Department of Education:</i>							
Title I, Part A - Improving Basic Programs							
171530 1617	84.010	128,826	-	96,223 ⁴	128,826	32,602	-
181530 1718	84.010	354,656	-	-	231,742	268,111	36,370
Total Title I		483,482	-	96,223	360,568	300,713	36,370
Title II, Part A - Improving Teacher Quality State Grants							
170520 1617	84.367	68,772	-	31,027 ⁵	68,772	37,745	-
180520 1718	84.367	78,241	-	-	26,593	38,223	11,629
Total Title II		147,013	-	31,027	95,365	75,968	11,629
Title III, Part A - Strengthening Institutions							
180570 1718	84.031	10,276	-	-	-	7,081	7,081
Title V - Developing Hispanic-serving Institutions							
181530 1718	84.358	31,702	-	-	-	7,125	7,125
Total Passed Through Michigan Department of Education		672,473	-	127,250	455,933	390,887	62,205

See notes to the schedule of expenditures of federal awards

Manistee Area Public Schools
Schedule of Expenditures of Federal Awards (Continued)
June 30, 2018

<i>Federal Grantor / Pass-through Grantor / Program / Project Number</i>	<i>Federal CFDA Number</i>	<i>Program or Award Amount</i>	<i>Prior Year Expenditures (Memorandum Only)</i>	<i>Accrued Revenue at July 1, 2017</i>	<i>Current Year Receipts *</i>	<i>Current Year Expenditures</i>	<i>Accrued Revenue at June 30, 2018</i>
<i>Passed Through Manistee Intermediate School District:</i>							
Basic Grants to State (Perkins)	84.048	20,914	-	-	20,914	20,914	-
Total Passed Through Manistee Intermediate School District		20,914	-	-	20,914	20,914	-
Total U.S. Department of Education		693,387	-	127,250	476,847	411,801	62,205
U.S. Department of the Interior:							
<i>Passed Through Manistee Intermediate School District:</i>							
Payment in Lieu of Taxes - National Forest	15.226	7,543	-	-	7,543	7,543	-
Total U.S. Department of the Interior		7,543	-	-	7,543	7,543	-
U.S. Department of Health and Human Services:							
<i>Passed Through Manistee Intermediate School District:</i>							
17-18 Medicaid Outreach	93.778	40,826	-	-	40,826	40,826	-
Total U.S. Department of Health and Human Services		40,826	-	-	40,826	40,826	-
Total Federal Financial Assistance		\$ 1,324,695	\$ -	\$ 143,637	\$ 1,117,969	\$ 1,038,886	\$ 64,555

* See explanations below describing conditions that led to current year receipts from the SEFA not to equal current year receipts from the June 30, 2018 Grant Auditor Report.

- ¹ Includes \$4,734 that was collected in July 2017 but was recorded on the June 2017 Grant Auditor Report.
- ² Includes \$7,379 that was collected in July 2017 but was recorded on the June 2017 Grant Auditor Report.
- ³ Includes \$51 that was collected in July 2017 but was recorded on the June 2017 Grant Auditor Report.
- ⁴ Includes \$95,768 that was collected in July 2017 but was recorded on the June 2017 Grant Auditor Report.
- ⁵ Includes \$21,025 that was collected in July 2017 but was recorded on the June 2017 Grant Auditor Report.

See notes to the schedule of expenditures of federal awards

Manistee Area Public Schools

Notes to the Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

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

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, which is described in Note 1 to the School District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where applicable and have been identified in the Schedule.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both the actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue, and accounts payable items at both the beginning and the end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the grant financial reports. The amounts on the Grant Auditor Report reconcile with this Schedule.

The School District has elected not to use the 10-percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The grantee received no noncash assistance during the year ended June 30, 2018 that is not included on the schedule of expenditures of federal awards.

Manistee Area Public Schools

Notes to the Schedule of Expenditures of Federal Awards

Note 4 - Adjustments to the Schedule of Expenditures of Federal Awards

The following schedule reconciles federal revenues reported in the fund financial statements to the federal expenditures reported in the schedule of expenditures of federal awards:

Federal Revenue Reported in the Financial Statements	
Governmental Funds	\$ 1,121,151
Subtract	
Federal Subsidy Excluded from SEFA Presentation (QZAB Bond Subsidy)	(82,265)
<i>Total Expenditures of Federal Awards</i>	<u>\$ 1,038,886</u>

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

To the Board of Education
Manistee Area Public Schools
Manistee, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manistee Area Public 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 31, 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Gabridge & Company". The signature is written in dark ink and is positioned above the printed name of the firm.

Gabridge & Company, PLC
Grand Rapids, MI
October 31, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE

To the Board of Education
Manistee Area Public Schools
Manistee, Michigan

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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



Gabridge & Company, PLC
Grand Rapids, MI
October 31, 2018

**Manistee Area Public Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
Internal controls over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No (none reported)
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No (none reported)
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number
Title I, Part A - Improving Basic Programs	84.010
Dollar threshold used to distinguish between Type A and B programs?	\$750,000
Auditee qualified as a low-risk auditee?	Yes

SECTION II - FINANCIAL STATEMENT FINDINGS
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No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS
--

No findings or questioned costs.

SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS

No prior audit findings were reported.

October 31, 2018

To the Board of Education
Manistee Area Public Schools
Manistee, Michigan

We have audited the financial statements of the governmental activities, the general fund, and the aggregate remaining fund information of Manistee Area Public Schools (the "School District") for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the OMB Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 22, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. The School District adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as seen in note 1, 9, and 13 during the fiscal year ended June 30, 2018. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- The assumptions used in the actuarial valuations of the pension and other post-employment benefits are based on historical trends and industry standards.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2018.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

As required by the OMB Uniform Guidance, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with the OMB Uniform Guidance dated October 31, 2018.

Other Matters

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

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

Comments and Recommendations

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. We provided a separate letter with comments and recommendations to address these items, which can be found in Schedule A of this report.

Restriction on Use

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

Very truly yours,



Gabridge & Company, PLC
Grand Rapids, MI

Manistee Area Public Schools
Attachment A - Comments and Recommendations
For the June 30, 2018 Audit

During our audit, we became aware of certain other matters that are opportunities for strengthening internal control and/or improving operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. Our consideration of Manistee Area Public School's (the "School District") internal control over financial reporting is described in our report dated October 31, 2018, issued in accordance with *Government Auditing Standards*. This memorandum does not affect that report or our report dated October 31, 2018 on the financial statements of the School District.

The following items represent our recommendations and considerations for further improvement:

Highly Qualified Staff Member Monitoring

We noted during the course of the audit that multiple staff members paid with Title funds were not certified as highly qualified during prior grant periods. These staff members were certified prior to the current audit and prior to the conclusion of the Title grant year. We commend the School District for promptly resolving this matter. We also noted that subsequent to this discovery that the School District has now become a testing center and requires all Title staff to be certified as highly qualified as part of the hiring process to prevent recurrence. We recommend that the School continue with this process and that the updated hiring procedures be formalized in writing.

Consolidated Application Grant Programs

We noted during our audit that certain Title funded expenditures exceeded the amounts budgeted within the approved Consolidated Application Grant Programs by greater than 10%. We further noted that there were deviations between the specific items approved within the Consolidated Application Grants Program and what was actually purchased. We further noted that subsequent to the discovery of the budget variances, as well as the departures from the specific expenditures approved within the Consolidated Application Grant Program, that the School District requested permission from the Title program manager to update the School Districts approved Title budget and / or the specific purchase details within the budget. We recommend continued vigorous monitoring of the Title budget, and requesting approval for budget changes in advance of the exception(s), to ensure that future expenditures are not deemed questionable costs.