

Mar Lee School

Calhoun County, Michigan

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2018

Mar Lee School

Table of Contents

June 30, 2018

INDEPENDENT AUDITOR'S REPORT	1
ADMINISTRATION'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements	
Statement of Net Position	14
Statement of Activities	15
Fund Financial Statements	
Governmental Funds	
Balance Sheet	16
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Fiduciary Fund	
Statement of Net Position	20
Statement of Changes in Net Position	21
Notes to the Financial Statements	22
REQUIRED SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedules	
General Fund	48
Food Service Fund	49
Pension Plan Required Supplemental Information	50
OPEB Plan Required Supplemental Information	51
AUDITORS' REPORTS	53

2496 84th Street SW
Byron Center, MI 49315

Phone (616) 583-0094

Fax (866) 569-0725

Email: doug@wohlbergcpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Mar Lee School
Calhoun County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund, of Mar Lee School as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents. We did not audit the district's proportionate share of the net pension liability and the net OPEB healthcare liability of the Michigan Public School Employees' Retirement System and the related transactions and disclosures. Those balances and disclosures were audited by the State of Michigan Office of the Auditor General whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the district, is based solely on the report of the State of Michigan Office of the Auditor General.

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 and the report of the State of Michigan Office of the Auditor General, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mar Lee School as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in the year ended June 30, 2018, the district adopted new accounting guidance, *GASB 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 administration's discussion on pages 3 through 11, the analysis and budgetary comparison information on pages 48 and 49, and the required supplemental information for the Pension and OPEB Healthcare Plan on pages 50 and 51 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2018, on our consideration of the Mar Lee School internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Mar Lee School internal control over financial reporting and compliance.



Douglas Wohlberg, CPA
Byron Center, Michigan
October 5, 2018

Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

Mar Lee School is a K-8 School District located in Calhoun County, Michigan. This Administration's Discussion and Analysis Section, a requirement of GASB 34, is intended to be the Mar Lee School Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2018.

Generally accepted accounting principles (GAAP) according to Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, (GASB 34) requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements

Fund Financial Statements

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, Capital Projects, and the School Service Funds which are comprised of: Food Service and Student Activity accounts.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years debt obligations are not recorded.

District-wide Financial Statements

The District-wide Financial Statements are presented on the full accrual basis statements. They report all of the District's assets and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Fund solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the District-wide Financial Statements.

Implementation of GASB 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

Implementation of GASB 75 required a restatement of beginning net position for the net OPEB liability related to the defined benefit retirement plan. The plan is the Michigan Public School Employees' Retirement System (MPERS). This plan 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.

The above restatements had the following impact on previously reported balances.

Net position as previously reported	\$ (2,774,390)
OPEB liability	(1,637,236)
<u>Net position restated</u>	<u>\$ (4,411,626)</u>

Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

Summary of Net Position

The following summarizes the net position at fiscal year ended June 30, 2018.

	2018	2017*
ASSETS		
Current assets	\$ 1,436,592	\$ 1,279,386
Capital assets	2,207,197	2,295,834
Total assets	3,643,789	3,575,220
Deferred outflows of resources	920,795	535,492
LIABILITIES		
Current liabilities	1,041,011	1,053,643
Long-term liabilities	7,143,265	5,605,413
Total liabilities	8,184,276	6,659,056
Deferred inflows of resources	564,834	226,046
NET POSITION		
Net investment in capital assets	1,177,197	1,105,099
Restricted:		
Food service	28,046	19,951
Debt service	34,001	29,530
Capital projects	207,085	163,474
Unrestricted	(5,630,855)	(4,092,444)
Total net position	\$ (4,184,526)	\$ (2,774,390)

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

Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

Analysis of Financial Position

During fiscal year ended June 30, 2018, the District's net position decreased by \$1,410,136.

Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net position.

For fiscal year ended June 30, 2018, the net increase in accumulated depreciation was \$95,001.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

One way to think of depreciation expense is that in order to maintain net position at the same level, acquisitions of capital outlay and capitalized major maintenance projects would have to equal the annual depreciation expense. In other words, to stay even in net position the District would have had to capitalize \$95,001 in assets during the year.

Capital Outlay Acquisitions

Actual capital outlay acquisitions for fiscal year ended June 30, 2018 were \$27,099.

Combined with the increase in accumulated depreciation, net position (i.e., net book value) invested in capital assets decreased by \$67,902 during the year. This is the additional amount the District would have had to spend to maintain the same net value of assets.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep.

Debt Administration

At year end, the District had \$1,032,800 in outstanding long-term debt including compensated absences. Long-term liabilities had a net decrease of \$140,700. Compensated absences decreased by \$700 and by principal payments on bonds payable of \$140,000. See note 9 in the notes to basic financial statements for additional information.

Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

Results of Operations

For the fiscal year ended June 30, 2018, the district-wide results of operations were:

	2018	% of Total	2017*	% of Total
General Revenues				
Michigan's Foundation Grant Allowance:				
Property taxes levied for general operations	\$ 618,625	18.9 %	\$ 615,305	19.8 %
State of Michigan Aid, unrestricted	1,547,669	47.3 %	1,576,771	50.6 %
Michigan's Foundation Grant Allowance	2,166,294	66.2 %	2,192,076	70.4 %
Property taxes levied for debt service	168,256	5.1 %	167,396	5.4 %
Property taxes levied for capital outlay	61,172	1.9 %	60,570	1.9 %
Other	17,787	0.5 %	34,042	1.1 %
Total general revenues	2,413,509	73.7 %	2,454,084	78.8 %
Program Revenues				
Charges for services	82,215	2.5 %	73,894	2.4 %
Operating grants - Federal and State	781,571	23.8 %	584,430	18.8 %
Total revenues	3,277,295	100.0 %	3,112,408	100.0 %
Expenses				
Instructional	1,956,908	64.1 %	1,928,981	62.5 %
Support services	831,371	27.3 %	862,246	27.9 %
Food services	133,891	4.4 %	161,390	5.2 %
Interest on long-term debt	33,024	1.1 %	31,369	1.0 %
Depreciation (unallocated)	95,001	3.1 %	103,890	3.4 %
Total expenses	3,050,195	100.0 %	3,087,876	100.0 %
Change in net position	\$ 227,100		\$ 24,532	

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

Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

Property Taxes levied for General Operations (General Fund Property Taxes)

The District levied 18.00 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property levy for the 2017-2018 fiscal year was \$616,519. The non-homestead tax levy increased by 0.43% over the prior year levy of \$602,329.

The following summarizes the District's non-homestead levy the past five years:

Fiscal Year	Non Homestead Tax Levy	Percent Change
2017-2018	\$ 616,519	0.43 %
2016-2017	613,908	1.92 %
2015-2016	602,329	103.87 %
2014-2015	295,446	37.16 %
2013-2014	215,396	13.03 %

The average increase over the last 5 years was 31.28%.

Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted, is determined by the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 90% of current year fall count and 10% of prior year winter count
- c. The District's non-homestead levy

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Mar Lee School foundation allowance was \$7,631 per student for the 2017-2018 school year. This represents an increase of \$120 per pupil from the District's 2016-2017 foundation allowance.

Student Enrollment:

The District's student enrollment in 2017-2018 was 287 students. The District's enrollments have gradually declined in the last five years. The following summarizes fall student enrollments in the past five years:

Fiscal Year	Student Membership	Increase (Decrease) From Prior Year
2017-2018	287.43	(9.01)
2016-2017	296.44	(6.19)
2015-2016	302.63	(2.17)
2014-2015	304.80	1.34
2013-2014	303.46	(23.04)

Property Taxes levied for Debt Service

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2017-2018, the District's debt millage levy was 2.12 mills which generated a levy of \$168,183.

Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

Food Service Sales to Students and Adults

The District's food and milk sales to students decreased by approximately \$1,435 to \$31,969 from the prior school year. By working to carefully control the cost of food and labor, the administration was able to achieve an excess of revenues from operations over expenditures of \$8,095.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

General Fund Revenue Budget vs. Actual 5-Year History

Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
2017-2018	\$ 2,801,310	\$ 2,910,632	\$ 2,885,052	2.99 %	(0.88)%
2016-2017	2,773,292	2,849,646	2,854,733	2.94 %	0.18 %
2015-2016	2,802,279	2,839,821	2,822,080	0.71 %	(0.62)%
2014-2015	2,695,766	2,846,791	2,836,237	5.21 %	(0.37)%
2013-2014	2,692,719	2,691,719	2,691,488	(0.05)%	(0.01)%

General Fund Expenditures Budget vs. Actual 5-Year History

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
2017-2018	\$ 2,781,556	\$ 2,893,861	\$ 2,792,658	(0.40)%	3.50 %
2016-2017	2,776,832	2,857,916	2,848,571	(2.58)%	0.33 %
2015-2016	2,796,045	2,845,542	2,828,710	(1.17)%	0.59 %
2014-2015	2,736,867	2,894,849	2,882,571	(5.32)%	0.42 %
2013-2014	2,879,485	2,879,485	2,903,140	(0.82)%	(0.82)%

Original vs. Final Budget

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

As a matter of practice, Mar Lee School amends its budget during the school year. For fiscal year 2017-2018 the budget was amended one time in June of 2018.

Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

Change from Original to Final Budget

General Fund Revenues

The District's budget for revenues changed as follows during the year:

Total Revenues Original Budget	\$	2,801,310
Total Revenues Final Budget		<u>2,910,632</u>
Increase (Decrease) in Budgeted Revenues	\$	<u>109,322</u>

The District's General Fund actual revenues differed from the final budget by \$25,580, a variance of 0.88%.

General Fund Expenditures

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$	2,781,556
Total Expenditures Final Budget		<u>2,893,861</u>
Increase (Decrease) in Budgeted Expenditures	\$	<u>112,305</u>

The District's General Fund actual expenditures differed from the final budget by \$101,203, a variance of 3.50%.

Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

Factors Bearing on the District's Future

It is the District's goal to maintain a General Fund equity balance adequate to allow the District to operate without borrowing for cash flow purposes.

We were able to increase the General Fund's fund balance to \$111,490 by deferring expenditures in areas that have the least impact on education.

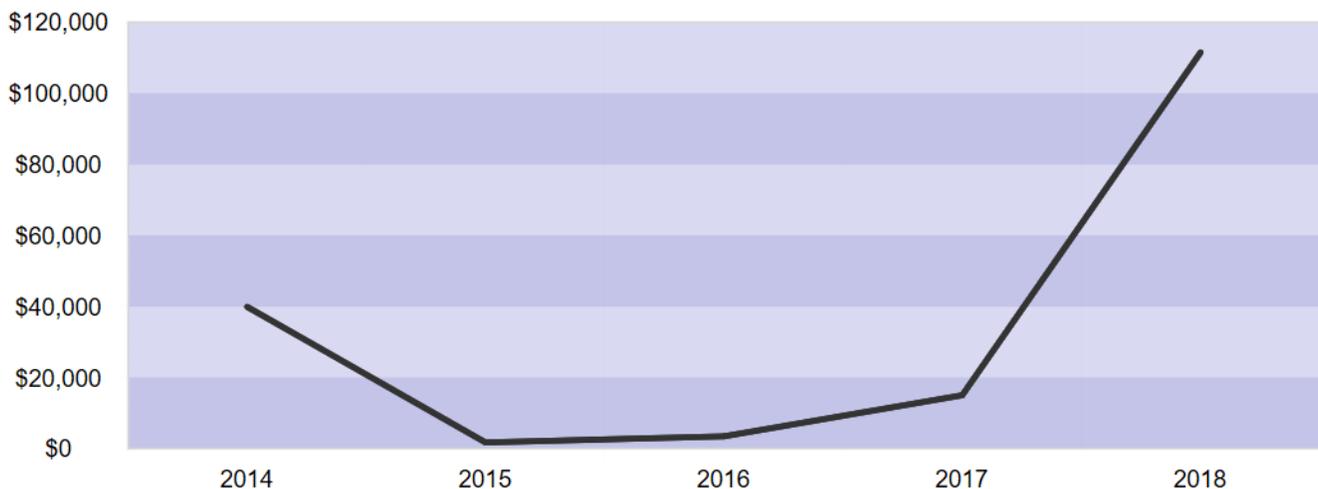
It is still uncertain if the State economy will continue to improve and when the legislation will be passed to stabilize school funding. Dramatic declines in the economic activity in the State have resulted in stagnant funding for public education. In recent years, the District has seen lower student counts because families are moving as parents seek employment in other regions. These factors have caused reduced District revenue.

The General Fund equity remains below the Board's target of a minimum of 10% of expenditures. The School Board and the Superintendent are aware that difficult changes still need to be made and continue the work to boost the General Fund equity to the Board's target.

The Board of Education and staff continue to work together on school improvement plans to make the District more attractive to new residents and to the current residents. The Board is committed through the school improvement process to attract and retain families by offering quality programs and services in the Mar Lee School.

Following is a graph of the fund balance of the General Fund over the last five years.

Fund Balance Trend for the General Fund



Mar Lee School

Administration's Discussion and Analysis

For the year ended June 30, 2018

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Mar Lee School Business Office. The address is 21236 H Drive North, Marshall, Michigan 49068. The telephone number is (269) 781-5412.

BASIC FINANCIAL STATEMENTS

Mar Lee School

Statement of Net Position

June 30, 2018

	Governmental Activities
ASSETS	
Cash and investments	\$ 989,940
Receivables, net	447
Intergovernmental receivable	418,060
Inventories	1,582
Prepaid expenses	9,550
Capital assets less accumulated depreciation of \$1,794,058	2,207,197
Unamortized bond issuance costs	17,013
Total assets	3,643,789
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	910,144
OPEB Healthcare related	7,936
Escrow deposit for interest on refunded bonds	2,715
Total deferred outflows of resources	920,795
Total assets and deferred outflows of resources	\$ 4,564,584
LIABILITIES	
Accounts payable	\$ 34,025
Accrued and other liabilities	290,980
Accrued interest	2,053
Unearned revenue	13,953
State aid note payable	700,000
Noncurrent liabilities:	
Bonds payable, due within one year	140,000
Bonds payable, due in more than one year	890,000
Compensated absences and severance liability	2,800
Net pension liability	4,558,257
Postemployment benefits liability	1,552,208
Total liabilities	8,184,276
DEFERRED INFLOWS OF RESOURCES	
Pension related	512,358
OPEB Healthcare related	52,476
Total deferred inflows of resources	564,834
NET POSITION	
Net investment in capital assets	1,177,197
Restricted for:	
Food service	28,046
Debt service	34,001
Capital outlay	207,085
Unrestricted	(5,630,855)
Total net position	(4,184,526)
Total liabilities, deferred inflows of resources, and net position	\$ 4,564,584

Mar Lee School

Statement of Activities

For the year ended June 30, 2018

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Functions/Programs:				
Governmental activities:				
Instruction	\$ 1,956,908	\$ 19,500	\$ 661,738	\$ (1,275,670)
Support services	831,371	19,915	11,943	(799,513)
Food service	133,891	42,800	103,213	12,122
Interest on long-term debt	33,024	-	4,677	(28,347)
Depreciation (unallocated)	95,001	-	-	(95,001)
Total governmental activities	\$ 3,050,195	\$ 82,215	\$ 781,571	(2,186,409)
General revenues:				
Taxes:				
Property taxes, levied for general operations				618,625
Property taxes, levied for debt service				168,256
Property taxes, levied for capital outlay				61,172
State of Michigan aid, unrestricted				1,547,669
Unrestricted investment earnings				1,063
Other revenues				16,724
Total general revenues				2,413,509
Change in net position				227,100
Net position-beginning-restated				(4,411,626)
Net position-ending				\$ (4,184,526)

The Notes to Financial Statements are an integral part of this statement.

Mar Lee School

Governmental Funds

Balance Sheet

June 30, 2018

	General	Food Service	Debt Service	Sinking	Total Governmental Funds
ASSETS					
Cash and investments	\$ 731,582	\$ 17,272	\$ 34,001	\$ 207,085	\$ 989,940
Accounts receivable, net	447	-	-	-	447
Intergovernmental receivable	415,383	2,677	-	-	418,060
Due from other funds	-	9,390	-	-	9,390
Inventories	-	1,582	-	-	1,582
Prepaid items	9,550	-	-	-	9,550
Total assets	\$ 1,156,962	\$ 30,921	\$ 34,001	\$ 207,085	\$ 1,428,969
LIABILITIES					
Accounts payable	\$ 33,856	\$ 168	\$ -	\$ -	\$ 34,024
Accrued liabilities	289,559	1,421	-	-	290,980
Due to other funds	9,390	-	-	-	9,390
Unearned revenue	12,667	1,286	-	-	13,953
State aid note payable	700,000	-	-	-	700,000
Total liabilities	1,045,472	2,875	-	-	1,048,347
FUND BALANCES					
Nonspendable:					
Inventories	-	1,582	-	-	1,582
Prepaid items	9,550	-	-	-	9,550
Restricted:					
Food service	-	26,464	-	-	26,464
Debt service	-	-	34,001	-	34,001
Capital projects	-	-	-	207,085	207,085
Unassigned	101,940	-	-	-	101,940
Total fund balances	111,490	28,046	34,001	207,085	380,622
Total liabilities and fund balances	\$ 1,156,962	\$ 30,921	\$ 34,001	\$ 207,085	\$ 1,428,969

The Notes to Financial Statements are an integral part of this statement.

Mar Lee School

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2018

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

Total fund balances - governmental funds	\$ 380,622
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,207,197
Unamortized bond issuance costs (before 12-31-2013) are not assets in Governmental Funds	17,013
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Balances at June 30, 2018 were:	
Bonds payable	(1,030,000)
Deferred compensated absences	(2,800)
Net pension liability	(4,558,257)
OPEB liability	(1,552,208)
Deferred outflows and inflows of resources are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources:	
Pension related	910,144
OPEB Healthcare related	7,936
Escrow deposit for interest on refunded bonds	2,715
Deferred inflows of resources:	
Pension related	(512,358)
OPEB Healthcare related	(52,476)
Interest on long-term debt is accrued as a liability in the district-wide statements, but is not recognized in the governmental funds until due.	(2,054)
Net position of governmental activities	\$ (4,184,526)

The Notes to Financial Statements are an integral part of this statement.

Mar Lee School

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2018

	General	Food Service	Debt Service	Sinking	Total Governmental Funds
REVENUES					
Local sources	\$ 659,941	\$ 42,823	\$ 168,324	\$ 71,552	\$ 942,640
State sources	1,989,781	3,106	4,677	1,654	1,999,218
Federal sources	82,044	100,106	-	-	182,150
Incoming transfers and other transactions	153,286	-	-	-	153,286
Total revenues	2,885,052	146,035	173,001	73,206	3,277,294
EXPENDITURES					
Current:					
Instruction	1,961,287	-	-	-	1,961,287
Support services	810,228	-	-	-	810,228
Athletics	21,143	-	-	-	21,143
Food services	-	133,891	-	-	133,891
Debt service:					
Principal	-	-	140,000	-	140,000
Interest	-	-	27,280	-	27,280
Fees	-	-	1,250	-	1,250
Capital outlay	-	-	-	29,595	29,595
Total expenditures	2,792,658	133,891	168,530	29,595	3,124,674
Excess (deficiency) of revenues over expenditures	92,394	12,144	4,471	43,611	152,620
OTHER FINANCING SOURCES (USES)					
Operating transfer in	4,549	500	-	-	5,049
Operating transfer out	(500)	(4,549)	-	-	(5,049)
Total other financing sources (uses)	4,049	(4,049)	-	-	-
Net change in fund balances	96,443	8,095	4,471	43,611	152,620
Fund balances-beginning	15,047	19,951	29,530	163,474	228,002
Fund balances-ending	\$ 111,490	\$ 28,046	\$ 34,001	\$ 207,085	\$ 380,622

The Notes to Financial Statements are an integral part of this statement.

Mar Lee School

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended June 30, 2018

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

Net change in fund balances - total governmental funds	\$	152,620
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	\$	27,099
Capital outlay		<u>(95,001)</u>
Capital outlay in excess of depreciation expense		(67,902)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		206
Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		140,000
Bond issuance costs (before 12-31-2013) are expenditures in the governmental funds when incurred, but are amortized in the statement of activities		(3,722)
Amortization of the excess of the amount paid into escrow for payment of refunded bonds, over the carrying value of the bonds, is not recorded on the governmental funds, but is recorded as interest expense on the statement of activities		(978)
Governmental funds report pension contributions as expenditures. However, in the statement of activities the pension expense is determined by the pension plan. This is the amount by which the pension expense exceeded the contributions.		1,603,626
Governmental funds report OPEB Healthcare contributions as expenditures. However, in the statement of activities the OPEB expense is determined by the plan. This is the amount by which the OPEB expense exceeded the contributions.		(1,596,750)
Change in net position of governmental activities	\$	227,100

The Notes to Financial Statements are an integral part of this statement.

Mar Lee School

Fiduciary Funds

Statement of Net Position

June 30, 2018

	Scholarship		Agency		Total
ASSETS					
Cash and cash equivalents	\$	6,664	\$	45,366	\$ 52,030
Due from other funds		2,630		-	2,630
<hr/>					
Total assets	\$	9,294	\$	45,366	\$ 54,660
<hr/>					
LIABILITIES					
Scholarships payable	\$	9,294	\$	-	\$ 9,294
Due to student groups		-		45,366	45,366
<hr/>					
Total liabilities		9,294		45,366	54,660
<hr/>					
Total liabilities	\$	9,294	\$	45,366	\$ 54,660

The Notes to Financial Statements are an integral part of this statement.

Mar Lee School

Fiduciary Funds

Statement of Changes in Net Position

For the year ended June 30, 2018

	Scholarship Fund
Revenue	
Local revenues	\$ 4,998
Expenditures	
Scholarships awarded	5,219
Excess (deficiency) of revenues over expenditures	(221)
Net position-beginning	221
Net position-ending	\$ -

The Notes to Financial Statements are an integral part of this statement.

Mar Lee School

Notes to Financial Statements

June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mar Lee School is located in Calhoun County. The School District is governed by an elected seven-member Board of Education. The accounting policies of Mar Lee School (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

A. Reporting Entity

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

B. 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 primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

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 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, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The School District has two fiduciary funds, the Scholarship Fund and Agency Fund.

Mar Lee School

Notes to Financial Statements

June 30, 2018

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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

Revenues are recognized in the accounting period in which they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, unrestricted State aid, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

Mar Lee School

Notes to Financial Statements

June 30, 2018

The School District reports the following major governmental funds:

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

The Debt Service Fund accounts for property taxes and other revenues to be used to pay principal, interest and fees related to long-term debt.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Fund accounts for the School District's food service activity. Any operating deficit generated by this activity is the responsibility of the General Fund.

The Sinking Fund accounts for property tax revenues used to finance additions and improvements to the School District's buildings and facilities.

Additionally, the School District reports the following fund types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity for individuals or school-related organizations. The Agency Fund is custodial in nature and does not involve measurement of results of operations. The Scholarship Fund accounts for assets held by the School District that are to be used for college scholarships to District alumni.

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

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

Mar Lee School

Notes to Financial Statements

June 30, 2018

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

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on February 15th of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$10,000. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles of the School District are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and building improvements	20-50 years
Land improvements	20-30 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-10 years

Mar Lee School

Notes to Financial Statements

June 30, 2018

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are pension related items, OPEB healthcare related items, and escrow deposit for interest on refunded bonds.

In addition to liabilities, the statement of financial 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 District has two items that qualify for reporting in this category. They are pension related items and OPEB healthcare related items.

Compensated Absences

The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Use of Estimates

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

Other Financing Sources (Uses)

Transfers of cash between the various School District funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

Mar Lee School

Notes to Financial Statements

June 30, 2018

Net Position and Fund Balances

The difference between fund assets and liabilities is "Net Position" on the district-wide and fiduciary fund statements and "Fund Balances" on governmental fund statements. Net Position are classified as "Net investment in capital assets," legally "Restricted" for a specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

- **Nonspendable**--Amounts that cannot be spent either because they are (a) not in spendable form; or (b) legally or contractually required to be maintained intact.
- **Restricted**--Amounts with constraints placed on the use of resources because they are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed**--Amounts that can be used only for specific purposes determined by a formal action by Board of Education resolution, and that remain binding unless removed in the same manner.
- **Assigned**--Amounts neither restricted nor committed for which a School District has a stated intended use as established by the Board of Education or a body or official to which the Board of Education has delegated the authority to assign amounts for specific purposes.
- **Unassigned**--Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Use of Restricted Resources

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the School District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the School District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

Comparative Data/Reclassifications

Comparative data is not included in the School District's financial statements.

Mar Lee School

Notes to Financial Statements

June 30, 2018

E. Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes and unrestricted State aid.

Property Taxes

The School District's 2017 ad valorem tax was levied and collectible on December 1. It is the School District's policy to recognize revenues from the current tax levy in the current year when the proceeds of this levy are budgeted and made available for financing operations. Taxes are considered delinquent on February 15 of the following year, at which time penalties and interest are assessed.

F. Pension

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

G. Postemployment Benefits Other Than Pensions

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

H. Change in Accounting Principle

Statements Number 74 and 75. Implementation of these new accounting standards required a restatement of beginning net position for the net OPEB liability related to the defined benefit retirement plan. The plan is the Michigan Public School Employees' Retirement System (MPSERS). This plan 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.

Previously GASB Statement Number 27 excluded this OPEB liability from the financial statements of the district. The above restatements had the following impact on previously reported balances.

Net position as previously reported	\$	(2,774,390)
<u>OPEB liability</u>		<u>(1,637,236)</u>
Net position restated	\$	(4,411,626)

Mar Lee School

Notes to Financial Statements

June 30, 2018

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan Law. State law permits districts to amend their budgets during the year. During the year, the budgets were amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts, etc.) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

For the year ended June 30, 2018, expenditures exceeded appropriations in the following departments (the legal level of budgetary control).

Fund and Activity	Budget Appropriation	Actual Expenditure	Excess Expenditure	% Variance
General Fund:				
Business services	\$ 62,160	\$ 62,937	\$ 777	1.25 %

Mar Lee School

Notes to Financial Statements

June 30, 2018

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Deposits are carried at cost. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The School District's deposits and investment policy are in accordance with statutory authority.

As of June 30, 2018, the School District had the following deposits.

Chemical Bank	\$ 1,055,075
Petty cash	100
Total	\$ 1,055,175

At year end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 989,940	\$ 52,030	\$ 1,041,970

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk of bank deposits. At year end, the bank balance of the School District's deposits is \$1,055,175, of which \$284,001 is covered by federal depository insurance. The remaining \$771,174 is uninsured and uncollateralized.

Interest Rate Risk

The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Fair Value Hierarchy

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

The School District owns no investments subject to the fair value measurement.

Mar Lee School

Notes to Financial Statements

June 30, 2018

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities for the year ended June 30, 2018, was as follows:

Governmental Activities	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, being depreciated:				
Buildings and building improvements	\$ 2,931,540	\$ 27,099	\$ -	\$ 2,958,639
Land improvements	592,525	-	-	592,525
School buses	293,894	-	-	293,894
Furniture and equipment	156,197	-	-	156,197
Total capital assets, being depreciated	3,974,156	27,099	-	4,001,255
Less accumulated depreciation for:				
Buildings and building improvements	828,637	59,239	-	887,876
Land improvements	524,975	2,331	-	527,306
School buses	217,965	29,626	-	247,591
Furniture and equipment	127,480	3,805	-	131,285
Total accumulated depreciation	1,699,057	95,001	-	1,794,058
Total capital assets being depreciated, net	2,275,099	(67,902)	-	2,207,197
Governmental activities capital assets, net	\$ 2,275,099	\$ (67,902)	\$ -	\$ 2,207,197

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

Mar Lee School

Notes to Financial Statements

June 30, 2018

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2018, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u> <u>General</u>
Food Service	\$ 9,390

The District reports interfund balances between certain funds. The sum of all balances presented in the table above agrees with the sum of balances presented in the balance sheet for governmental funds. These 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.

NOTE 6 - INTERFUND TRANSFERS

The composition of interfund transfers as of June 30, 2018, is as follows:

Interfund transfers:

<u>Transfer Out Fund</u>	<u>Transfer In Fund:</u>		<u>Total</u>
	<u>General</u>	<u>Food Service</u>	
General	-	500	500
Food Service	\$ 4,549	-	4,549
Total	\$ 4,549	\$ 500	\$ 5,049

For the year ended June 30, 2018, the General Fund charged the Food Service Fund for indirect costs.

NOTE 7 - NOTES PAYABLE

The School District has \$700,000 outstanding at year end of State Aid Anticipation notes. The School District intends to pay this obligation with State Aid received subsequent to year end.

Short-term debt activity for the year ended June 30, 2018, was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>
State Aid Note	\$ 800,000	\$ 700,000	\$ 800,000	\$ 700,000

Mar Lee School

Notes to Financial Statements

June 30, 2018

NOTE 8 - INTERGOVERNMENTAL RECEIVABLES

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

	Government- wide	
State aid	\$	353,651
State aid for food service		2,677
Federal revenue		16,707
ISD and other		45,025
Total	\$	418,060

Amounts reported as intergovernmental receivables include amounts due from federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

NOTE 9 - LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and purchase contracts.

The following is a summary of long-term debt transactions for the year ended June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 1,170,000	\$ -	\$ 140,000	\$ 1,030,000	\$ 140,000
Compensated absences	3,500	-	700	2,800	-
Total	\$ 1,173,500	\$ -	\$ 140,700	\$ 1,032,800	\$ 140,000

Mar Lee School

Notes to Financial Statements

June 30, 2018

The annual requirement to amortize long-term debt outstanding as of June 30, 2018 follows:

Year ended, June 30,	Governmental Activities		Total
	Principal	Interest	
2019	\$ 140,000	\$ 24,630	\$ 164,630
2020	140,000	22,180	162,180
2021	140,000	19,450	159,450
2022	145,000	16,440	161,440
2023	150,000	12,960	162,960
2024	155,000	9,060	164,060
2025	160,000	4,720	164,720
Totals	\$ 1,030,000	\$ 109,440	\$ 1,139,440

Governmental Activities:

Bonds and notes payable at June 30, 2018 were comprised of the following:

\$1,365,000 2008 2015 General Obligation, Unlimited Tax, Refunding Bonds, due in annual installments of \$110,000 to \$160,000 with interest rates from 0.95% to 2.95%	\$ 1,030,000
--	--------------

Mar Lee School

Notes to Financial Statements

June 30, 2018

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 11 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	Unavailable	Unearned
General Fund	\$ -	\$ 12,667
Food Service Fund	-	1,286
Total	\$ -	\$ 13,953

Mar Lee School

Notes to the Financial Statements

June 30, 2018

NOTE 12 - PENSION PLAN

General Information about the Michigan Public School Employees' Retirement System (MPSERS) pension plan

Plan Description

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

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

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

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

Benefits Provided

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

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

Contributions

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

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

Mar Lee School

Notes to the Financial Statements

June 30, 2018

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

Benefit Structure	Pension Contribution Rates		
	Member	Employer	
		Universities	Non-Universities
Basic	0.0 - 4.0 %	23.05 %	19.03 %
Member Investment Plan	3.0 - 7.0 %	23.05 %	19.03 %
Pension Plus	3.0 - 6.4 %	N/A	18.40 %
Defined Contribution	0.0 %	18.75 %	15.27 %

Required contributions to the pension plan from the district were \$412,573 for the year ended September 30, 2017.

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

At June 30, 2018, the district reported a liability of \$4,558,257 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The 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 district's proportion was 0.00017590 percent, which was a decrease of 0.98919841 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018, the district recognized pension expense of \$453,132. At June 30, 2018, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,614	\$ 22,366
Changes of assumptions	499,393	-
Net difference between projected and actual earnings on pension plan investments	-	217,915
Changes in proportion and differences between district contributions and proportionate share of contributions	24,530	91,817
District contributions subsequent to the measurement date	346,607	180,260
Total	\$ 910,144	\$ 512,358

Mar Lee School

Notes to the Financial Statements

June 30, 2018

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

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future Pension Expenses)	
Year Ending September 30	Amount
2018	\$ 63,703
2019	136,376
2020	45,775
2021	(14,415)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	7.5%
- Pension Plus Plan (Hybrid)	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.5188 for non-university employers.
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Mar Lee School

Notes to the Financial Statements

June 30, 2018

Long-Term Expected Return on Plan Assets

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

<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

Rate of Return

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Mar Lee School

Notes to the Financial Statements

June 30, 2018

Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate

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

1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
\$ 5,937,893	\$ 4,558,257	\$ 3,396,692

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

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Mar Lee School

Notes to the Financial Statements

June 30, 2018

NOTE 13 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

General Information about the Michigan Public School Employees' Retirement System (MPSERS) OPEB plan

Plan Description

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

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

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

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

Benefits Provided

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

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

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

Contributions

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

Mar Lee School

Notes to the Financial Statements

June 30, 2018

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

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

Benefit Structure	OPEB Contribution Rates		
	Member	Universities	Employer Non-Universities
Premium Subsidy	3.00 %	7.36 %	5.91 %
Personal Healthcare Fund (PHF)	0.00 %	6.98 %	5.69 %

Required contributions to the OPEB plan from the district were \$136,465 for the year ended September 30, 2017.

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

At June 30, 2018, the district reported a liability of \$1,552,208 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 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 district's proportion was 0.00017528 percent, which was a decrease of 1.34641716 percent from its proportion measured as of October 1, 2017.

For the year ended June 30, 2018, the district recognized OPEB expense of \$103,839. At June 30, 2018, the district reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 16,526
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	35,950
Changes in proportion and differences between district contributions and proportionate share of contributions	74	-
District contributions subsequent to the measurement date	7,862	-
Total	\$ 7,936	\$ 52,476

Mar Lee School

Notes to the Financial Statements

June 30, 2018

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

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future OPEB Expenses)	
Year Ending September 30	Amount
2018	\$ (12,665)
2019	(12,665)
2020	(12,665)
2021	(12,665)
2022	(1,742)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	7.5%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Healthcare Cost Trend Rate:	7.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Other Assumptions:	
Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2017 MPERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

Mar Lee School

Notes to the Financial Statements

June 30, 2018

Long-Term Expected Return on Plan Assets

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

<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

Rate of Return

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

Discount Rate

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

Mar Lee School

Notes to the Financial Statements

June 30, 2018

Sensitivity of the district's proportionate share of the net OPEB liability to changes in the discount rate

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

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
\$ 1,818,084	\$ 1,552,208	\$ 1,326,563

Sensitivity of the district's proportionate share of the net OPEB liability to Healthcare Cost Trend Rate

The following presents the district's proportionate share of the net OPEB liability calculated using assumed trend rates, as well as what the district's proportionate share of the net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
\$ 1,314,512	\$ 1,552,208	\$ 1,822,096

OPEB Plan Fiduciary Net Position

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

Mar Lee School

Notes to Financial Statements

June 30, 2018

NOTE 14 - PROPERTY TAX ABATEMENTS

Act 198, the Plant Rehabilitation and Industrial Development Districts Act, was adopted in the State of Michigan as a means of providing a stimulus in the form of significant tax incentives to industry for the purpose of creating new jobs and maintaining existing jobs. It allows an obsolete property, when replaced or restored, to have its assessed value frozen at the level prior to the improvement for a maximum of twelve years; and new plants to receive a fifty percent exemption from property tax on the taxable value of new real and personal properties, also for a maximum period of twelve years.

Public Act 381 of 1996, the Brownfield Redevelopment Financing Act, was adopted in the State of Michigan as a means to authorize municipalities to create a brownfield redevelopment authority to facilitate the implementation of brownfield plans; to create brownfield redevelopment zones; to promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax reverted, blighted, or functionally obsolete property; to prescribe the powers and duties of brownfield redevelopment authorities; to permit the issuance of bonds and other evidences of indebtedness by an authority; to authorize the acquisition and disposal of certain property; to authorize certain funds; to prescribe certain powers and duties of certain state officers and agencies; and to authorize and permit the use of certain tax increment financing.

Marengo Township has granted a property tax abatement to a company in the township. This abatement reduces the property tax revenue of the General Fund by approximately \$25,000; however, this does not result in a loss of revenue in the General Fund because of the Foundation Allowance formula replaces this revenue. This property tax abatement does reduce the property tax revenue in the Debt Fund by approximately \$3,000 and in the Sinking Fund by approximately \$1,000.

NOTE 15 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2017, GASB issued Statement 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of 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. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

In June, 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. 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 SUPPLEMENTAL INFORMATION

Mar Lee School

General Fund

Budgetary Comparison Schedule

For the year ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Local sources	\$ 657,299	\$ 683,026	\$ 659,941	\$ (23,085)
State sources	1,939,294	2,002,767	1,989,781	(12,986)
Federal sources	80,100	101,420	82,044	(19,376)
Incoming transfers and other transactions	124,617	123,419	153,286	29,867
Total revenues	2,801,310	2,910,632	2,885,052	(25,580)
EXPENDITURES				
Current:				
Instruction:				
Basic programs	1,603,814	1,669,254	1,633,687	35,567
Added needs	330,773	350,449	327,600	22,849
Support services:				
Pupil services	78,955	98,358	95,999	2,359
Instructional staff services	-	10,936	9,589	1,347
General administration	116,889	86,457	78,070	8,387
School administration	177,747	192,290	186,404	5,886
Business services	62,150	62,160	62,937	(777)
Operations and maintenance	173,735	178,582	171,109	7,473
Pupil transportation	156,336	157,548	144,853	12,695
Central support services	60,116	65,616	61,267	4,349
Athletics	21,041	22,211	21,143	1,068
Total expenditures	2,781,556	2,893,861	2,792,658	101,203
Excess (deficiency) of revenues over expenditures	19,754	16,771	92,394	75,623
OTHER FINANCING SOURCES (USES)				
Operating transfers in	10,000	8,000	4,549	(3,451)
Operating transfers out	-	(500)	(500)	-
Total other financing sources (uses)	10,000	7,500	4,049	(3,451)
Net change in fund balance	29,754	24,271	96,443	72,172
Fund balance-beginning	15,047	15,047	15,047	-
Fund balance-ending	\$ 44,801	\$ 39,318	\$ 111,490	\$ 72,172

Mar Lee School

Food Service Fund

Budgetary Comparison Schedule

For the year ended June 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget
	Original	Final	Actual	
REVENUES				
Local sources	\$ 40,000	\$ 36,000	\$ 42,823	\$ 6,823
State sources	2,500	2,095	3,106	1,011
Federal sources	107,150	98,000	100,106	2,106
Total revenues	149,650	136,095	146,035	9,940
EXPENDITURES				
Current:				
Support services:				
Food service	160,447	156,546	133,891	22,655
Excess (deficiency) of revenues over expenditures	(10,797)	(20,451)	12,144	32,595
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	500	500	-
Operating transfers out	-	-	(4,549)	(4,549)
Total other financing sources (uses)	-	500	(4,049)	(4,549)
Net change in fund balance	(10,797)	(19,951)	8,095	28,046
Fund balance-beginning	19,951	19,951	19,951	-
Fund balance-ending	\$ 9,154	\$ -	\$ 28,046	\$ 28,046

Mar Lee School

Required Supplemental Information

June 30, 2018

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

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of net pension liability (%)	01758977 %	01776376 %	01818279 %	01740000 %
District's proportionate share of net pension liability	\$ 4,558,257	\$ 4,431,913	\$ 4,441,151	\$ 3,952,420
District's covered employee payroll	\$ 1,465,654	\$ 1,477,549	\$ 1,502,099	\$ 1,528,176
District's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	311.00 %	299.95 %	295.66 %	258.64 %
Plan fiduciary net position as a percentage of total pension liability	63.96 %	63.01 %	63.17 %	66.20 %

Schedule of the District's Contributions

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contributions	\$ 412,573	\$ 382,702	\$ 443,522	\$ 332,609	\$ 326,895
Contributions in relation to statutorily required contributions	412,573	382,702	443,522	332,609	326,895
Contribution deficiency (excess)	-	-	-	-	-
Districts covered-employee payroll	\$ 1,465,654	\$ 1,527,743	\$ 1,502,099	\$ 1,521,287	\$ 1,511,236
Contributions as a percentage of covered-employee payroll	28.15 %	25.05 %	29.53 %	21.86 %	21.63 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending 2017.

Changes of assumptions: There were no changes of benefit assumptions during the plan year ending 2017.

Mar Lee School

Required Supplemental Information

June 30, 2018

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

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2017</u>
District's proportion of net OPEB liability (%)	0.00017528 %
District's proportionate share of net OPEB liability	\$ 1,552,208
District's covered payroll (OPEB)	\$ 1,465,654
District's proportionate share of net OPEB liability as a percentage of its covered employee payroll (%)	105.91 %
Plan fiduciary net position as a percentage of total OPEB liability	36.39 %

Schedule of the District's OPEB Contributions

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2018</u>
Statutorily required contributions	\$ 9,042
Contributions in relation to statutorily required contributions	9,042
Contribution deficiency (excess)	-
Reporting units covered-employee payroll	\$ 1,368,176
Contributions as a percentage of covered-employee payroll	0.66 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending 2017.

Changes of assumptions: There were no changes of benefit assumptions during the plan year ending 2017.

This page intentionally left blank.

AUDITORS REPORTS

2496 84th Street SW
Byron Center, MI 49315

Phone (616) 583-0094

Fax (866) 569-0725

Email: doug@wohlbergcpa.com

**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 School Board
Mar Lee School

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 and the major funds, of Mar Lee School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Mar Lee School's basic financial statements and have issued our report thereon dated October 5, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Mar Lee School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2017-01.

**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 (continued)**

Mar Lee School's Response to Findings

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

Purpose of this Report

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

Very truly yours,

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive, flowing style with a large loop at the end of the last name.

Douglas Wohlberg, CPA
Byron Center, Michigan
October 5, 2018

2496 84th Street SW
Byron Center, MI 49315
Phone (616) 583-0094
Fax (866) 569-0725
Email: doug@wohlbergcpa.com

October 5, 2018

To the Board of Education
Mar Lee School

We have audited the financial statements of the governmental activities and the major fund information of Mar Lee School for the year ended June 30, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards 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 20, 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 Mar Lee School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit 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 estimate affecting the district's financial statements was:

Management's estimates of the useful lives of capital assets which is based on previous history, management's estimate of the accrued compensated absences is based on current contracts, rates and policies regarding payment of these benefits, and the net pension liability which is based on an actuarial valuation of the entire Michigan Public School Employees Retirement System. We evaluated key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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 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.

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 5, 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 governmental unit'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 governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the budgetary comparison schedules, Schedule of the District's Proportionate share of the Net Pension Liability, Schedule of the District's Contributions, the related Notes to Required Supplementary Information, Schedule of the District's Proportionate Share of the Net OPEB Liability, the Schedule of the District's OPEB Contributions, and the related Notes to Required Supplementary Information, 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 combining statements, 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.

Restriction on Use

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

Very truly yours,



Douglas Wohlberg, CPA
Byron Center, Michigan

Mar Lee School
Calhoun County, Michigan
Schedule of Findings and Responses
For the year ended June 30, 2018

NONCOMPLIANCE WITH STATE STATUTES

Finding 2017-01
Expenditures in Excess of Appropriations

Condition: The School District's General Appropriations Act (budget) provided for expenditures of the General and Food Service Funds to be controlled to the activity level by the School District. As detailed below, actual expenditures exceeded the School District's approved budget allocations.

During the fiscal year ended June 30, 2018, expenditures were incurred in excess of amounts appropriated follows:

	Final Budget	Actual	Variance	% Variance
General Fund				
Business services	\$ 62,160	\$ 62,937	\$ 777	1.25 %

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968.

Effect: The School District is in noncompliance with State statute. Unavailable funds continued to be spent despite the lack of budgeted funds to support the expenses.

Recommendation: We recommend that the School District develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management's Response-Corrective Action Plan: The School District will more frequently review available funds and amend the budgets.