Schoolcraft Community Schools

Financial Statements

June 30, 2018

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Schoolcraft Community Schools
Members of the Board of Education and Administration
June 30, 2018

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Independent Auditors' Report

Management and the Board of Education
Schoolcraft Community Schools
Schoolcraft, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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

Adoption of New Accounting Standards
As described in Note 12 to the financial statements, during the year ended June 30, 2018, the School District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* Our opinions are not modified with respect to this matter.

Other Matters:

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

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Schoolcraft Community Schools' basic financial statements. The supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Schoolcraft Community Schools' basic financial statements as of and for the year ended June 30, 2017, which are not presented with the accompanying basic financial statements. In our report dated October 8, 2018, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Schoolcraft Community Schools' basic financial statements as a whole. The 2017 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2017 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2017 information in the comparative supplementary schedules is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018 on our consideration of Schoolcraft Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Schoolcraft Community Schools' 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 Schoolcraft Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Kalamazoo, MI
October 8, 2018

Note 1 - Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

The School District reports the following major governmental funds:

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

2009 Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt. The School District is not required to establish budgets for debt service funds and so no budget is provided for in this major fund.

Capital Projects Fund – The Capital Projects Fund is used to record authorized revenues and expenditures for invoices specifically designated for acquiring and maintaining school buildings, equipment, and transportation equipment. The School District is not required to establish budgets for capital projects funds and so no budget is provided for in this major fund.

Additionally, the School District reports the following fund types:

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

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

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

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

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

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	6.50000

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

The property tax levy collection period runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by Kalamazoo County and should be remitted to the School District by May 15.

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

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. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

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

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

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

Compensated Absences – Employees are provided with sick days each year. If not used, sick days may be carried forward into the next fiscal year. Once ninety (90) days of sick leave have been accumulated, teachers are paid $25/day for unused sick leave accumulated over the ninety days. The monies will be paid at the end of the school year. Upon retirement, teachers will be paid $25 for each day of unused sick leave accumulated up to 100 days. Employees that leave the School District's employ with accumulated sick days forfeit the right to receive payment thereof.

Support staff follows the same policy as teachers except that the accumulated sick days are paid on a graduated rate from $5 to $20 per day based on the normal number of hours in their workday.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

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

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

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

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

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

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

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

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

Assigned – amounts intended to be used for specific purposes, as determined by the board of education or the Superintendent. The Board of Education has granted the finance committee and Superintendent the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

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

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

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

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

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

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

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

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

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

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

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

Statement No. 87, *Leases* increases the usefulness of the District's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. A lessee will be required to recognize a lease liability and an intangible right-to-use a lease asset, and a lessor will be required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the District's leasing activities. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

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

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

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

Note 2 - Stewardship, Compliance, Accountability

Budgetary Information

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

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

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

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

Excess of Expenditures Over Appropriations
During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Instructional staff	$ 341,820	$ 456,362	$ 114,542
School administration	593,450	594,753	1,303
Transfers out	363,800	474,131	110,331

Note 3 - Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	$ 2,376,018	$ 145,990	$ 2,522,008
Investments	541,434	-	541,434
	$ 2,917,452	$ 145,990	$ 3,063,442

As of year-end, investments shown on the School District's Statement of Net Position are treated as deposits for the purpose of this disclosure. The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, certificates of deposit)	$ 2,518,508
Investments in securities, money markets, and similar vehicles	541,434
Petty cash and cash on hand	3,500
Total	$ 3,063,442

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

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

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, $2,610,117 of the School District's bank balance of $3,110,117 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The following investment securities were uninsured and unregistered and held in the following manner:

Investment Type	Carrying Value	How Held
PNC Governmental Money Market Fund	$ 541,434	Counterparty in the District's name

Note 4 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 187,900	$ -	$ -	$ 187,900
Capital assets being depreciated				
Buildings and additions	23,370,937	8,140	816,708	22,562,369
Equipment and furniture	2,537,941	247,711	37,537	2,748,115
Buses and other vehicles	1,341,299	107,146	301,991	1,146,454
Total capital assets being depreciated	27,250,177	362,997	1,156,236	26,456,938
Less accumulated depreciation for				
Buildings and additions	11,523,158	428,755	688,461	11,263,452
Equipment and furniture	2,062,206	189,825	37,537	2,214,494
Buses and other vehicles	974,874	91,498	301,991	764,381
Total accumulated depreciation	14,560,238	710,078	1,027,989	14,242,327
Net capital assets being depreciated	12,689,939	(347,081)	128,247	12,214,611
Net capital assets	$12,877,839	$(347,081)	$ 128,247	$12,402,511

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	$ 422,012
Support services	275,883
Athletic services	12,183
Total governmental activities	$ 710,078

Note 5 - Interfund Receivables, Payables, Transfers

Individual interfund receivable and payable balances at year-end were:

Due From Fund	Due to Fund	Amount
Food Service	General	$ 12,436
Capital Projects	General	945,819
Debt	General	796
		$ 959,051

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

A transfer of $474,131 was made to the Capital Projects Fund from the General Fund to fund the costs of the School District’s capital project plans.

Note 6 - Unearned Revenue

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

	Unearned
Advance participant fees	$ 99,288
Lunch monies on account	7,664
Total	$ 106,952

Note 7 - 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 a capital lease payable, compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	$ 6,425,000	$ -	$ 735,000	$ 5,690,000	$ 735,000
School Bond Loan Fund	23,053	-	23,053	-	-
Accrued interest on School Bond Loan Fund	4	494	498	-	-
Compensated absences	97,429	30,008	24,726	102,711	-
Total	$ 6,545,486	$ 30,502	$ 783,277	$ 5,792,711	$ 735,000

For governmental activities, compensated absences are primarily liquidated by the general fund.

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

$12,420,000 serial bond due in annual installments of $695,000 to $735,000 through May 2026, interest at 3.50% to 4.75%	$ 5,690,000

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

Year Ending June 30,	Principal	Interest	Total
2019	$ 735,000	$ 240,738	$ 975,738
2020	725,000	211,338	936,338
2021	710,000	183,244	893,244
2022	710,000	153,958	863,958
2023	705,000	123,782	828,782
2024 – 2026	2,105,000	188,520	2,293,520
Total	$ 5,690,000	$ 1,101,580	$ 6,791,580

The general obligation bonds are payable from the Debt Service Funds. As of year-end, the fund had a balance of $629,416 to pay this debt. Future debt and interest will be payable from future tax levies.

Compensated Absences

Accrued compensated absences, including payroll taxes on these benefits at year-end is $102,711. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

School Bond Loan Fund

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities. Management of the School District anticipates that as the other bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds and all necessary borrowing from the State School Bond Loan Fund.

During the year, the School District borrowed $0, repaid $23,053 on principal, and had an outstanding balance at year-end of $0 of principal and $0 in accrued interest. The School District had agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Defeased Debt
In prior years, the School District has defeased various bonds issued by creating separate irrevocable trust funds. The new debt was issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment date is May 2026. As of year-end, the amount of defeased debt outstanding but removed from the School District's financial statements is as follows:

1996 Issue refunded	$ 5,720,000

Deferred Amount on Refunding
The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $523,477. This amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2026.

Note 8 - Risk Management

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

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District's unemployment compensation expense for the year was $0. No provision has been made for possible future claims.

Note 9 - Tax Abatements

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions and Brownfield Redevelopment Agreements granted by Kalamazoo County. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2018, the School District's property tax revenues were not reduced by a material amount under these programs.

There are no significant abatements made by the School District.

Note 10 - Pension Plans

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

board consists of twelve members— eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

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

Benefits Provided

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

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

Contributions

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

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

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

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	19.03%
Member Investment Plan	3.0 - 7.0%	19.03%
Pension Plus	3.0 - 6.4%	18.40%
Defined Contribution	0.00%	15.27%

Required contributions to the pension plan from the School District were $1,354,418 for the year ending September 30, 2017.

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

At June 30, 2018, the School District reported a liability of $14,964,088 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was 0.0578 percent, which was an increase of .0004 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total pension expense for the School District was $1,655,896.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 130,048	$ (73,426)
Changes in assumptions	1,639,435	-
Net difference between projected and actual earnings on pension plan investments	-	(715,382)
	254,469	(9,461)
Employer contributions subsequent to the measurement date	1,240,191	(596,017)
	$ 3,264,143	$ (1,394,286)

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:

Plan Year Ending September 30	Amount:
2018	$ 377,459
2019	608,683
2020	259,410
2021	(19,869)
Total	$ 1,225,683

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

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

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

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

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

Recognition period for assets in years is 5.0000

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

Long-Term Expected Return on Plan Assets

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

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

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

Rate of Return

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

Discount Rate

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

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
$ 19,493,230	$ 14,964,088	$ 11,150,840

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

Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

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

Note 11 - Postemployment Benefits Other Than Pensions (OPEB)

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

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

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

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

Benefits Provided
Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the

premium is paid by the System with the balance deducted from the monthly pension of each retiree healthcare recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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

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

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

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

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

OPED Contribution Rates

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

Required contributions to the OPEB plan from the School District were $449,943 for the year ended September 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2018, the School District reported a liability of $5,117,849 for its proportionate share of the MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by

dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .0578 percent, which was an increase of 0.0004 percent from its proportion measured as of September 30, 2016. At September 30, 2017, the total OPEB expense for the School District was $342,364.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ (54,490)
Net difference between projected and actual earnings on OPEB plan investments	-	(118,531)
Changes in proportion and differences between the School District contributions and proportionate share of contributions	193	-
Total to be recognized in future	193	(173,021)
School District contributions subsequent to the measurement date	281,251	-
Total	$ 281,444	$ (173,021)

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

Deferred (Inflow) and Deferred Outflow of Resources by Year
(To Be Recognized in Future OPEB Expenses)

2018	$ (41,768)
2019	$ (41,768)
2020	$ (41,768)
2021	$ (41,768)
2022	(5,756)
	$ (172,828)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2016
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of Return: 7.5%

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

Other Assumptions:

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

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

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

Recognition period for assets in years is 5.0000

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

Long-Term Expected Return on Plan Assets

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

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

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

Rate of Return

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

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

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

1% Decrease 6.5%	Current Discount Rate 7.5%	1% Increase 8.5%
$ 5,994,480	$ 5,117,849	$ 4,373,863

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

1% Decrease 6.5%	Current Healthcare Cost Trend Rate 7.5%	1% Increase 8.5%
$ 4,334,130	$ 5,117,849	$ 6,007,707

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

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

Note 12 - Contingent Liabilities

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

Note 13 - Adoption of New Accounting Standards

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statement 75. This required the School District to record their proportionate share of the net OPEB liability and OPEB expense. Previously, these amounts were not recorded on the School District's statements. The standards require this change to be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2017 by $(4,924,370), restating it from ($3,634,623) to ($8,558,993).

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Education
Schoolcraft Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Schoolcraft Community Schools, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Schoolcraft Community Schools' basic financial statements, and have issued our report thereon dated October 8, 2018.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered Schoolcraft Community Schools' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Schoolcraft Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Schoolcraft Community Schools' internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Yeo & Yeo, P.C.

Kalamazoo, MI
October 8, 2018