

**WEXFORD-MISSAUKEE**  
**INTERMEDIATE SCHOOL DISTRICT**  
**CADILLAC, MICHIGAN**

**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary and additional information)**

**JUNE 30, 2016**



**Baird, Cotter & Bishop, P.C.**  
SERVING YOUR PAST, PRESENT & FUTURE

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WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2016

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July 29, 2016

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Wexford-Missaukee Intermediate School District  
Cadillac, 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 Wexford-Missaukee Intermediate School District, Cadillac, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Wexford-Missaukee Intermediate School District, Cadillac, Michigan as of June 30, 2016, 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.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the required supplementary information on pages iv through x and 34-37 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 Wexford-Missaukee Intermediate School District's basic financial statements. The Financial Statements – Nonmajor Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Financial Statements – Nonmajor Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Financial Statements – Nonmajor Governmental Funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2016, on our consideration of Wexford-Missaukee Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide

an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Wexford-Missaukee Intermediate School District's internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

This section of Wexford-Missaukee Intermediate School District's (the "District") annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

**A. Government-Wide Financial Statements**

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

The *Statement of Activities* presents the information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide statements distinguish functions of the District that are principally supported by state aid and property taxes (governmental activities). The governmental activities of the District include instruction, supporting services, community services, payments to other districts, and unallocated depreciation.

**B. Fund Financial Statements**

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

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

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CADILLAC, MICHIGAN

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FOR FISCAL YEAR ENDED JUNE 30, 2016

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

***Fiduciary Funds*** The District is a trustee, or fiduciary, for assets that belong to other organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

**Notes to Financial Statements**

The notes provide additional information that is necessary to acquire a full understanding of the data provided in both the government-wide and the fund financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**C. Summary of Net Position**

The following schedule summarizes the net position at fiscal year ended June 30:

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current Assets	\$ 12,960,698	\$ 12,183,372
Non Current Assets		
Capital Assets	17,689,586	17,621,311
Less Accumulated Depreciation	<u>(9,893,325)</u>	<u>(9,483,285)</u>
Total Non Current Assets	<u>7,796,261</u>	<u>8,138,026</u>
Total Assets	<u>20,756,959</u>	<u>20,321,398</u>
<b>Deferred Outflows of Resources</b>		
Deferred Outflows of Resources Related to Pensions	<u>3,671,683</u>	<u>2,372,458</u>

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
<b>Liabilities</b>		
Current Liabilities	3,179,475	2,881,157
Non Current Liabilities	<u>26,725,387</u>	<u>23,181,222</u>
Total Liabilities	<u>29,904,862</u>	<u>26,062,379</u>
<b>Deferred Inflows of Resources</b>		
Deferred Inflows of Resources Related to Pensions	<u>801,641</u>	<u>2,505,991</u>
<b>Net Position</b>		
Net Investment in Capital Assets	7,796,261	8,138,026
Restricted for Specific Purposes	1,605,017	1,825,579
Unrestricted (Deficit)	<u>(15,679,139)</u>	<u>(15,838,119)</u>
Total Net Position (Deficit)	<u>\$ (6,277,861)</u>	<u>\$ (5,874,514)</u>

**D. Analysis of Financial Position**

During the fiscal year ended June 30, 2016, the District's net position decreased by \$403,347. A few of the more significant factors affecting net position during the year are discussed below:

**1. Depreciation Expense**

GASB 34 requires districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2016, \$410,040 was recorded for depreciation expense.

**2. Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2016, \$68,275 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, the current year's depreciation and current year disposal of capital assets is a decrease to capital assets in the amount of \$341,765 for the fiscal year ended June 30, 2016.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

**3. Pension Expense**

GASB 68 requires the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net pension liability increases or decreases in any given year. For the year ended June 30, 2016, the District reported a decrease in net position of \$609,836 related to GASB 68.

**E. Results of Operations**

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

	<u>2016</u>	<u>2015</u>
<b>General Revenues</b>		
Property Taxes	\$ 11,495,353	\$ 11,057,122
Investment Earnings	9,493	2,682
State Sources	599,694	567,685
Other	<u>16,961</u>	<u>16,174</u>
Total General Revenues	<u>12,121,501</u>	<u>11,643,663</u>
<b>Program Revenues</b>		
Charges for Services	3,735,252	1,596,915
Operating Grants	<u>16,051,993</u>	<u>13,398,104</u>
Total Program Revenues	<u>19,787,245</u>	<u>14,995,019</u>
Total Revenues	<u>31,908,746</u>	<u>26,638,682</u>
<b>Expenses</b>		
Instruction	6,248,914	5,991,871
Supporting Services	21,283,408	16,293,565
Community Services	75,346	92,037
Payments to Other Districts	4,294,385	4,088,866
Unallocated Depreciation	<u>410,040</u>	<u>426,863</u>
Total Expenses	<u>32,312,093</u>	<u>26,893,202</u>
Changes in Net Position	<u>\$ (403,347)</u>	<u>\$ (254,520)</u>

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

**F. Financial Analysis of the District's Funds**

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
<b>Major Funds</b>			
General	\$ 2,315,541	\$ 1,987,631	\$ 327,910
Special Education Fund	2,708,399	3,157,755	(449,356)
Vocational Education Fund	3,152,266	2,331,250	821,016
<b>Nonmajor Funds</b>			
General Capital Projects	348,668	377,901	(29,233)
Special Education Capital Projects	995,017	1,003,974	(8,957)
Vocational Education Capital Projects	182,652	272,004	(89,352)
Durant Capital Projects	78,680	171,700	(93,020)
 Total Governmental Funds	 <u>\$ 9,781,223</u>	 <u>\$ 9,302,215</u>	 <u>\$ 479,008</u>

In 2015-2016, the General Fund increased its fund balance by \$327,910. The majority of this increase can be attributed to revenue received from providing technology services to local school districts located within the District.

The Special Education Fund decreased its fund balance during the year due to the fact that the District must meet maintenance of effort requirements. While local revenue streams continue to contract, the expenditures have remained constant or slightly increased from year to year, which causes the decrease in fund balance.

The Vocational Education Fund increased its fund balance by \$821,016 during the fiscal year. This increase can be attributed to an increase in mills levied with generated additional property tax revenues and also the fact that the District offered programs related to early college which increased revenues. The District also received nearly \$100,000 from Consumers Energy during the year for a refund of prior year charges.

All of the capital project funds have minimal revenues. The funds have accumulated resources to spend on capital projects over time. Any decrease in fund balance in any of these funds can be attributed to capital projects that were paid for during the fiscal year.

**G. Budgetary Highlights**

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 its starting on July 1. Any amendments

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2015-2016 fiscal year, the District amended the budgets various times throughout the year. The following schedule shows a comparison of the original budget, the final amended and actual totals from operations for all three major funds.

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
General Fund	\$ 8,540,753	\$ 16,770,523	\$ 13,233,355
Special Education Fund	11,893,457	12,113,518	12,272,930
Vocational Education Fund	5,943,461	6,667,743	6,874,748
<u>EXPENDITURES</u>			
General Fund	5,976,415	14,950,026	10,872,671
Special Education Fund	10,783,196	11,061,690	11,153,942
Vocational Education Fund	5,742,923	6,200,788	5,600,900

The General Fund increased its budgeted revenues and budgeted expenditures by significant amounts to account for technology grants and additional technology services provided to local school districts and the expenditures related to these revenues. The Special Education and Vocational Education funds increased both the budgeted revenues and budgeted expenditures amounts as those amounts became clearer throughout the year.

The General Fund budgeted revenues and expenditures were both more than the actual amounts because the District did not expend all of the grant money it had received, thus causing the gap between budgeted and actual revenue and expenditures. The Special Education Fund received more local and state revenue than it had anticipated, causing the variance between budgeted and actual revenues. The Special Education Fund also expended more resources than it had budgeted for related to instruction and support services the District provides, causing the variance between budgeted and actual expenditures. The Vocational Education Fund received more local revenue than anticipated, primarily related to the nearly \$100,000 the fund received from Consumers Energy, causing the variance between budgeted and actual revenues. The Vocational Education Fund did not incur as many expenditures as prior year as the District hoped to reverse the performance of this fund from prior years.

## **H. Capital Asset and Debt Administration**

### ***1. Capital Assets***

At June 30, 2016, the District has \$17,689,586 in a broad range of capital assets, including school buildings and facilities, vehicles, and various types of equipment. Depreciation expense for the

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

year amounted to \$410,040 bringing the accumulated depreciation to \$9,893,325 as of June 30, 2016. The District expended \$68,275 on various improvements and equipment throughout the District.

**2. Long-Term Debt**

At June 30, 2016, the District had no debt in the form of the bonds, loans, or notes. The District did report long-term debt related to its net pension liability (\$26,220,154) and compensated absences (\$505,233). More information related to this debt can be found in the footnotes.

**I. Factors Bearing on the District's Future**

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- Lawmakers continue to work to determine the amount of per pupil funding that each district would receive, leaving uncertainty surrounding the largest revenue stream of the District.
- As with other employers, the District continues to face challenges in stemming increase in amounts paid for employee benefits, particularly health insurance and retirement.

**J. Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Wexford-Missaukee Intermediate School District, 9907 E. 13<sup>th</sup> Street, Cadillac, Michigan 49601.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2016

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 6,046,677
Investments	2,757,113
Due from Other Governments	4,048,412
Inventories	108,496
	<hr/>
Total Current Assets	12,960,698

NON CURRENT ASSETS

Capital Assets	17,689,586
Less Accumulated Depreciation	(9,893,325)
	<hr/>
Total Non Current Assets	7,796,261

TOTAL ASSETS 

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20,756,959

DEFERRED OUTFLOWS OF RESOURCES

Changes of Pension Assumptions	645,596
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	133,833
District Pension Contributions Subsequent to the Measurement Date	2,010,644
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	881,610
	<hr/>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	3,671,683

The notes to the financial statements are an integral part of this statement.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2016

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	226,297
Due to Other Governments	177,905
Salaries and Benefits Payable	1,426,086
Accrued Expenses	322,830
Unearned Revenue	<u>1,026,357</u>
 Total Current Liabilities	 <u>3,179,475</u>

NON CURRENT LIABILITIES

Compensated Absences	505,233
Net Pension Liability	<u>26,220,154</u>
 Total Non Current Liabilities	 <u>26,725,387</u>

**TOTAL LIABILITIES** 29,904,862

DEFERRED INFLOWS OF RESOURCES

Differences Between Expected and Actual Experience	86,849
Section 147c Revenue Related to District Pension Contribution Subsequent to Measurement Date	<u>714,792</u>
 TOTAL DEFERRED INFLOWS OF RESOURCES	 <u>801,641</u>

NET POSITION

Net Investment in Capital Assets	7,796,261
Restricted for Capital Projects	1,605,017
Unrestricted (Deficit)	<u>(15,679,139)</u>
 TOTAL NET POSITION (Deficit)	 <u><u>\$ (6,277,861)</u></u>

The notes to the financial statements are an integral part of this statement.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENDITURES</u>	<u>PROGRAM REVENUES</u>			<u>GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS</u>	<u>CAPITAL GRANTS</u>	
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 6,248,914	\$ 248,708	\$ 4,332,344	\$ 0	\$ (1,667,862)
Supporting Services	21,283,408	3,486,544	11,225,474	0	(6,571,390)
Community Services	75,346	0	60,735	0	(14,611)
Payments to Other Districts	4,294,385	0	433,440	0	(3,860,945)
Unallocated Depreciation	410,040	0	0	0	(410,040)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 32,312,093</u>	<u>\$ 3,735,252</u>	<u>\$16,051,993</u>	<u>\$ 0</u>	<u>(12,524,848)</u>
 <u>GENERAL REVENUES</u>					
Property Taxes - Levied for General Purposes					506,639
Property Taxes - Levied for Special Education					5,916,244
Property Taxes - Levied for Vocational Education					5,072,470
Investment Earnings					9,493
State Sources					599,694
Other					16,961
TOTAL GENERAL REVENUES					<u>12,121,501</u>
Change in Net Position					(403,347)
<u>NET POSITION</u> - Beginning of Year (Deficit)					<u>(5,874,514)</u>
<u>NET POSITION</u> - End of Year (Deficit)					<u>\$ (6,277,861)</u>

The notes to the financial statements are an integral part of this statement.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2016

	GENERAL FUND	SPECIAL EDUCATION FUND	VOCATIONAL EDUCATION FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b><u>ASSETS</u></b>					
Cash and Cash Equivalents	\$1,162,357	\$ 1,369,953	\$ 2,471,258	\$ 1,043,109	\$ 6,046,677
Investments	666,516	919,869	606,986	563,742	2,757,113
Due from Other Governments	2,076,339	1,557,266	414,807	0	4,048,412
Inventory	0	0	108,496	0	108,496
<b>TOTAL ASSETS</b>	<b>\$3,905,212</b>	<b>\$ 3,847,088</b>	<b>\$ 3,601,547</b>	<b>\$ 1,606,851</b>	<b>\$ 12,960,698</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b><u>LIABILITIES</u></b>					
Accounts Payable	\$ 212,722	\$ 7,053	\$ 4,688	\$ 1,834	\$ 226,297
Due to Other Governments	158,097	2,609	17,199	0	177,905
Salaries and Benefits Payable	149,439	937,822	338,825	0	1,426,086
Accrued Expenditures	43,056	191,205	88,569	0	322,830
Unearned Revenue	1,026,357	0	0	0	1,026,357
<b>Total Liabilities</b>	<b>1,589,671</b>	<b>1,138,689</b>	<b>449,281</b>	<b>1,834</b>	<b>3,179,475</b>
<b><u>FUND BALANCE</u></b>					
Nonspendable for:					
Inventory	0	0	108,496	0	108,496
Restricted for:					
Special Education	0	2,708,399	0	0	2,708,399
Vocational Education	0	0	3,043,770	0	3,043,770
Capital Projects	0	0	0	1,605,017	1,605,017
Assigned for:					
Subsequent Year Budget Shortfall	14,226	0	0	0	14,226
Educational Technology Association	515,525	0	0	0	515,525
Unassigned	1,785,790	0	0	0	1,785,790
<b>Total Fund Balances</b>	<b>2,315,541</b>	<b>2,708,399</b>	<b>3,152,266</b>	<b>1,605,017</b>	<b>9,781,223</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$3,905,212</b>	<b>\$ 3,847,088</b>	<b>\$ 3,601,547</b>	<b>\$ 1,606,851</b>	<b>\$ 12,960,698</b>

The notes to the financial statements are an integral part of this statement.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF NET POSITION

JUNE 30, 2016

Total Governmental Fund Balances \$ 9,781,223

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.

The cost of the capital assets is	\$ 17,689,586	
Accumulated depreciation is	<u>(9,893,325)</u>	7,796,261

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Net Pension Liability	(26,220,154)
Compensated Absences	(505,233)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Changes of Pension Assumptions	645,596
District Pension Contributions Subsequent to the Measurement Date	2,010,644
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	133,833
Differences Between Expected and Actual Experience	(86,849)
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	881,610
Section 147c Revenue Related to District Pension Contribution Subsequent to Measurement Date	<u>(714,792)</u>

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (6,277,861)

The notes to the financial statements are an integral part of this statement.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

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

YEAR ENDED JUNE 30, 2016

	GENERAL FUND	SPECIAL EDUCATION FUND	VOCATIONAL EDUCATION FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b><u>REVENUES</u></b>					
Local Sources	\$ 3,148,367	\$ 6,568,307	\$ 5,626,113	\$ 2,070	\$ 15,344,857
State Sources	10,015,560	3,561,913	669,987	0	14,247,460
Federal Sources	69,428	2,142,710	578,648	0	2,790,786
<b>Total Revenues</b>	<b>13,233,355</b>	<b>12,272,930</b>	<b>6,874,748</b>	<b>2,070</b>	<b>32,383,103</b>
<b><u>EXPENDITURES</u></b>					
Instruction	50,424	3,120,443	3,130,710	0	6,301,577
Supporting Services	10,822,247	7,970,607	2,457,736	0	21,250,590
Community Services	0	62,892	12,454	0	75,346
Capital Outlay	0	0	0	222,632	222,632
<b>Total Expenditures</b>	<b>10,872,671</b>	<b>11,153,942</b>	<b>5,600,900</b>	<b>222,632</b>	<b>27,850,145</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,360,684	1,118,988	1,273,848	(220,562)	4,532,958
<b><u>OTHER FINANCING SOURCES (USES)</u></b>					
Payments Received from Other Districts	240,380	0	0	0	240,380
Proceeds from Sale of Capital Assets	55	0	0	0	55
Payments to Other Districts	(2,273,209)	(1,568,344)	(452,832)	0	(4,294,385)
<b>Total Other Financing Sources (Uses)</b>	<b>(2,032,774)</b>	<b>(1,568,344)</b>	<b>(452,832)</b>	<b>0</b>	<b>(4,053,950)</b>
<b>Net Change in Fund Balance</b>	<b>327,910</b>	<b>(449,356)</b>	<b>821,016</b>	<b>(220,562)</b>	<b>479,008</b>
<b><u>FUND BALANCE</u> - Beginning of Year</b>	<b>1,987,631</b>	<b>3,157,755</b>	<b>2,331,250</b>	<b>1,825,579</b>	<b>9,302,215</b>
<b><u>FUND BALANCE</u> - End of Year</b>	<b>\$ 2,315,541</b>	<b>\$ 2,708,399</b>	<b>\$ 3,152,266</b>	<b>\$ 1,605,017</b>	<b>\$ 9,781,223</b>

The notes to the financial statements are an integral part of this statement.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

JUNE 30, 2016

Net Change in Fund Balances Total Governmental Funds \$ 479,008

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the Statement of Activities these costs are allocated over their estimated useful lives as depreciation. Additionally, the gain or loss on sale or disposal of capital assets is recorded in the Statement of Activities.

Depreciation Expense	(410,040)
Capital Outlay	68,275

Employees Accumulated Compensated Absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Compensated Absences - Beginning of Year	517,325
Compensated Absences - End of Year	(505,233)

Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense.

Change in Net Pension Liability	(3,556,257)
Change in Changes of Pension Assumptions	(190,653)
Change in District Pension Contributions Subsequent to Measurement Date	474,435
Change in Net Difference Between Actual and Projected Earnings on Pension Plan Investment	2,639,336
Change in Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	882,098
Change in Differences Between Expected and Actual Experience	(86,849)
Change in Section 147c Revenue Related to District Pension Contributions Subsequent to the Measurement Date	<u>(714,792)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (403,347)

The notes to the financial statements are an integral part of this statement.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

JUNE 30, 2016

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 102,966
<u>LIABILITIES</u>	
Due to Groups and Organizations	<u>102,966</u>
<u>NET POSITION</u>	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Wexford-Missaukee Intermediate School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Reporting Entity**

The School District (the "District") is located in Wexford and Missaukee Counties with its administrative offices located in Cadillac, Michigan. The District operates under an elected board of education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

**B. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the *Statement of Net Position* and the *Statement of Activities*) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The District does not have any business-type activities or component units.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

The *Special Education Fund* is used to account for funds provided from all sources including local extra voted millage, and Federal and State grant revenues received for the operation of special education programs and/or the distribution of funds to other local education agencies for operating special education programs.

The *Vocational Education Fund* is used to account for funds provided from all sources including local extra voted millage and Federal and State grant revenues received for the operation of vocational technical education programs. The Vocational Education fund also is used to account for Federal and State revenues received to operate job-training programs.

Other non-major funds:

The *capital project funds* account for capital outlay expenditures in various programs throughout the District.

Additionally, the District reports the following fund type:

*Fiduciary funds* are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The District reports the following fiduciary fund:

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

In the government-wide *Statement of Net Position*, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

The government-wide *Statement of Activities* reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The *Statement of Activities* reduces gross expenses by related program revenues and operating 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, intermediate district sources, interest income and other revenues).

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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. 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.

Property taxes, state and federal aid 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. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

## **F. Budgetary Information**

### ***1. Budgetary Basis of Accounting***

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a) The superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The budgets are legally adopted at the functional level for the District; however, they are maintained at the program level for control purposes.
- e) The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f) Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g) The budget, as presented, has been amended in a legally permissible manner.

**2. *Excess of Expenditures over Appropriations***

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
Special Education Fund		
Instruction	\$ 3,085,225	\$ 3,120,443
Community Services	2,300	62,892

These overages were covered by available fund balance and greater than anticipated revenues.

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

**1. *Cash and Cash Equivalents***

Cash and cash equivalents consist of checking and saving accounts and pooled investment funds with an original maturity date of 90 days or less. Cash equivalents are recorded at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the District to invest as follows:

- a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

- b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States.
- e) United States government or federal agency obligation repurchase agreements.
- f) Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
- g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
- h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal of direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the district are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

**2. *Inventory and Prepaid Items***

Inventory is valued at cost. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

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

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable.

**3. *Capital Assets***

Capital assets include land, buildings and additions, equipment and furniture, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide statements. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are values

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and Additions	40 - 50 years
Furniture and Equipment	5 - 20 years
Transportation Equipment	8 years

**4. Pension Reporting**

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

**5. 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 does not have any items that qualify for reporting in this category, other than items related to its pension plan, which are discussed later in this report.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The 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 does not have any items that qualify for reporting in this category, other than items related to its pension plan, which are discussed later in this report.

**6. Net Position Flow Assumption**

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**7. *Fund Balance Flow Assumption***

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

**8. *Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

**9. *Use of Estimates***

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016

relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**H. Revenues and Expenditures/Expenses**

**1. State Revenue**

The District receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

**2. Program Revenues**

Amounts reported as program revenue 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. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

**3. Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the collecting entity. The District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected. The District is permitted by the Constitution of the State of Michigan of 1963 to levy taxes up to \$50 per \$1,000 of assessed valuation for general governmental services other than the payment of Special Education, Vocational Education, and Debt Service Fund expenditures.

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund	0.2714
Special Education Fund	3.1705
Vocational Education Fund	2.7185

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

**4. *Compensated Absences***

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested and non-vested amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a liability on the government-wide statements.

**5. *Long-Term Obligations***

Long-term debt is recognized as a liability on the government-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available resources is reported as a fund liability of a governmental fund. Currently the District has no long-term obligations other than compensated absences and its net pension liability.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Violations of Legal or Contractual Provisions***

Note 1.F.2, on the Excess of Expenditures over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2016.

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. *Deposits and Investments***

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2016, the District's bank balance was \$4,933,689 and \$4,433,689 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. Of the \$4,433,689 of uninsured funds, \$4,330,723 was in the governmental funds and \$102,966 was in the fiduciary funds. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

*Foreign Currency Risk.* The District is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

*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

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collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end.

Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name.

At year-end all of the District's investments were uncategorized as to risk.

Balance sheet classifications:

	Deposits	Fiduciary Assets	Total
Cash and Restricted Cash	\$ 6,046,677	\$ 102,966	\$ 6,149,643
Investments	2,757,113	0	2,757,113
	\$ 8,803,790	\$ 102,966	\$ 8,906,756

**B. Receivables**

Receivables as of year-end for the government's individual major funds and nonmajor are as follows:

	General	Special Education Fund	Vocational Education Fund	Total
Receivables				
Due from Other Governments	\$ 2,076,339	\$ 1,557,266	\$ 414,807	\$ 4,048,412

The allowance for doubtful accounts is not considered to be material for disclosure. Due from other governments consists primarily of state aid revenue and federal grants.

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**C. Capital Assets**

Capital assets activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Assets Not Being Depreciated				
Land	\$ 76,640	\$ 0	\$ 0	\$ 76,640
Other Capital Assets				
Buildings and Additions	14,006,133	8,880	0	14,015,013
Furniture and Equipment	3,207,550	10,395	0	3,217,945
Vehicles	330,988	49,000	0	379,988
Subtotal	17,544,671	68,275	0	17,612,946
Accumulated Depreciation				
Buildings and Additions	6,450,021	282,027	0	6,732,048
Furniture and Equipment	2,736,071	111,581	0	2,847,652
Vehicles	297,193	16,432	0	313,625
Total Accumulated Depreciation	9,483,285	410,040	0	9,893,325
Net Other Capital Assets	8,061,386	(341,765)	0	7,719,621
Net Capital Assets	\$ 8,138,026	\$ (341,765)	\$ 0	\$ 7,796,261

Depreciation for the fiscal year ended June 30, 2016, amounted to \$410,040. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**D. Defined Benefit Plan and Post-Retirement Benefits**

**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.

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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 separately issued financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

**Benefit Provisions- Pension**

***Introduction***

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

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

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.

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

***Pension Reform 2010***

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

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members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

***Pension Reform 2012***

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

***Regular Retirement***

Eligibility – Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60<sup>th</sup> birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

Annual Amount – Total credited service as of the transition date times 1.5% of final average compensation.

***Pension Plus***

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

Option 1: Credited service after the transition date times 1.5% times final average compensation.

Option 2: Credited service after the transition date (until total service reaches 30 years) times 1.5% times final average compensation, plus credited service after the transition date and over 30 years times 1.25% times final average compensation.

Option 3: Credited service after the transition date times 1.25% times final average compensation.

Option 4: None (Member will receive benefit through a defined contribution plan). As a Defined Contribution participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

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

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

**Contributions**

Depending on the plan selected, member contributions range from 0% to 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree other post-employment benefits (OPEB). 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. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

**Pension Contribution Rates**

<b><u>Benefit Structure</u></b>	<b><u>Member</u></b>	<b><u>Employer</u></b>
Basic	0.0-4.0%	22.52-23.07%
Member Investment Plan	3.0-7.0%	22.52-23.07%
Pension Plus	3.0-6.4%	21.99%
Defined Contribution	0.0%	17.72-18.76%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$2,523,757. These amounts include contributions funded from state revenue Section 147c restricted to fund MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

**Pension Liabilities**

At June 30, 2016, the District reported a liability of \$26,220,154 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation

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date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .10735% and .10289%.

**MPSERS (Plan) Net Pension Liability – As of September 30, 2015 and September 30, 2014**

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	<u>41,887,015,147</u>	<u>43,134,384,072</u>
Net Pension Liability	<u>\$ 24,425,026,755</u>	<u>\$ 22,026,503,110</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.17%	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	292.61%	250.11%

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

For the year ended June 30, 2016, the District recognized total pension expense of \$2,453,397. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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At June 30, 2016, 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	\$ 0	\$ 86,849
Changes of assumptions	645,596	0
Net difference between projected and actual earnings on pension plan investments	133,833	0
Changes in proportion and differences between District contributions and proportionate share of contributions	881,610	0
Section 147 revenue related to District pension contributions subsequent to the measurement date.	0	714,792
District contributions subsequent to the measurement date	2,010,644	0
<b>Total</b>	<b>\$ 3,671,683</b>	<b>\$ 801,641</b>

\$2,010,644 reported as deferred outflows of resources and \$714,792 reported as deferred inflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a net reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ 310,348
2018	310,348
2019	275,823
2020	677,671
	\$ 1,574,190

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**F. Actuarial Valuations and Assumptions of the Pension Plan**

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:	3.50%
Investment Rate of Return	
-MIP and Basic Plans (Non-Hybrid):	8.00%
-Pension Plus Plan (Hybrid):	7.00%
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 Combine 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 periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, 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: 4.7158.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report.

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***Long-Term Expected Rate of Return on Investments***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Pools	28.00%	5.90%
Alternative Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate & Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short-Term Investment Pools	2.00%	0.00%
	<u>100%</u>	

\*Long-term rate does not include 2.1% inflation.

***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). 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.

***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 8.0 percent (7.0% for the Pension Plus plan), as well as what the District's

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proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (Non-Hybrid/Hybrid) 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%
\$ 33,804,500	\$ 26,220,154	\$ 19,826,240

**G. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

**H. Payables to the Pension Plan**

As of June 30, 2016, the District is current on all required pension plan payments. As of June 30, 2016, the District reported payables in the amount of \$461,124 to the pension plan. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**I. Benefit Provisions – Other Post-Employment**

*Introduction*

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

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits

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of current retirees. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

***Retiree Healthcare Reform of 2012***

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

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

***Employer Contributions***

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015; from 2.20% - 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015; and from 6.40% - 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District's contributions to MPSERS for post-employment healthcare contributions for the years ended June 30, 2016 and 2015 were approximately \$523,152 and \$228,599.

**J. Long-Term Debt**

The following is a summary of changes in long-term debt (including current portions) of the District for the year ended June 30, 2016:

	Balance July 1, 2015	Increases	(Decreases)	Balance June 30, 2016	Due Within Year
Compensated Absences	\$ 517,325	\$ 592,836	\$ (604,928)	\$ 505,233	\$ 0
Pension Liability	22,663,897	6,080,014	(2,523,757)	26,220,154	0
<b>Total</b>	<b>\$ 23,181,222</b>	<b>\$ 6,672,850</b>	<b>\$ (3,128,685)</b>	<b>\$ 26,725,387</b>	<b>\$ 0</b>

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The annual requirements to amortize the compensated absences and the pension liability are uncertain because it is unknown when the repayments will be made. Compensated absences and the pension liability will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

**K. Interfund Receivables/Payables and Transfers**

Often times, outstanding balances between funds exist mainly from the time lag between the dates that (1) interfund goods and services provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. As of June 30, 2016, there were no interfund balances.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The District does not have any interfund transfers for the fiscal year ending June 30, 2016.

**L. Lease Information**

The rental expense for the year ended June 30, 2016, totaled \$22,008.

The rental expense consists of a lease agreement on a room located at the hospital in Cadillac. The lease expires on January 31, 2019. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDING</u>	
2017	\$ 22,008
2018	22,008
2019	<u>12,838</u>
	<u>\$ 56,854</u>

**M. Risk Management**

The District participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for property, fleet, liability, in-land marine, crime, garage, boiler, equipment, errors and omissions, and employee dishonesty. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event that the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District also participates in a pool, the SEG Self-Insurer Workers' Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under public Act 317 of 1969, as amended. In the event the pool's claims and expenses exceed the total normal annual

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premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has been informed of any special assessments being required.

**N. Flexible Benefits Plan**

In January 1996, the District's Board approved action to implement a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The Plan, available to all employees, permits them to reduce their salary and put these amounts into a flexible benefit account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The Plan is administered by the Wexford-Missaukee Intermediate School District.

**O. Single Audit Report**

The District is required to have an audit performed in accordance with the guidelines of the Single Audit Act of 1984, as amended. This audit has been performed and the reports based thereon have been issued under separate cover.

**P. Commitments and Contingencies**

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

**Q. Upcoming Accounting Pronouncements**

**Governmental Accounting Standards Board (GASB) Statement No. 77 – Tax Abatement Disclosures**

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year-end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated,

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provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients.

- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

This statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future. The District is still evaluating how, if at all, it will be affected by this new pronouncement.

**Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, 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 service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This statement is effective for fiscal years beginning after June 15, 2017. However, early implementation is encouraged. The District is evaluating the effects this statement will have on the District's net position.

**R. GASB 72 – Fair Market Value Disclosure**

The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices are in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR FUNDS

YEAR ENDED JUNE 30, 2016

	GENERAL FUND			SPECIAL EDUCATION FUND			VOCATIONAL EDUCATION FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<b>REVENUES</b>									
Local Sources	\$ 1,397,830	\$ 2,913,572	\$ 3,148,367	\$ 6,539,820	\$ 6,464,407	\$ 6,568,307	\$ 4,973,397	\$ 5,479,343	\$ 5,626,113
State Sources	7,121,923	13,607,851	10,015,560	3,189,637	3,397,286	3,561,913	451,475	628,077	669,987
Federal Sources	21,000	249,100	69,428	2,164,000	2,251,825	2,142,710	518,589	560,323	578,648
Total Revenues	8,540,753	16,770,523	13,233,355	11,893,457	12,113,518	12,272,930	5,943,461	6,667,743	6,874,748
<b>EXPENDITURES</b>									
Instruction	62,387	62,387	50,424	3,023,317	3,085,225	3,120,443	3,316,261	3,534,197	3,130,710
Supporting Services	5,914,028	14,887,639	10,822,247	7,664,962	7,974,165	7,970,607	2,426,662	2,651,736	2,457,736
Community Services	0	0	0	94,917	2,300	62,892	0	14,855	12,454
Total Expenditures	5,976,415	14,950,026	10,872,671	10,783,196	11,061,690	11,153,942	5,742,923	6,200,788	5,600,900
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,564,338	1,820,497	2,360,684	1,110,261	1,051,828	1,118,988	200,538	466,955	1,273,848
<b>OTHER FINANCING SOURCES (USES)</b>									
Payments Received from Other Districts	0	240,000	240,380	0	0	0	0	0	0
Proceeds from the Sale of Capital Assets	0	0	55	0	0	0	0	0	0
Payments to Other Districts	(2,610,264)	(2,257,316)	(2,273,209)	(1,578,083)	(1,699,083)	(1,568,344)	(433,440)	(433,440)	(452,832)
Total Other Financing Sources (Uses)	(2,610,264)	(2,017,316)	(2,032,774)	(1,578,083)	(1,699,083)	(1,568,344)	(433,440)	(433,440)	(452,832)
Net Change in Fund Balance	(45,926)	(196,819)	327,910	(467,822)	(647,255)	(449,356)	(232,902)	33,515	821,016
<b>FUND BALANCE</b> - Beginning of Year	1,721,989	1,987,631	1,987,631	3,318,039	3,157,755	3,157,755	2,331,250	2,331,250	2,331,250
<b>FUND BALANCE</b> - End of Year	\$ 1,676,063	\$ 1,790,812	\$ 2,315,541	\$ 2,850,217	\$ 2,510,500	\$ 2,708,399	\$ 2,098,348	\$ 2,364,765	\$ 3,152,266

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)  
JUNE 30, 2016

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)									0.10735%	0.10289%
District's proportionate share of net pension liability								\$ 26,220,154	\$ 22,663,897	
District's covered-employee payroll								\$ 8,949,352	\$ 8,746,235	
District's proportionate share of net pension liability as a percentage of its covered-employee payroll									292.98%	259.13%
Plan fiduciary net position as a percentage of total pension liability									63.17%	66.20%

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)  
JUNE 30, 2016

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions								\$	2,523,757	\$ 2,010,603
Contributions in relation to statutorily required contributions *									2,523,757	2,010,603
Contribution deficiency (excess)								\$	0	\$ 0
Covered-Employee Payroll								\$	9,167,084	\$ 8,856,340
Contributions as a percentage of covered-employee payroll									27.53%	22.70%

\* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2016

**1. Changes of Benefit Terms**

There were no changes of benefit terms in 2016.

**2. Changes of Assumptions**

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. There were no changes of assumptions in 2016.

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET

JUNE 30, 2016

	<u>CAPITAL PROJECTS FUNDS</u>				<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>GENERAL CAPITAL PROJECTS</u>	<u>SPECIAL EDUCATION CAPITAL PROJECTS</u>	<u>VOCATIONAL EDUCATION CAPITAL PROJECTS</u>	<u>DURANT CAPITAL PROJECTS</u>	
<u>ASSETS</u>					
Cash	\$ 119,403	\$ 664,945	\$ 184,483	\$ 74,278	\$ 1,043,109
Investments	229,265	330,072	3	4,402	563,742
 TOTAL ASSETS	 \$ 348,668	 \$ 995,017	 \$ 184,486	 \$ 78,680	 \$ 1,606,851
 <u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 0	\$ 0	\$ 1,834	\$ 0	\$ 1,834
 <u>FUND BALANCE</u>					
Restricted for:					
Capital Projects	348,668	995,017	182,652	78,680	1,605,017
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 348,668	 \$ 995,017	 \$ 184,486	 \$ 78,680	 \$ 1,606,851

WEXFORD-MISSAUKEE INTERMEDIATE SCHOOL DISTRICT  
CADILLAC, MICHIGAN

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

YEAR ENDED JUNE 30, 2016

	<u>CAPITAL PROJECTS FUNDS</u>				<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
	<u>GENERAL CAPITAL PROJECTS</u>	<u>SPECIAL EDUCATION CAPITAL PROJECTS</u>	<u>VOCATIONAL EDUCATION CAPITAL PROJECTS</u>	<u>DURANT CAPITAL PROJECTS</u>	
<u>REVENUES</u>					
Local Sources	\$ 648	\$ 1,220	\$ 129	\$ 73	\$ 2,070
<u>EXPENDITURES</u>					
Capital Outlay	29,881	10,177	89,481	93,093	222,632
Net Change in Fund Balance	(29,233)	(8,957)	(89,352)	(93,020)	(220,562)
<u>FUND BALANCE</u> - Beginning of Year	377,901	1,003,974	272,004	171,700	1,825,579
<u>FUND BALANCE</u> - End of Year	\$ 348,668	\$ 995,017	\$ 182,652	\$ 78,680	\$ 1,605,017



