**NEGAUNEE PUBLIC SCHOOLS**
**NEGAUNEE, MICHIGAN**

# FINANCIAL STATEMENTS

**For the Year Ended June 30, 2017**

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## BASIC FINANCIAL STATEMENTS



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# INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Negaunee Public Schools
101 South Pioneer Avenue, Suite 1
Negaunee, Michigan 49866

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Negaunee Public Schools (the School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2017, 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 management’s discussion and analysis, and required supplemental information, as listed on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District’s basic financial statements. The Other Supplemental Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Other Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 Other Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017, on our consideration of the School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Anderson, Tackman & Company*
Certified Public Accountants

October 23, 2017

**Negaunee Public Schools**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of Negaunee Public Schools (the School District) financial performance provides an overview of the School District's financial activities for the year ended June 30, 2017. Please read it in conjunction with the financial statements, which begin as listed in the table of contents.

## FINANCIAL HIGHLIGHTS

- Net position for the School District as a whole were reported at ($9,605,660). Net position are comprised of 100% governmental activities.
- During the year, the School District expenses were $16,401,504, while revenues from all sources totaled $16,375,457, resulting in a change in net position of ($26,047).
- The general fund reported an increase of $142,462 before other financing sources (uses) and a total increase of $44,340. This is $184,089 or 132% higher than the forecasted change of ($139,749). This was the result of revenues being $39,279 more than forecasted, expenditures being $144,130 less than forecasted, and other financing sources being $680 more than forecasted.

## USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* Statement of Net Position and the Statement of Activities, as listed in the table of contents, provide information about the activities of the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start as listed in the table of contents. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund, as listed in the footnotes to the financial statements, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

### Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the School District as a whole begins below. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position and changes in it. The School District's net position – the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources – is one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position – as reported in the Statement of Activities – is an indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

### Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins on the pages below. The fund financial statements begin as listed in the table of contents and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District has only governmental funds which use the following accounting method.

- *Governmental Funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

### The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

**The School District as a Whole**
Table 1 provides a summary of the School District's net position as of June 30, 2017 and 2016:

**Table 1**
**Net Position**

| | Governmental Activities 2017 | Governmental Activities 2016 |
|---|---|---|
| Current and other assets | $4,652,465 | $4,148,500 |
| Capital assets, net | 12,509,937 | 12,786,797 |
| Total Assets | 17,162,402 | 16,935,297 |
| Deferred outflows of resources | 4,459,854 | 3,415,888 |
| Current liabilities | 1,521,469 | 1,360,988 |
| Long-term liabilities | 29,038,098 | 27,903,713 |
| Total Liabilities | 30,559,567 | 29,264,701 |
| Deferred inflows of resources | 668,349 | 666,097 |
| Net Position: | | |
| Net investment in capital assets | 7,956,580 | 7,995,099 |
| Restricted | 1,113,436 | 881,443 |
| Unrestricted | (18,675,676) | (18,456,155) |
| Total Net Position | ($9,605,660) | ($9,579,613) |

The School District's net position was ($9,605,660) at June 30, 2017. Net investment in capital assets totaling $7,956,580, compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the School District's ability to use the net position for day-to-day operations. The remaining amount of net position of ($18,675,676) was unrestricted.

The ($18,675,676) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net position for fiscal year 2017 and 2016.

**Table 2**
**Statement of Activities**

| | Governmental Activities 2017 | Governmental Activities 2016 |
|---|---|---|
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | $1,440,673 | $1,402,726 |
| Operating grants and contributions | 2,900,193 | 2,712,483 |
| Capital grants and contributions | - | - |
| General Revenues: | | |
| Property taxes | 2,632,997 | 2,700,744 |
| State sources not restricted to specific program | 9,331,902 | 9,168,154 |
| Gain (Loss) on sale of capital assets | 5,396 | 875 |
| Interest and investment earnings | 15,209 | 9,654 |
| Miscellaneous | 49,087 | 80,455 |
| Total Revenues | 16,375,457 | 16,075,091 |
| Program Expenses: | | |
| Instruction | 10,015,583 | 9,634,897 |
| Supporting services | 4,604,556 | 4,417,605 |
| Community services | - | 382 |
| Payments to other governments | - | - |
| Facilities acquisition | 50,188 | 172,817 |
| School lunch activities | 483,913 | 726,643 |
| Athletic activities | 384,046 | 346,296 |
| Interest on long-term debt | 101,266 | 1,072,397 |
| Depreciation – unallocated | 761,952 | 735,358 |
| Total Expenses | 16,401,504 | 17,106,395 |
| Increase (decrease) in net position | (26,047) | (1,031,304) |
| Net position, beginning | (9,579,613) | (8,548,309) |
| Net Position, Ending | ($9,605,660) | ($9,579,613) |

As reported in the Statement of Activities, the cost of all of our governmental activities this year was $16,401,504. Certain activities were partially funded from those who benefited from the programs in the amount of $1,440,673 or by other governments and organizations that subsidized certain programs with grants and categoricals in the amount of $2,900,193. We paid for the remaining "public benefit" portion of our governmental activities with $2,632,997 in taxes, $9,331,902 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced a decrease in net position for the year of $26,047. The key changes in the net position were the result of:

- Change in fund balance of governmental funds of $344,452
- Depreciation expense of ($761,952)
- Current year capital asset purchases of $485,092
- Proceeds from borrowing totaling $-0-
- Repayment of bond principal of $238,341
- Change in net pension liability and related of ($364,498)

- Unamortized bond premiums of $41,724
- Deferred amounts on refunding of $39,333
- Change in accrued interest on long term debt of ($968)
- Change in compensated absences of ($47,571)

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

**Table 3**
**Governmental Activities**

| | Total Cost of Services | Net Cost (Benefit) of Services |
|---|---|---|
| Instruction | $10,015,583 | $6,590,049 |
| Supporting services | 4,604,556 | 4,445,064 |
| School lunch activities | 483,913 | (10,646) |

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

## The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet as listed in the table of contents) reported a combined fund balance of $3,161,577, an increase of $344,452 from the beginning of the year.

During the annual School election in June of 2008, and a renewal in August of 2012, the residents of the School District renewed a proposal to establish a Sinking Fund to be used as allowed by law. For the 2016-17 school year, $615,992 in revenues were collected from the millage assessed for this purpose.

## General Fund Budgetary Highlights

Over the course of the year, the Board of Education revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. Accordingly, the Board of Education amended the budgets in January and again in June. A detailed schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. A summary of this information is provided below:

BUDGETED REVENUES

General Fund revenues changed from original to final budget during the year as follows:

| | Revenues | | Variance Positive / (Negative) | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Amount | Percentage |
| Total revenues | $13,924,984 | $14,451,610 | $526,626 | 3.78% |

A majority of the change between the original and final budget had to do with State sources. There were also smaller changes to local and federal revenues. Local revenues were adjusted during the year to account actual revenues being received by local sources including, but not limited to, property taxes, local grants, and private contributions. Federal revenues were adjusted during the year to account for actual grant revenues received and expected to be received.

BUDGETED EXPENDITURES

General Fund expenditures changed from the original to final budget during the year as follows:

| | Expenditures | | Variance Positive / (Negative) | |
|---|---|---|---|---|
| | Original Budget | Final Budget | Amount | Percentage |
| Total expenditures | $14,197,501 | $14,492,557 | ($295,056) | (2.08%) |

Budgeted expenditures were increased during the year to accommodate actual costs being incurred by the School District. A majority of the change relates to costs associated with pupil instruction. The Board of Education adjusts expenditures based on anticipated costs associated with grants received via Local, State, and Federal sources. This accounts for a majority of the change. There were also slight changes related to pupil services and transportation.

ACTUAL REVENUES

The General Fund actual revenues differed from the final budget as follows:

| | Revenues | | Variance Positive / (Negative) | |
|---|---|---|---|---|
| | Final Budget | Actual | Amount | Percentage |
| Total revenues | $14,451,610 | $14,490,889 | $39,279 | 0.27% |

Total actual revenues came in higher than the final budget because the revenue from local and state, sources came in slightly higher than expected while federal sources came in slightly lower.

ACTUAL EXPENDITURES

The General Fund actual expenditures differed from the final budget as follows:

| | Expenditures | | Variance Positive / (Negative) | |
|---|---|---|---|---|
| | Final Budget | Actual | Amount | Percentage |
| Total expenditures | $14,492,557 | $14,348,427 | $144,130 | 0.99% |

Total actual expenditures came in lower than the final budget because the total cost of instruction was slightly less than anticipated.

## Enrollment

The School District's 2016-17 State aid blended membership enrollment from the fall count totaled 1,512. This is a decrease of two students from the previous year. While the School District has experienced a recent decrease in enrollment, we anticipate a slight increase in coming years. The School District is located in Michigan's Upper Peninsula, which is currently experiencing an economic downturn. Some businesses have closed and others have decreased their work force. A decline in birth rate is another factor in the decline in enrollment.

Enrollment changes over the last five years can be illustrated as follows:

| Fiscal Year | (Fall) Student FTE | Increase (Decrease) in Student Enrollment (FTE) |
|---|---|---|
| 2016-2017 | 1,512 | (2) |
| 2015-2016 | 1,514 | 29 |
| 2014-2015 | 1,485 | (22) |
| 2013-2014 | 1,507 | 1 |
| 2012-2013 | 1,506 | 30 |
| 2011-2012 | 1,476 | 55 |

Student enrollment is important to the financial health of the School District because State funding is based on a per pupil formula.

## Capital Asset and Debt Administration

### *Capital Assets*

At June 30, 2017, the School District had $12,509,937 invested in a variety of capital assets including land, construction in progress, land improvements, buildings, equipment and furnishings, and school buses. (See Table 4 below).

**Table 4**
**Capital Assets at Year-End**
**(Net of Depreciation)**

| | Governmental Activities – 2017 | Governmental Activities – 2016 |
|---|---|---|
| Land | $92,536 | $92,536 |
| Construction in progress | - | 6,580 |
| Land improvements | 812,239 | 870,832 |
| Buildings and additions | 11,077,850 | 11,360,354 |
| Equipment and furniture | 211,339 | 197,308 |
| School buses | 315,973 | 259,187 |
| Total | $12,509,937 | $12,786,797 |

This year's additions of $485,092 included building renovations at the High School, Middle School, and Elementary School. See notes to the financial statements for additional information.

***Debt***

At June 30, 2017, the School District had $4,553,357 in outstanding debt as depicted in Table 5 below.

**Table 5**
**Outstanding Debt at Year-End**

| | Governmental Activities – 2017 | Governmental Activities – 2016 |
|---|---|---|
| General obligation bonds | $4,505,000 | $4,715,000 |
| Notes payable | 48,357 | 76,698 |
| Total | $4,553,357 | $4,791,698 |

We present more detailed information about our long-term debt in the notes to the financial statements.

## Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2018 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2018 fiscal year budget was adopted in June 2017, based on an estimate of students that will be enrolled in October 2017. Approximately 75 % to 80 % of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2017-2018 school year, we anticipate that the fall student count will be in line with the estimates used in creating the 2018 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

## Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Negaunee Public Schools Administration, 101 South Pioneer Avenue, Suite 1, Negaunee, Michigan, 49866.

**Negaunee Public Schools**

STATEMENT OF NET POSITION

June 30, 2017

| | Governmental Activities | Component Unit |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 1,482,215 | $ 56,114 |
| Investments | 407,126 | - |
| Receivables: | | |
| Accounts receivable | 3,205 | - |
| Due from other governmental units | 2,553,960 | 63,353 |
| Inventories | 6,526 | - |
| Prepaid expenses | 199,433 | 249 |
| Capital Assets: | | |
| Land and construction in progress | 99,116 | - |
| Other capital assets, net | 12,410,821 | - |
| **TOTAL ASSETS** | 17,162,402 | 119,716 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Deferred outflows related to proportionate share of net pension liability | 2,026,351 | - |
| District's contributions made subsequent to pension measurement date | 2,433,503 | - |
| **TOTAL DEFERRED OUTFLOWS OF RESOURCES** | 4,459,854 | - |
| **LIABILITIES** | | |
| Current Liabilities: | | |
| Accounts payable | 36,074 | 2,581 |
| Accrued liabilities | 439,078 | 1,250 |
| Accrued interest payable | 30,581 | - |
| State aid notes payable | 650,000 | - |
| Due to other governmental units | 319,288 | 554 |
| Unearned grant revenue | 46,448 | - |
| Non-current Liabilities: | | |
| Portion due or payable within one year | | |
| Notes payable | 11,819 | - |
| Bonds payable | 245,000 | - |
| Employee benefit obligations | - | - |
| Portion due or payable after one year | | |
| Notes payable | 36,538 | - |
| Bonds payable | 4,260,000 | - |
| Premium on bonds | 542,412 | - |
| Employee benefit obligations | 265,411 | - |
| Proportionate share of net pension liability | 23,676,918 | - |
| **TOTAL LIABILITIES** | 30,559,567 | 4,385 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Deferred gain on refunding | 550,667 | - |
| Deferred inflows related to proportionate share of net pension liability | 117,682 | - |
| **TOTAL DEFERRED INFLOWS OF RESOURCES** | 668,349 | - |
| **NET POSITION** | | |
| Net investment in capital assets | 7,956,580 | - |
| Restricted | 1,113,436 | 249 |
| Unrestricted | (18,675,676) | 115,082 |
| **TOTAL NET POSITION** | $ (9,605,660) | $ 115,331 |

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

**Negaunee Public Schools**

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

| Function / Programs | Expenses | Program Revenue: Charges for Services | Program Revenue: Operating Grants and Contributions | Program Revenue: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position: Governmental Activities | Net (Expense) Revenue and Changes in Net Position: Component Unit |
|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | |
| Instruction | $ 10,015,583 | $ 831,765 | $ 2,593,769 | $ - | $ (6,590,049) | $ - |
| Supporting services | 4,604,556 | 129,067 | 30,425 | - | (4,445,064) | - |
| Community services | - | - | - | - | - | - |
| Payments to other governments | - | - | - | - | - | - |
| Facilities acquisition | 50,188 | - | - | - | (50,188) | - |
| School lunch activities | 483,913 | 218,560 | 275,999 | - | 10,646 | - |
| Athletic activities | 384,046 | 261,281 | - | - | (122,765) | - |
| Interest on retirement of debt | 101,266 | - | - | - | (101,266) | - |
| Depreciation - unallocated | 761,952 | - | - | - | (761,952) | - |
| **TOTAL GOVERNMENTAL ACTIVITIES** | $ 16,401,504 | $ 1,440,673 | $ 2,900,193 | $ - | (12,060,638) | - |
| **Component Unit:** | | | | | | |
| Instruction and instructional support | $ 474,463 | $ 48,243 | $ 388,789 | $ - | - | (37,431) |

| | Governmental Activities | Component Unit |
|---|---|---|
| **General revenues:** | | |
| Taxes | | |
| Property taxes, levied for general purposes | 1,644,745 | 48,961 |
| Property taxes, levied for debt services | 372,260 | - |
| Property taxes, levied for sinking fund | 615,992 | - |
| State Aid not restricted to specific purposes | | |
| General | 9,331,902 | - |
| Contributions and other unrestricted grants | - | - |
| Gain (Loss) on sale of capital assets | 5,396 | - |
| Interest and investment earnings | 15,209 | - |
| Miscellaneous | 49,087 | 830 |
| **TOTAL GENERAL REVENUES** | 12,034,591 | 49,791 |
| **CHANGES IN NET POSITION** | (26,047) | 12,360 |
| Net Position, July 1 | (9,579,613) | 102,971 |
| **NET POSITION, JUNE 30** | $ (9,605,660) | $ 115,331 |

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

**Negaunee Public Schools**

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2017

| | General Fund | Other Non-major Governmental Funds | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 548,778 | $ 933,437 | $ 1,482,215 |
| Investments | 397,862 | 9,264 | 407,126 |
| Receivables: | | | |
| Accounts receivable | 1,180 | 2,025 | 3,205 |
| Due from other governmental units | 2,535,817 | 18,143 | 2,553,960 |
| Due from other funds | 1,041 | - | 1,041 |
| Inventories | - | 6,526 | 6,526 |
| Prepaid expenditures | 199,433 | - | 199,433 |
| **TOTAL ASSETS** | 3,684,111 | 969,395 | 4,653,506 |
| **DEFERRED OUTFLOWS OF RESOURCES** | - | - | - |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | $ 3,684,111 | $ 969,395 | $ 4,653,506 |
| **LIABILITIES** | | | |
| Accounts payable | $ 16,627 | $ 17,988 | $ 34,615 |
| Accrued liabilities | 439,078 | - | 439,078 |
| Due to other governmental units | 319,145 | 143 | 319,288 |
| Due to other funds | 2,500 | - | 2,500 |
| State aid notes payable | 650,000 | - | 650,000 |
| Unearned grant revenue | 13,307 | 33,141 | 46,448 |
| **TOTAL LIABILITIES** | 1,440,657 | 51,272 | 1,491,929 |
| **DEFERRED INFLOWS OF RESOURCES** | - | - | - |
| **FUND BALANCES** | | | |
| Non-spendable | 199,433 | 6,526 | 205,959 |
| Restricted | - | 907,477 | 907,477 |
| Committed | - | - | - |
| Assigned | 430,306 | 4,120 | 434,426 |
| Unassigned | 1,613,715 | - | 1,613,715 |
| **TOTAL FUND BALANCES** | 2,243,454 | 918,123 | 3,161,577 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | $ 3,684,111 | $ 969,395 | $ 4,653,506 |

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

**Negaunee Public Schools**

GOVERNMENTAL FUNDS

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

June 30, 2017

| | | |
|---|---|---|
| **Total Fund Balances for Governmental Funds** | | $ 3,161,577 |
| *Amounts reported for governmental activities in the statement of net position are different because:* | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | |
| Cost of capital assets | $ 23,543,652 | |
| Accumulated depreciation | (11,033,715) | 12,509,937 |
| Proportionate share of net pension liability and related deferred outflows and inflows is not due and payable in the current period and is not reported in the funds. | | |
| Proportionate share of net pension liability | 23,676,918 | |
| Deferred outflows related to proportionate share of net pension liability | (2,026,351) | |
| District's contributions made subsequent to pension measurement date | (2,433,503) | |
| Deferred inflows related to proportionate share of net pension liability | 117,682 | (19,334,746) |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of: | | |
| Accrued Interest | 30,581 | |
| Notes payable - current portion | 11,819 | |
| Bonds payable - current portion | 245,000 | |
| Employee benefits payable - current portion | - | |
| Notes payable - long-term portion | 36,538 | |
| Bonds payable - long-term portion | 4,260,000 | |
| Employee benefits payable | 265,411 | |
| Unamortized bond premium | 542,412 | |
| Deferred gain on refunding bonds | 550,667 | (5,942,428) |
| **NET POSITION OF GOVERNMENTAL ACTIVITIES** | | $ (9,605,660) |

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

**Negaunee Public Schools**

GOVERNNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2017

| | General Fund | Other Non-major Governmental Funds | Total |
|---|---|---|---|
| **REVENUES:** | | | |
| Local sources | $ 2,778,385 | $ 1,501,230 | $ 4,279,615 |
| State sources | 11,507,699 | 38,072 | 11,545,771 |
| Federal sources | 204,805 | 237,927 | 442,732 |
| **TOTAL REVENUES** | 14,490,889 | 1,777,229 | 16,268,118 |
| **EXPENDITURES:** | | | |
| Current: | | | |
| Instruction | 9,717,135 | - | 9,717,135 |
| Supporting services | 4,601,446 | 67,855 | 4,669,301 |
| Community services | - | - | - |
| Payments to other governments | - | - | - |
| Facilities acquisition | - | 342,064 | 342,064 |
| Debt service: | | | |
| Principal | 28,341 | 210,000 | 238,341 |
| Interest | 1,505 | 179,700 | 181,205 |
| Paying agent fees | - | 150 | 150 |
| School lunch activities | - | 483,913 | 483,913 |
| Athletic activities | - | 398,896 | 398,896 |
| **TOTAL EXPENDITURES** | 14,348,427 | 1,682,578 | 16,031,005 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 142,462 | 94,651 | 237,113 |
| **OTHER FINANCING SOURCES (USES):** | | | |
| Sale of capital assets | 5,396 | - | 5,396 |
| Proceeds from borrowing | - | - | - |
| Proceeds from insurance | 83,427 | - | 83,427 |
| Other sources | 18,516 | - | 18,516 |
| Transfers in | - | 205,461 | 205,461 |
| Transfers out | (205,461) | - | (205,461) |
| **TOTAL OTHER FINANCING SOURCES (USES)** | (98,122) | 205,461 | 107,339 |
| **NET CHANGE IN FUND BALANCES** | 44,340 | 300,112 | 344,452 |
| Fund Balance, July 1 | 2,199,114 | 618,011 | 2,817,125 |
| **FUND BALANCE, JUNE 30** | $ 2,243,454 | $ 918,123 | $ 3,161,577 |

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

**Negaunee Public Schools**

GOVERNMENTAL FUNDS

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

For the Year Ended June 30, 2017

| | | |
|---|---|---|
| **Net Change in Fund Balances - Total Governmental Funds** | | $ 344,452 |
| *Amounts reported for governmental activities in the statement of activities are different because:* | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | | |
| Depreciation expense | $ (761,952) | |
| Capital outlays | 485,092 | |
| Net book value of disposed assets | - | (276,860) |
| Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position. | | |
| Proceeds from notes | - | |
| Proceeds from bond issuance | - | - |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | 238,341 |
| Change in proportionate share of net pension liability reported in the statement of activities does not require the use of current resources, and therefore, is not reported in the fund statements until it is due for payment. | | |
| Pension expense | (364,498) | (364,498) |
| Unamortized bond premiums are reported as other financing sources in the governmental funds when incurred. However, for governmental activities those sources are shown in the statement of net position and amortized over the life of the bond issuance as other sources in the statement of activities. | | |
| Amortization of bond premium - 2016 Refunding Bonds | | 41,724 |
| Deferred gain on refunding bonds is not recorded as revenue on governmental funds when incurred. However, for governmental activities it is shown in the statement of net position and amortized over the life of the bond. | | |
| Amortization of deferred gain on refunding - 2016 Refunding Bonds | | 39,333 |
| Interest on long-term debt is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount of accrued interest recognized in the Statement of Activities. | | (968) |
| Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | | (47,571) |
| **CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** | | $ (26,047) |

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

**Negaunee Public Schools**

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

June 30, 2017

| | | Agency Fund Student Activity |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 367,396 |
| Investments | | - |
| Due from other funds | | 2,500 |
| **TOTAL ASSETS** | $ | 369,896 |
| **LIABILITIES** | | |
| Due to groups, organizations and activities | $ | 368,855 |
| Accounts payable | | - |
| Due to other funds | | 1,041 |
| **TOTAL LIABILITIES** | $ | 369,896 |

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

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Negaunee Public Schools (the School District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

### REPORTING ENTITY

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units by applying the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of the criteria described above, it has been determined that the Community Education Division of the Ishpeming, Negaunee, and NICE Community School Districts is a discretely presented component unit of the School District due to its financial interdependency. No other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity. The financial statements of the Community Education Division are not separately presented.

### BASIS OF PRESENTATION

*District-Wide Financial Statements:*

The Statement of Net Position and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

*Fund Financial Statements:*

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and

b. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its only major governmental fund in accordance with the above criteria. The funds of the School District are described below:

<u>Governmental Funds</u>

**General Fund** – General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Funds** – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Lunch and Athletics Funds.

**Debt Retirement Funds** – The Debt Retirement Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

**Capital Projects Funds** – Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

<u>Fiduciary Funds</u>

**Trust and Agency Fund** – The Trust and Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

### MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Measurement Focus**

On the district-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (a) below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

**Basis of Accounting**

In the district-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

<u>Cash and Cash Equivalents</u>

The School District cash and cash equivalents as reported in the Statement of Net Position are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less. The fair value measurements of investments is based on the hierarchy established by generally accepted accounting principles, which has three levels based on the valuation inputs used to measure an asset's fair value.

<u>Investments</u>

Investments are carried at market value.

<u>Receivables</u>

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School District. The School Lunch Fund consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Deferred Outflows 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 future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category:

> On the district-wide financial statements, changes in assumptions, differences between expected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions for the pension plan create a deferred outflow of resources.
>
> On the district-wide financial statements, the School District's contributions made into the pension plan subsequent to the plan's fiscal year end creates a deferred outflow of resources.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than $5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | |
|---|---|
| Land improvements | 15 – 20 years |
| Buildings and additions | 20 – 50 years |
| Buses and other vehicles | 5 – 10 years |
| Furniture and other equipment | 5 – 10 years |

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight-line amortization.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. Premiums received on debt issuance are reported as other financing sources and bond discounts are reported as other financing uses.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Pension

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

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has one item that qualifies for reporting in this category:

> On the district-wide financial statements, the net difference between projected and actual pension plan investment earnings, differences between expected and actual experience, changes in assumptions and changes in proportion and differences between employer contributions and proportionate share of contributions create a deferred inflow of resources.
>
> On the district-wide financial statements, a deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. For district-wide financial statement purposes the amount of the gain on refunding bonds is deferred and amortized over the shorter of the life of the refunded or refunding debt using straight line amortization.

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Classification

*District-Wide Statements*

Equity is classified as net position and displayed in three components:

a. Net Investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

b. Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. These amounts are derived from the fund financial statements by combining non-spendable and restricted fund balance classifications.

*c.* Unrestricted Net Position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned, and unassigned.

Revenues

*District-Wide Statements*

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

*Fund Statements*

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes

Property taxes are levied on July 1, on behalf of the School District by various taxing units and are payable without penalty by September 14. The School District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year). Property taxes that are not collected within sixty days of the end of the

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

fiscal year are recognized as revenue when collected. Various units of local government bill and collect the property taxes for the School District.

Expenses/Expenditures

*District-Wide Statements*

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

*Fund Statements*

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as government activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Position.

Budgets and Budgetary Accounting

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

a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

b. Public hearings are conducted to obtain taxpayer comments.

c. Prior to July 1, the budget is approved by the Board of Education.

d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.

e. All annual appropriations lapse at fiscal yearend.

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

Use of Estimates

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

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 23, 2017, the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

**NOTE B – DEPOSITS AND INVESTMENTS:**

Cash and Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government and fiduciary funds from the Statement of Net Position.

| | Primary Government | Component Unit | Fiduciary Funds | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $1,482,215 | $56,114 | $367,396 | $1,905,725 |
| Investments | 407,126 | - | - | 407,126 |
| Total | $1,889,341 | $56,114 | $367,396 | $2,312,851 |

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. State law does not require and the School District does not have a deposit policy for custodial credit risk. The carrying amounts of the School District's deposits with financial institutions were $1,905,725 and the bank balance was $2,032,035. The bank balance is categorized as follows:

| | | |
|---|---|---|
| Amount insured by the FDIC | | $250,005 |
| Amount uncollateralized and uninsured | | 1,782,030 |
| | Total | $2,032,035 |

Investments

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2017, the School District had the following investments:

**NOTE B – DEPOSITS AND INVESTMENTS (Continued):**

| Investments | Fair Value | Fair Value Measurements Using Level 1 Inputs | Level 2 Inputs | Level 3 Inputs |
|---|---|---|---|---|
| *Equity securities:* | | | | |
| Michigan Liquid Asset Fund | $407,126 * | $- | $407,126 | $- |
| Total | $407,126 | $- | $407,126 | $- |

*Investment matures within one year

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the School District's investments. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk*

Michigan statutes authorize the School District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The School District has no investment policy that would further limit its investment choices and has no investments for which ratings are required. The School District's investments are in accordance with statutory authority.

**NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:**

Amounts due from other governmental units totaled $2,553,960 and consisted of $2,138,043 due from the State of Michigan for State Aid, $32,169 due from the Michigan Department of Education for Grant Revenue, and $383,748 due from other governmental units for the operation of special programs and grant projects.

**NOTE D – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:**

The School District reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payables are as follows:

**NOTE D – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued):**

| | | DUE FROM | | |
|---|---|---|---|---|
| | | General Fund | Student Activities Funds | Total Due To Other Funds |
| DUE TO | General Fund | $- | $2,500 | $2,500 |
| | Student Activities Fund | 1,041 | - | 1,041 |
| | Total Due From Other Funds | $1,041 | $2,500 | $3,541 |

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

| | | TRANSFERS OUT | | |
|---|---|---|---|---|
| | | General Fund | Sinking Fund | Total Transfers In |
| TRANSFERS IN | General Fund | $- | $- | $- |
| | School Lunch Fund | - | - | - |
| | Athletic Fund | 205,461 | - | 205,461 |
| | Total Transfers Out | $205,461 | $- | $205,461 |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to 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.

**NOTE E – CAPITAL ASSETS:**

Capital asset activity of the School District's governmental activities was as follows:

| | Balance 6/30/16 | Additions | Deductions | Balance 6/30/17 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $92,536 | $- | $- | $92,536 |
| Construction in progress | 6,580 | - | (6,580) | - |
| Capital assets being depreciated: | | | | |
| Land improvements | 1,130,295 | 8,050 | - | 1,138,345 |
| Buildings and additions | 19,999,571 | 249,066 | - | 20,248,637 |
| Equipment and furniture | 874,402 | 65,226 | (6,900) | 932,728 |
| School buses | 1,074,369 | 169,330 | (112,293) | 1,131,406 |
| Total Capital Assets | 23,177,753 | 491,672 | (125,773) | 23,543,652 |

**NOTE E – CAPITAL ASSETS (Continued):**

| | Balance 6/30/16 | Additions | Deductions | Balance 6/30/17 |
|---|---|---|---|---|
| Less accumulated depreciation: | | | | |
| Land improvements | ($259,462) | ($66,644) | $- | ($326,106) |
| Buildings and additions | (8,639,218) | (531,569) | - | (9,170,787) |
| Equipment and furniture | (677,093) | (51,196) | 6,900 | (721,389) |
| School buses | (815,183) | (112,543) | 112,293 | (815,433) |
| Total Accumulated Depreciation | (10,390,956) | (761,952) | 119,193 | (11,033,715) |
| CAPITAL ASSETS, NET | $12,786,797 | ($270,280) | ($6,580) | $12,509,937 |

Depreciation expense charged to governmental activities was $761,952.

Capital asset activity of the School District's component unit was as follows:

| | Balance 6/30/16 | Additions | Deductions | Balance 6/30/17 |
|---|---|---|---|---|
| Capital assets being depreciated: | | | | |
| Machinery and Equipment | $1,266 | $- | $- | $1,266 |
| Total Capital Assets | 1,266 | - | - | 1,266 |
| Less accumulated depreciation: | | | | |
| Machinery and Equipment | (1,111) | (155) | - | (1,266) |
| Total Accumulated Depreciation | (1,111) | (155) | - | (1,266) |
| CAPITAL ASSETS, NET | $155 | ($155) | $- | $- |

Depreciation expense charged to the component unit was $155.

**NOTE F – ACCRUED LIABILITIES:**

A summary of accrued liabilities at June 30, 2017 as follows:

| | Governmental Activities |
|---|---|
| Accrued wages | $275,854 |
| Accrued fringes | 96,710 |
| Other accrued expenses | 66,514 |
| Total | $439,078 |

**NOTE G – SHORT TERM DEBT:**

The School District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of changes in short-term debt for the year ended June 30, 2017 is as follows:

| | Balance 6/30/16 | Additions | Deductions | Balance 6/30/17 |
|---|---|---|---|---|
| State Anticipation Note: | | | | |
| 2015-2016 | $600,000 | $- | $600,000 | $- |
| 2016-2017 | - | 650,000 | - | 650,000 |
| Total | $600,000 | 650,000 | $600,000 | $650,000 |

**NOTEH – LONG-TERM DEBT:**

The following is a summary of the long-term debt activity for the year ending June 30, 2017:

| | Balance 6/30/16 | Additions | Deductions | Balance 6/30/17 | Due in One year |
|---|---|---|---|---|---|
| Governmental Activities: | | | | | |
| Bonds Payable: | | | | | |
| 2008 General Obligation | $265,000 | - | ($125,000) | $140,000 | $140,000 |
| 2016 Refunding Bond | 4,450,000 | - | (85,000) | 4,365,000 | 105,000 |
| Plus: deferred premium | 584,136 | - | (41,724) | 542,412 | - |
| Subtotal Bonds | 5,299,136 | - | (251,724) | 5,047,412 | 245,000 |
| Notes Payable: | | | | | |
| 2011 School Bus | 16,698 | - | (16,698) | - | - |
| 2016 School Bus | 60,000 | - | (11,643) | 48,357 | 11,819 |
| Subtotal Notes | 76,698 | - | (28,341) | 48,357 | 11,819 |
| Subtotal Bonds & Notes | 5,375,834 | - | (280,065) | 5,095,769 | 256,819 |
| Employee Benefit Obligations: | | | | | |
| Accrued sick & vacation | 176,878 | 43,464 | - | 220,342 | - |
| Terminal leave | 40,962 | 4,107 | - | 45,069 | - |
| Subtotal | 217,840 | 47,571 | - | 265,411 | - |
| TOTAL | $5,593,674 | $47,571 | ($280,065) | $5,361,180 | $256,819 |

Long-term debt at June 30, 2017 consists of the following:

**2008 General Obligation**
**School Building and Site Bonds**
**June 30, 2017**

| | November 1 | May 1 | | |
|---|---|---|---|---|
| Fiscal Year | Interest | Interest | Principal | Total |
| 2018 | $2,800 | $2,800 | $140,000 | $145,600 |
| Total | $2,800 | $2,800 | $140,000 | $145,600 |

General Obligation School Building and Site Bonds originally issued for $3,005,000 and dated September 15, 2008 mature annually as scheduled above on May 1, 2010 through May 1, 2034 and bear interest at a rate of 3.25% to 5.0% per annum. Interest is paid semi-annually on May 1 and November 1 each year. The 2008 General Obligation Bond was partially defeased due to the 2016 Refunding Bond; the undefeased balance will mature May 1, 2018.

**2016 Refunding Bond**
**June 30, 2017**

| | November 1 | May 1 | | |
|---|---|---|---|---|
| Fiscal Year | Interest | Interest | Principal | Total |
| 2018 | $87,300 | $87,300 | $105,000 | $279,600 |
| 2019 | 85,200 | 85,200 | 265,000 | 435,400 |
| 2020 | 79,900 | 79,900 | 210,000 | 369,800 |
| 2021 | 75,700 | 75,700 | 230,000 | 381,400 |
| 2022 | 71,100 | 71,100 | 245,000 | 387,200 |

**NOTE H – LONG-TERM DEBT (Continued):**

**2016 Refunding Bond**
**June 30, 2017**
**(Continued)**

| | November 1 | May 1 | | |
|---|---|---|---|---|
| Fiscal Year | Interest | Interest | Principal | Total |
| 2023-2027 | $272,300 | $272,300 | $1,560,000 | $2,104,600 |
| 2028-2032 | 107,800 | 107,800 | 1,480,000 | 1,695,600 |
| 2033-2037 | 8,100 | 8,100 | 270,000 | 286,200 |
| Total | $787,400 | $787,400 | $4,365,000 | $5,939,800 |

On April 19, 2016, the School District issued $4,450,000 in Refunding Bond with an interest rate of 4% to advance refund $2,675,000 of outstanding 2006 General Obligation Bond with an interest rate of 4.0% to 4.2% per annum and refund $2,630,000 of outstanding 2008 General Obligation Bond with an interest rate of 3.5% to 5.0% per annum.

The net proceeds of $5,055,593 (after payment of $88,267 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in two irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006 and 2008 General Obligation Bonds. As a result, the 2006 and 2008 General Obligation Bond are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $590,000. This difference, reported in the accompanying financial statements as an unamortized premium on bonds, is being charged to operations through the year 2031 using the effective-interest method. The School District completed the advance refunding to reduce its total debt service payments over the next 15 years by $696,489 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of $577,357.

The irrevocable trust accounts for the assets and the liability for the defeased 2006 and 2008 General Obligation Bonds are not included in the School District's financial statements. The portion of the 2006 and 2008 General Obligation Bonds considered defeased at June 30, 2017 is $2,465,000 and $2,260,000, respectively. The 2008 General Obligation Bond has a remaining balance of $140,000.

**2011 School Bus Notes Payable**
**June 30, 2017**

| Fiscal Year | Interest | Principal | Total |
|---|---|---|---|
| 2018 | $730 | $11,819 | $12,549 |
| 2019 | 552 | 11,997 | 12,549 |
| 2020 | 371 | 12,179 | 12,550 |
| 2021 | 187 | 12,362 | 12,549 |
| Total | $1,840 | $48,357 | $50,197 |

Notes payable originally issued for $60,000 for the purchase of a school bus and dated September 1, 2016 mature annually as scheduled above on September 15, 2015 through September 15, 2020 bearing an interest rate of 1.5% per annum.

As of June 30, 2017 the aggregate maturities of long-term debt are as follows:

## NOTE H – LONG-TERM DEBT (Continued):

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2018 | $256,819 | $180,930 | $437,749 |
| 2019 | 276,997 | 170,952 | 447,949 |
| 2020 | 222,179 | 160,171 | 382,350 |
| 2021 | 242,362 | 151,587 | 393,949 |
| 2022 | 245,000 | 142,200 | 387,200 |
| 2023-2027 | 1,560,000 | 544,600 | 2,104,600 |
| 2028-2032 | 1,480,000 | 215,600 | 1,695,600 |
| 2033-2037 | 270,000 | 16,200 | 286,200 |
| Total | $4,553,357 | $1,582,240 | $6,135,597 |

## NOTE I – EMPLOYEE BENEFIT OBLIGATIONS:

Terminal Leave

The School District offers terminal leave benefits for teachers having ten years of service. This payment is based upon the teacher's base salary at retirement and the number of years of service beyond ten years.

Compensated Absences

There is also an unused sick leave incentive plan provided to teachers eligible to retire under the Michigan Teacher Retirement Act. This payment is based upon the accumulated sick days at a rate of $20 for each day accumulated prior to September 1, 1981 and $50 for each day accumulated after September 1, 1981.The sick leave liability has been calculated in accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*.

Accrued vacation represents vacation time that has been earned but not taken. This vacation time must be used by the union employees within three months after their next anniversary date, or it will be forfeited. For administrative/supervisory employees this vacation time is paid out at their next anniversary date.

As of June 30, 2017, accrued employee benefit obligations reported in the Statement of Net Position consist of the following:

| | | |
|---|---|---|
| Terminal Leave | | $45,069 |
| Sick Leave | | 182,279 |
| Vacation | | 38,063 |
| | Total | $265,411 |

## NOTE J – FUND BALANCES – GOVERNMENTAL FUNDS:

As of June 30, 2017, fund balances of the governmental funds are classified as follows:

*Non-spendable* — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

*Restricted* — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**NOTE J – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):**

*Committed* — amounts that can be used only for specific purposes determined by a formal action of the Board of Education. Board of Education is the highest level of decision-making authority for the School District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Education.

*Assigned* — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the School District's adopted policy, only the Board of Education may assign amounts for specific purposes.

*Unassigned* — all other spendable amounts.

As of June 30, 2017, fund balances are composed of the following:

| | | Non-major Governmental Funds | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue Funds | Debt Service Funds | Capital Projects Funds | Total Governmental Funds |
| Non-spendable: | | | | | |
| Inventories | $- | $6,526 | $- | $- | $6,526 |
| Prepaids | 199,433 | - | - | - | 199,433 |
| Restricted: | | | | | |
| Debt service | - | - | 38,501 | - | 38,501 |
| Construction projects | - | - | - | 868,976 | 868,976 |
| Committed: | - | - | - | - | - |
| Assigned: | | | | | |
| School lunch activities | - | 4,120 | - | - | 4,120 |
| Budgeted shortfall | 430,306 | - | - | - | 430,306 |
| Unassigned | 1,613,715 | - | - | - | 1,613,715 |
| Total Fund Balances | $2,243,454 | $10,646 | $38,501 | $868,976 | $3,161,577 |

The Board of Education establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Board of Education through amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

**NOTE K – CAPITAL PROJECT FUNDS:**

The Capital Project Fund records capital project activities funded with Sinking Fund millage and the proceeds from bond issuance in the Construction Fund. For this fund, the School District has complied with the applicable provisions of §1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

## NOTE L– ECONOMIC DEPENDENCY:

The School District receives approximately 74% of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of The School District.

## NOTE M – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2017, the foundation allowance was based on the average of pupil membership counts taken in February 2016 and October of 2016.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills.

The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2016 – August 2017.

## NOTE O – NON-MONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized $46,057 during fiscal year 2016-17 in revenues and expenditures for USDA commodities.

## NOTE P – PROPERTY TAXES:

The taxable value of real and personable property located in the School District for the 2016 tax year which represents approximately 50% of the estimated current value, totaled $260,752,016 (consisting of $157,779,047 for Homestead, $93,149,593 for Non-Homestead, $9,508,276 for Commercial Personal Property, and $315,100 for Industrial Personal Property). The tax levy for the year was based on a rate of 18.0000 mills on the non-homestead property and 6.0000 mills on the commercial personal property (one mill is equal to $1.00 per $1,000 of taxable value). Total tax levied consists of 18.0000 mills for the General Fund, 1.2000 for debt retirement, and 1.9926 for the Capital Projects Sinking Fund.

## NOTE Q – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to

## NOTE Q – CONTINGENT LIABILITIES (Continued):

audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $75,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

## NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Plan Description

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

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

The System’s financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

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

**NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):**

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

Contributions and Funded Status

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

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

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

**Pension Contribution Rates**

| **Benefit Structure** | **Member** | **Employer** |
|---|---|---|
| Basic | 0.0-4.0% | 18.95% |
| Member Investment Plan | 3.0-7.0% | 18.95% |
| Pension Plus | 3.0-6.4% | 17.73% |
| Defined Contribution | 0.0% | 14.56% |

Required contributions to the pension plan from the School District were $2,131,042 for the year ended September 30, 2016.

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

At June 30, 2017, the School District reported a liability of $23,676,918 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the School District's proportion was 0.09490058 percent, which was an increase of 0.00355968 percent from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of $2,534,265. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):**

| | Deferred Outflows of Resources | Deferred (Inflows) of Resources |
|---|---|---|
| Differences between actual and expected experience | $295,077 | ($56,115) |
| Changes of assumptions | 370,170 | - |
| Net difference between projected and actual earnings on pension plan investments | 393,510 | - |
| Changes in proportion and differences between the Employer contributions and proportionate share of contributions | 967,594 | (61,567) |
| Subtotal | 2,026,351 | (117,682) |
| Employer contributions subsequent to the measurement date | 2,433,503 | - |
| Total | $4,459,854 | ($117,682) |

Contributions subsequent to the measurement date totaling $2,433,503 reported as deferred outflows of resources related to pensions will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Deferred (Inflows) and Deferred Outflows of Resources by Year (to Be Recognized in Future Pension Expenses)**

| Year Ended September 30 | Amount |
|---|---|
| 2017 | $464,013 |
| 2018 | 433,186 |
| 2019 | 815,998 |
| 2020 | 195,472 |
| Total | $1,908,669 |

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

| | |
|---|---|
| Valuation Date: | September 30, 2015 |
| Actuarial Cost Method: | Entry Age, Normal |
| Wage Inflation Rate: | 3.5% |

**NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):**

| | |
|---|---|
| Investment Rate of Return | |
| - MIP and Basic Plans (Non-Hybrid) | 8.0% |
| - Pension Plus Plans (Hybrid) | 7.0% |
| Projected Salary Increases | 3.5 – 12.3%, including wage inflation at 3.5% |
| Cost-of-Living Pension Adjustments: | 3% Annual Non-Compounded for MIP Members |
| Mortality: | RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females. |

**Notes:**

- Assumption changes as a result of an experience study for the 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, 2016, is based on the results of an actuarial valuation date of September 30, 2015, 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: 4.6273
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report. (www.michigan.gov/mpsers-cafr)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return* |
|---|---:|---:|
| Domestic Equity Pools | 28.0% | 5.9% |
| % Alternative Investment Pools | 18.0 | 9.2 |
| International Equity | 16.0 | 7.2 |
| Fixed Income Pools | 10.5 | 0.9 |
| Real Estate and Infrastructure Pools | 10.0 | 4.3 |
| Absolute Return Pools | 15.5 | 6.0 |
| Short Term Investment Pools | 2.0 | 0.0 |
| Total | 100% | |

*Long term rate of return does not include 2.1% inflation

## NOTE R – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Discount Rate

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

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

| **1% Decrease (Non-Hybrid/Hybrid) 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%** |
|---|---|---|
| $30,489,911 | $23,676,918 | $17,932,910 |

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MSPERS CAFR. See the 2016 MPSERS CAFR.

(www.michigan.gov/documents/orsschools/MPSERS_CAFR_2016_FINAL_550678_7.pdf)

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

At June 30, 2017, the School District reported a payable of $0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Special Funding Situation

During the fiscal year, the School District recognized revenue in the amount of $742,455 from the State for the unfunded actuarial accrued liability related to the pension plan.

## NOTE S – EMPLOYEE RETIREMENT SYSTEM – DEFINED CONTRIBUTION PLANS:

Employees of the School District who began working for a Michigan public school July 1, 2010, or later, are members of the Pension Plus plan or Defined Contribution (DC) plan, defined contribution pension plans. Under Public Act 300 of 2012, eligible members of MPSERS had the

## NOTE S – EMPLOYEE RETIREMENT SYSTEM – DEFINED CONTRIBUTION PLANS (Continued):

option to increase, maintain, or stop their contributions to the pension fund as of the transition date. Members of MPSERS who elected to stop their contributions became participants in the DC plan as of their transition date.

Pension Plus Plan

The Pension Plus Plan is administered by Voya Financial. Benefit terms, including employer contribution requirements are established and may be amended by MPSERS. Within the plan employees have three options to choose from: 1) Pension Plus with Premium Subsidy, 2) Pension plus to DC with PHF, and 3) Basic/MIP to DC with Premium Subsidy. The School District's required to contribute ranges 1% to 4% of annual salary for plan members based on the type of plan the employee is participating in. Employees are permitted to make contributions up to applicable Internal Revenue Service Code limits. Employees are considered 100% vested for their own contributions; for employer contributions employees are considered 100% vested after four years of service. Employees are eligible to receive benefits from the Plan in accordance with IRS regulations for 401(k) plans.

Defined Contribution Plan

The Defined Contribution Plan, is a defined contribution plan under sections 401(k) and section 457 of the Internal Revenue Code and is administered by Voya Financial. Benefit terms, including employer contribution requirements are established and may be amended by MPSERS. Employee contributions are 8% of wages with the employer matching contributions dollar for dollar on the first 2% of wages and 50 cents on the dollar on the next 6% of wages. Employee contributions are made into the 457 Plan while employer matching contributions are made in other 401(k) Plan. Employees are considered 100% vested for their own contributions; for employer contributions employees are considered 100% vested after four years of service. Employees are eligible to receive benefits and make contributions to the Plan in accordance with IRS regulations for 401(k) and 457 plans.

Contributions

The total amount contributed to the Plan for the year ended June 30, 2017 was $68,402 which consisted of $18,873 from the School District and $49,529 from employees.

## NOTE T – EMPLOYEE RETIREMENT SYSTEM – POST-EMPLOYMENT BENEFITS:

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees electing this coverage contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage at the time of receiving the benefits. MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above. The employer contribution rates related to health care for the last three fiscal years ended June 30 were as follows:

**NOTE T – EMPLOYEE RETIREMENT SYSTEM – POST-EMPLOYMENT BENEFITS (Continued):**

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| July 1 – September 30 | 6.83% | 2.71% | 6.45% |
| October 1 – June 30 | 5.91% | 6.83% | 2.71% |
| Percentage of UAAL attributable to OPEB | 27.12% | 30.55% | 0.00% |

NOTE: The above rates are based on the contribution percentages under the Basic/MIP Plan. Rates for other plans offered by MPSERS are available on MPSERS website.

MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment health care plans. That report is available on the web at http://www.michigan.gov/orsschools, or by writing to the Office of Retirement System at 7150 Harris Drive, PO Box 30171, Lansing, Michigan, 48909.

**NOTE U – SINGLE AUDIT:**

The School District's audited financial statements reported $442,732 in federal expenditures and its component unit reported $41,895 in federal expenditures. As the total amount is less than the single audit threshold of $750,000, the School District is not required to have an audit in accordance with the Uniform Guidance for the fiscal year ended June 30, 2017.

**NOTE V – INSURANCE RECOVERIES:**

During the fiscal year ended June 30, 2017 the School District suffered two distinct losses. The Middle School was struck by lightning, which caused damage to a number of the school's computers, electrical equipment, as well as some minor damage to the school building. In a separate incident, the Miners Dry, which is associated with the athletic field, was struck by an automobile causing structural damage requiring repair. The total of the two losses amounted to $83,427.

**NOTE W – TAX ABATEMENTS:**

For financial reporting purposes, GASB Statement No. 77, *Tax Abatement Disclosures*, defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. The Statement requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and about tax abatement agreements entered into by other governments that reduce the reporting government's tax revenues.

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax (IFT) exemptions and/or Brownfields granted by the townships, cities, and/or counties within the district. These tax exemptions are intended to promote economic development and/or growth within the issuing government's jurisdiction. Operating revenues not paid to the School District because of tax abatement agreements are reimbursed to the School District by the State of Michigan through the per-pupil foundation allowance.

Information relevant to tax abatements within the School District for the year ended June 30, 2017 is as follows:

**NOTE W – TAX ABATEMENTS (Continued):**

| Issuing Government | Type of Tax Abatement Agreement | Tax Abated | Gross Amount Abated in Fiscal Year |
|---|---|---|---|
| Negaunee Township | IFT | Prop. Tax | $7,893 |
| Marquette County | Brownfield | Prop. Tax | 7,035 |
| | | | $14,928 |

For the fiscal year ended June 30, 2017, there were no significant tax abatements made by the School District.

**NOTE X – NEW GASB STANDARDS:**

Recently Issued and Adopted Accounting Pronouncements

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The standard 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 defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement is effective for periods beginning after December 15, 2015. The adoption of GASB 77 does not have any financial impact on the School District. See Note W for disclosures related to tax abatements as required by GASB 77.

Other Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Others than Pension Plans*. GASB 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet certain criteria. It also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria. This statement is effective for periods beginning after June 15, 2016. The School District does not have any postemployment plans that meet the criteria for GASB 74; therefore, GASB 74 is not applicable to the School District.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement is effective for periods beginning after December 15, 2015. The School District's pension plan does not meet the criteria for GASB 78; therefore, GASB 78 is not applicable to the School District.

**NOTE X – NEW GASB STANDARDS (Continued):**

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*. GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

**NOTE Y – UPCOMING STANDARDS:**

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the District.

<u>GASB 75: Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</u>

*Effective for fiscal years beginning after June 15, 2017 (School District's fiscal year 2018)*

This standard 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. It 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.

GASB 75 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The particular accounting and financial reporting requirements and footnote disclosures are dependent upon the type of plan being used (defined benefit, defined contribution, or special funding situations) and whether the OPEB plans are administered through trusts meeting certain criteria.

**NOTE Y – UPCOMING STANDARDS (Continued):**

GASB 81: Irrevocable Split-Interest Agreements

*Effective for fiscal years beginning after December 15, 2016 (School District's fiscal year 2018)*

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

GASB 83: Certain Asset Retirement Obligations

*Effective for fiscal years beginning after June 15, 2018 (School District's fiscal year 2019)*

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. A deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement.

This current value of a government's AROs are required to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays.

The statement also gives guidance on situations in which a government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. The government's minority share of an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

**NOTE Y – UPCOMING STANDARDS (Continued):**

GASB 84: Fiduciary Activities

*Effective for fiscal years beginning after June 15, 2018 (School District's fiscal year 2019)*

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Statement identifies four types of fiduciary funds that should be reported, as applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

GASB 85: Omnibus 2017

*Effective for fiscal years beginning after June 15, 2017 (School District's fiscal year 2018)*

This statement address issues that have been identified during the implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Some of the items specifically addressed relate to the following:

- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pension or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

GASB 86: Certain Debt Extinguishment Issues

*Effective for fiscal years beginning after June 15, 2017 (School District's fiscal year 2018)*

This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

**NOTE Y – UPCOMING STANDARDS (Continued):**

GASB 87: Leases

*Effective for fiscal years beginning after December 15, 2019 (School District's fiscal year 2021)*

This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financing of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

# REQUIRED SUPPLEMENTAL INFORMATION

**Negaunee Public Schools**

SCHEDULE OF THE NEGAUNEE PUBLIC SCHOOLS' CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Fiscal Year Ended June 30

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Statutorily required contributions | $ 2,651,704 | $ 2,585,866 | $ 1,962,565 | | | | | | | |
| Contributions in relation to statutorily required contributions | 2,651,704 | 2,585,866 | 1,962,565 | | | | | | | |
| Contributions deficiency (excess) | $ - | $ - | $ - | | | | | | | |
| Negaunee Public Schools' covered-employee payroll | $ 7,897,227 | $ 6,741,512 | $ 7,903,673 | | | | | | | |
| Contributions as a percentage of covered-employee payroll | 34% | 38% | 25% | | | | | | | |

**Negaunee Public Schools**

SCHEDULE OF THE NEGAUNEE PUBLIC SCHOOLS' CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Plan Year Ended September 30

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Negaunee Public Schools' proportion of net pension liability | 0.08911% | 0.09134% | 0.09490% | | | | | | | |
| Negaunee Public Schools' proportionate share of net pension liability | $ 19,628,059 | $ 22,310,039 | $ 23,676,918 | | | | | | | |
| Negaunee Public Schools' covered-employee payroll | $ 7,607,911 | $ 7,697,955 | $ 8,141,860 | | | | | | | |
| Negaunee Public Schools' proportionate share of net pension liability as a percentage of covered-employee payroll | 258.00% | 289.82% | 290.80% | | | | | | | |
| Plan fiduciary net position as a percentage of total pension liability | 66.20% | 63.17% | 63.27% | | | | | | | |

**Notes to Required Supplementary Information:**
Changes in benefit terms: There were no changes of benefit terms in FY 2016.
Changes in assumptions: There were no changes in benefit assumptions in FY 2016.

**Negaunee Public Schools**

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2017

| | Budgeted Amounts | | Actual | Variances Positive (Negative) | |
|---|---|---|---|---|---|
| | Original | Final | (GAAP Basis) | Original Budget to Final Budget | Final Budget to Actual |
| **REVENUES:** | | | | | |
| Local sources | $ 2,708,741 | $ 2,753,654 | $ 2,778,385 | $ 44,913 | $ 24,731 |
| State sources | 11,042,896 | 11,480,633 | 11,507,699 | 437,737 | 27,066 |
| Federal sources | 173,347 | 217,323 | 204,805 | 43,976 | (12,518) |
| **TOTAL REVENUES** | 13,924,984 | 14,451,610 | 14,490,889 | 526,626 | 39,279 |
| **EXPENDITURES:** | | | | | |
| **Instruction:** | | | | | |
| Basic programs | 7,026,006 | 7,049,358 | 7,087,608 | (23,352) | (38,250) |
| Added needs | 2,596,182 | 2,779,335 | 2,629,527 | (183,153) | 149,808 |
| **Total Instruction** | 9,622,188 | 9,828,693 | 9,717,135 | (206,505) | 111,558 |
| **Supporting Services:** | | | | | |
| Pupil services | 663,844 | 697,979 | 691,374 | (34,135) | 6,605 |
| Instructional staff | 280,621 | 286,081 | 284,376 | (5,460) | 1,705 |
| General administration | 261,470 | 266,125 | 268,297 | (4,655) | (2,172) |
| School administration | 903,613 | 873,509 | 877,149 | 30,104 | (3,640) |
| Business services | 348,911 | 357,057 | 327,325 | (8,146) | 29,732 |
| Operations and maintenance | 1,095,433 | 1,085,746 | 1,094,911 | 9,687 | (9,165) |
| Pupil transportation | 861,729 | 906,150 | 893,012 | (44,421) | 13,138 |
| Central support | 159,592 | 161,271 | 165,002 | (1,679) | (3,731) |
| **Total Supporting Services** | 4,575,213 | 4,633,918 | 4,601,446 | (58,705) | 32,472 |
| **Community Services:** | | | | | |
| Community activities | 100 | 100 | - | - | 100 |
| **Total Community Services** | 100 | 100 | - | - | 100 |
| **Payments to Other Governments:** | | | | | |
| Payment to other governments | - | - | - | - | - |
| **Total Payments to Other Governments** | - | - | - | - | - |
| **Debt Service:** | | | | | |
| Principal | - | 28,341 | 28,341 | (28,341) | - |
| Interest | - | 1,505 | 1,505 | (1,505) | - |
| **Total Debt Service** | - | 29,846 | 29,846 | (29,846) | - |
| **Facilities Acquisition:** | | | | | |
| Capital outlay | - | - | - | - | - |
| **Total Facilities Acquisition** | - | - | - | - | - |
| **TOTAL EXPENDITURES** | 14,197,501 | 14,492,557 | 14,348,427 | (295,056) | 144,130 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | (272,517) | (40,947) | 142,462 | 231,570 | 183,409 |
| **OTHER FINANCING SOURCES (USES):** | | | | | |
| Sale of capital assets | 5,000 | 5,395 | 5,396 | 395 | 1 |
| Proceeds from borrowing | 60,000 | - | - | (60,000) | - |
| Proceeds from insurance | - | 83,420 | 83,427 | 83,420 | 7 |
| Other sources | 12,606 | 18,000 | 18,516 | 5,394 | 516 |
| Transfers in | - | - | - | - | - |
| Transfers (out) | (205,621) | (205,617) | (205,461) | 4 | 156 |
| **TOTAL OTHER FINANCING SOURCES (USES)** | (128,015) | (98,802) | (98,122) | 29,213 | 680 |
| **NET CHANGE IN FUND BALANCE** | (400,532) | (139,749) | 44,340 | 260,783 | 184,089 |
| Fund Balance, July 1 | 2,199,114 | 2,199,114 | 2,199,114 | - | - |
| **FUND BALANCE, JUNE 30** | $ 1,798,582 | $ 2,059,365 | $ 2,243,454 | $ 260,783 | $ 184,089 |

# OTHER SUPPLEMENTAL INFORMATION

**Negaunee Public Schools**

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2017

| | Special Revenue Funds | Debt Service Funds | Capital Projects Sinking Fund | Total |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 35,224 | $ 29,237 | $ 868,976 | $ 933,437 |
| Investments | - | 9,264 | - | 9,264 |
| Accounts receivable | 2,025 | - | - | 2,025 |
| Due from other governmental units | 18,143 | - | - | 18,143 |
| Due from other funds | - | - | - | - |
| Inventories | 6,526 | - | - | 6,526 |
| Prepaid expenses | - | - | - | - |
| **TOTAL ASSETS** | 61,918 | 38,501 | 868,976 | 969,395 |
| **DEFERRED OUTFLOWS OF RESOURCES** | - | - | - | - |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | $ 61,918 | $ 38,501 | $ 868,976 | $ 969,395 |
| **LIABILITIES** | | | | |
| Accounts payable | $ 17,988 | $ - | $ - | $ 17,988 |
| Accrued liabilities | - | - | - | - |
| Due to other governmental units | 143 | - | - | 143 |
| Due to other funds | - | - | - | - |
| Unearned grant revenue | 33,141 | - | - | 33,141 |
| **TOTAL LIABILITIES** | 51,272 | - | - | 51,272 |
| **DEFERRED INFLOWS OF RESOURCES** | - | - | - | - |
| **FUND BALANCES** | | | | |
| Non-spendable | 6,526 | - | - | 6,526 |
| Restricted | - | 38,501 | 868,976 | 907,477 |
| Committed | - | - | - | - |
| Assigned | 4,120 | - | - | 4,120 |
| Unassigned | - | - | - | - |
| **TOTAL FUND BALANCES** | 10,646 | 38,501 | 868,976 | 918,123 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | $ 61,918 | $ 38,501 | $ 868,976 | $ 969,395 |

**Negaunee Public Schools**

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2017

| | Special Revenue Funds | Debt Service Funds | Capital Projects Sinking Fund | Total |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Local sources | $ 479,841 | $ 372,862 | $ 648,527 | $ 1,501,230 |
| State sources | 38,072 | - | - | 38,072 |
| Federal sources | 237,927 | - | - | 237,927 |
| **TOTAL REVENUES** | 755,840 | 372,862 | 648,527 | 1,777,229 |
| **EXPENDITURES:** | | | | |
| Supporting services | 67,846 | 2 | 7 | 67,855 |
| Debt service | - | 389,850 | - | 389,850 |
| Facilities acquisition | - | - | 342,064 | 342,064 |
| School lunch activities | 483,913 | - | - | 483,913 |
| Athletic activities | 398,896 | - | - | 398,896 |
| **TOTAL EXPENDITURES** | 950,655 | 389,852 | 342,071 | 1,682,578 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | (194,815) | (16,990) | 306,456 | 94,651 |
| **OTHER FINANCING SOURCES (USES):** | | | | |
| Bond proceeds | - | - | - | - |
| Payments for premium and discount | - | - | - | - |
| Payments to bond escrow agent | - | - | - | - |
| Transfers in | 205,461 | - | - | 205,461 |
| Transfers (out) | - | - | - | - |
| **TOTAL OTHER FINANCING SOURCES (USES)** | 205,461 | - | - | 205,461 |
| **NET CHANGE IN FUND BALANCE** | 10,646 | (16,990) | 306,456 | 300,112 |
| Fund Balance, July 1 | - | 55,491 | 562,520 | 618,011 |
| **FUND BALANCE, JUNE 30** | $ 10,646 | $ 38,501 | $ 868,976 | $ 918,123 |

**Negaunee Public Schools**

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET

June 30, 2017

| | School Lunch Fund | Athletic Fund | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 9,708 | $ 25,516 | $ 35,224 |
| Investments | - | - | - |
| Accounts receivable | - | 2,025 | 2,025 |
| Due from other governmental units | 18,143 | - | 18,143 |
| Due from other funds | - | - | - |
| Inventories | 6,526 | - | 6,526 |
| Prepaid expenses | - | - | - |
| **TOTAL ASSETS** | 34,377 | 27,541 | 61,918 |
| **DEFERRED OUTFLOWS OF RESOURCES** | - | - | - |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | $ 34,377 | $ 27,541 | $ 61,918 |
| **LIABILITIES** | | | |
| Accounts payable | $ 17,768 | $ 220 | $ 17,988 |
| Accrued liabilities | - | - | - |
| Due to other governmental units | - | 143 | 143 |
| Due to other funds | - | - | - |
| Unearned grant revenue | 5,963 | 27,178 | 33,141 |
| **TOTAL LIABILITIES** | 23,731 | 27,541 | 51,272 |
| **DEFERRED INFLOWS OF RESOURCES** | - | - | - |
| **FUND BALANCES** | | | |
| Non-spendable | 6,526 | - | 6,526 |
| Restricted | - | - | - |
| Committed | - | - | - |
| Assigned | 4,120 | - | 4,120 |
| Unassigned | - | - | - |
| **TOTAL FUND BALANCES** | 10,646 | - | 10,646 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | $ 34,377 | $ 27,541 | $ 61,918 |

**Negaunee Public Schools**

NON-MAJOR SPECIAL REVENUE FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2017

| | School Lunch Fund | Athletic Fund | Total |
|---|---|---|---|
| **REVENUES:** | | | |
| Local Sources: | | | |
| School lunch activities | $ 218,560 | $ - | $ 218,560 |
| Athletic activities | - | 261,281 | 261,281 |
| State sources | 38,072 | - | 38,072 |
| Federal sources | 237,927 | - | 237,927 |
| **TOTAL REVENUES** | 494,559 | 261,281 | 755,840 |
| **EXPENDITURES:** | | | |
| Support services | - | 67,846 | 67,846 |
| School lunch activities | 483,913 | - | 483,913 |
| Athletic activities | - | 398,896 | 398,896 |
| **TOTAL EXPENDITURES** | 483,913 | 466,742 | 950,655 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | 10,646 | (205,461) | (194,815) |
| **OTHER FINANCING SOURCES (USES):** | | | |
| Transfers in | - | 205,461 | 205,461 |
| Transfers (out) | - | - | - |
| **TOTAL OTHER FINANCING SOURCES (USES)** | - | 205,461 | 205,461 |
| **NET CHANGE IN FUND BALANCE** | 10,646 | - | 10,646 |
| Fund Balance, July 1 | - | - | - |
| **FUND BALANCE, JUNE 30** | $ 10,646 | $ - | $ 10,646 |

**Negaunee Public Schools**

NON-MAJOR SPECIAL REVENUE FUND

SCHOOL LUNCH FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **REVENUES:** | | | |
| Local Sources: | | | |
| Student meals | $ 173,000 | $ 179,407 | $ 6,407 |
| Ala carte sales | 32,500 | 34,233 | 1,733 |
| Other food receipts | 4,800 | 4,920 | 120 |
| Total Local Sources | 210,300 | 218,560 | 8,260 |
| State Sources: | | | |
| State aid - restricted | 38,000 | 38,072 | 72 |
| Total State Sources | 38,000 | 38,072 | 72 |
| Federal Sources: | | | |
| Entitlement payments | 181,060 | 191,870 | 10,810 |
| Donated commodities | - | 46,057 | 46,057 |
| Total Federal Sources | 181,060 | 237,927 | 56,867 |
| **TOTAL REVENUES** | 429,360 | 494,559 | 65,199 |
| **EXPENDITURES:** | | | |
| Support services | - | - | - |
| School lunch activities | 432,421 | 483,913 | (51,492) |
| **TOTAL EXPENDITURES** | 432,421 | 483,913 | (51,492) |
| **EXCESS REVENUES (EXPENDITURES)** | (3,061) | 10,646 | 13,707 |
| **OTHER FINANCING SOURCES (USES):** | | | |
| Transfers in | 3,061 | - | (3,061) |
| **NET CHANGE IN FUND BALANCE** | - | 10,646 | 10,646 |
| Fund Balance, July 1 | - | - | - |
| **FUND BALANCE, JUNE 30** | $ - | $ 10,646 | $ 10,646 |

**Negaunee Public Schools**

NON-MAJOR SPECIAL REVENUE FUND

ATHLETIC FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **REVENUES:** | | | |
| Local sources | $ 261,355 | $ 261,281 | $ (74) |
| **TOTAL REVENUES** | 261,355 | 261,281 | (74) |
| **EXPENDITURES:** | | | |
| Support services | 66,884 | 67,846 | (962) |
| Athletic activities | 397,027 | 398,896 | (1,869) |
| **TOTAL EXPENDITURES** | 463,911 | 466,742 | (2,831) |
| **EXCESS REVENUES OVER (UNDER) EXPENDITURES** | (202,556) | (205,461) | (2,905) |
| **OTHER FINANCING SOURCES (USES):** | | | |
| Transfers in | 202,556 | 205,461 | 2,905 |
| **NET CHANGE IN FUND BALANCE** | - | - | - |
| Fund Balance, July 1 | - | - | - |
| **FUND BALANCE, JUNE 30** | $ - | $ - | $ - |

**Negaunee Public Schools**

NON-MAJOR DEBT SERVICE FUNDS

COMBINING BALANCE SHEET

June 30, 2017

| | 2006 Debt Retirement Fund | 2008 Debt Retirement Fund | Total Non-major Debt Service Funds |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 28,770 | $ 467 | $ 29,237 |
| Investments | 9,264 | - | 9,264 |
| Due from other governmental units | - | - | - |
| **TOTAL ASSETS** | 38,034 | 467 | 38,501 |
| **DEFERRED OUTFLOWS OF RESOURCES** | - | - | - |
| **TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | $ 38,034 | $ 467 | $ 38,501 |
| **LIABILITIES** | | | |
| Accounts payable | $ - | $ - | $ - |
| Due to other governmental units | - | - | - |
| **TOTAL LIABILITIES** | - | - | - |
| **DEFERRED INFLOWS OF RESOURCES** | - | - | - |
| **FUND BALANCES** | | | |
| Restricted | 38,034 | 467 | 38,501 |
| **TOTAL FUND BALANCES** | 38,034 | 467 | 38,501 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | $ 38,034 | $ 467 | $ 38,501 |

**Negaunee Public Schools**

NON-MAJOR DEBT SERVICE FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2017

| | 2006 Debt Retirement Fund | 2008 Debt Retirement Fund | Total Non-major Debt Service Funds |
|---|---|---|---|
| **REVENUES:** | | | |
| Local sources | $ 252,316 | $ 120,546 | $ 372,862 |
| State sources | - | - | - |
| **TOTAL REVENUES** | 252,316 | 120,546 | 372,862 |
| **EXPENDITURES:** | | | |
| Supporting Services: | 1 | 1 | 2 |
| Debt Service: | | | |
| Principal | 85,000 | 125,000 | 210,000 |
| Interest | 169,100 | 10,600 | 179,700 |
| Paying agent fees | - | 150 | 150 |
| **TOTAL EXPENDITURES** | 254,101 | 135,751 | 389,852 |
| **EXCESS OF REVENUES OVER (UNDER) EXPENDITURES** | (1,785) | (15,205) | (16,990) |
| **OTHER FINANCING SOURCES (USES):** | | | |
| Bond proceeds | - | - | - |
| Payments for premium and discount | - | - | - |
| Payments to bond escrow agent | - | - | - |
| Transfers in | - | - | - |
| Transfers Out | - | - | - |
| **TOTAL OTHER FINANCING SOURCES (USES)** | - | - | - |
| **NET CHANGE IN FUND BALANCE** | (1,785) | (15,205) | (16,990) |
| Fund Balance, July 1 | 39,819 | 15,672 | 55,491 |
| **FUND BALANCE, JUNE 30** | $ 38,034 | $ 467 | $ 38,501 |

**Negaunee Public Schools**

ISHPEMING-NEGAUNEE-NICE COMMUNITY EDUCATION DIVISION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| **REVENUES:** | | | |
| Local Sources: | | | |
| Property taxes | $ 48,947 | $ 48,961 | $ 14 |
| Adult and student tuition | 47,335 | 48,243 | 908 |
| Earnings from investments and deposits | - | - | - |
| Other local revenue | 800 | 830 | 30 |
| Total Local Sources | 97,082 | 98,034 | 952 |
| State Sources: | | | |
| Payment received from other school districts: | | | |
| Adult membership aid | 43,453 | 43,898 | 445 |
| Student membership aid | 300,616 | 302,996 | 2,380 |
| Vocational education | - | - | - |
| Total State Sources | 344,069 | 346,894 | 2,825 |
| Federal Sources: | | | |
| Grants - restricted - received through State: | | | |
| Adult Basic Education | 41,895 | 41,895 | - |
| Karl Perkins grant | - | - | - |
| Total Federal Sources | 41,895 | 41,895 | - |
| **TOTAL REVENUES** | 483,046 | 486,823 | 3,777 |
| **EXPENDITURES:** | | | |
| **Instruction:** | | | |
| Added Needs: | | | |
| Vocational Education: | | | |
| Salaries | 7,173 | 7,073 | 100 |
| Fringe benefits | - | - | - |
| Supplies and materials | - | - | - |
| Total Vocational Education | 7,173 | 7,073 | 100 |
| Adult/Continuing Education: | | | |
| Secondary Education: | | | |
| Salaries | 182,245 | 186,871 | (4,626) |
| Fringe benefits | - | - | - |
| Purchased services | - | - | - |
| Supplies and materials | - | - | - |
| Total Secondary Education | 182,245 | 186,871 | (4,626) |

**Negaunee Public Schools**

ISHPEMING-NEGAUNEE-NICE COMMUNITY EDUCATION DIVISION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Adult Enrichment: | | | |
| Salaries | $ 23,050 | $ 9,854 | $ 13,196 |
| Fringe benefits | - | - | - |
| Purchased services | - | - | - |
| Supplies and materials | - | - | - |
| Total Adult Enrichment | 23,050 | 9,854 | 13,196 |
| **TOTAL INSTRUCTION** | 212,468 | 203,798 | 8,670 |
| **Supporting Services:** | | | |
| Pupil Services: | | | |
| Salaries | 115 | 109 | 6 |
| Fringe benefits | - | - | - |
| Purchased services | 2,197 | 13,342 | (11,145) |
| Supplies and materials | - | - | - |
| Total Pupil Services | 2,312 | 13,451 | (11,139) |
| School Administration: | | | |
| Salaries | - | - | - |
| Fringe benefits | - | - | - |
| Purchased services | 170,182 | 162,742 | 7,440 |
| Supplies and materials | - | - | - |
| Total School Administration | 170,182 | 162,742 | 7,440 |
| Business Services: | | | |
| Purchased services | 5,914 | 5,914 | - |
| Supplies and materials | - | - | - |
| Total Business Services | 5,914 | 5,914 | - |
| Operations and Maintenance: | | | |
| Purchased services | 30,732 | 32,031 | (1,299) |
| Supplies and materials | - | - | - |
| Total Operations and Maintenance | 30,732 | 32,031 | (1,299) |
| Pupil Transportation Services: | | | |
| Purchased services | 600 | 564 | 36 |
| Supplies and materials | - | - | - |
| Total Pupil Transportation Services | 600 | 564 | 36 |

**Negaunee Public Schools**

ISHPEMING-NEGAUNEE-NICE COMMUNITY EDUCATION DIVISION

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2017

| | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---|---|---|---|
| Services and Evaluation: | | | |
| Salaries | $ 2,261 | $ 1,996 | $ 265 |
| Fringe benefits | - | - | - |
| Total Services and Evaluation | 2,261 | 1,996 | 265 |
| **TOTAL SUPPORTING SERVICES** | 212,001 | 216,698 | (4,697) |
| **Community Services:** | | | |
| Community Recreation: | | | |
| Salaries | 53,208 | 53,812 | (604) |
| Fringe benefits | - | - | - |
| Purchased services | - | - | - |
| Supplies and materials | - | - | - |
| Total Community Recreation | 53,208 | 53,812 | (604) |
| **TOTAL COMMUNITY SERVICES** | 53,208 | 53,812 | (604) |
| **Capital Outlay** | - | - | - |
| **Depreciation** | 155 | 155 | - |
| **Loss on disposal** | - | - | - |
| **TOTAL EXPENDITURES** | 477,832 | 474,463 | 3,369 |
| **EXCESS REVENUES OVER (UNDER) EXPENDITURES** | 5,214 | 12,360 | 7,146 |
| **OTHER FINANCING SOURCES (USES):** | | | |
| Transfers from other governmental units | - | - | - |
| Transfers to other governmental units | - | - | - |
| **TOTAL OTHER FINANCING SOURCES (USES)** | - | - | - |
| **NET CHANGE IN FUND BALANCE** | 5,214 | 12,360 | 7,146 |
| Fund Balance, July 1 | 102,971 | 102,971 | - |
| **FUND BALANCE, JUNE 30** | $ 108,185 | $ 115,331 | $ 7,146 |

## COMPLIANCE SECTION

**ANDERSON, TACKMAN & COMPANY, PLC**
**Certified Public Accountants**
*"A Regional Firm With Offices In Michigan And Wisconsin"*
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

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

To the Board of Education of the
Negaunee Pubic Schools
101 South Pioneer Avenue, Suite 1
Negaunee, Michigan 49866

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Negaunee Public Schools (the School District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 23, 2017.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Anderson, Tackman & Company, PLC*
Certified Public Accountants

October 23, 2017

## COMMUNICATIONS SECTION

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
*"A Regional Firm With Offices In Michigan And Wisconsin"*
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

***Negaunee Public Schools***
*Report to Management*
*For the Year Ended June 30, 2017*

To the Board of Education of the
Negaunee Public Schools
101 South Pioneer Avenue, Suite 1
Negaunee, MI 49866

In planning and performing our audit of the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Negaunee Public Schools (the School District) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

*Anderson, Tackman & Co.*
Certified Public Accountants

October 23, 2017

**ANDERSON, TACKMAN & COMPANY, PLC**
**Certified Public Accountants**
*"A Regional Firm With Offices In Michigan And Wisconsin"*
102 W. Washington St . Suite 109 Marquette, MI 49855 Phone: (906) 225-1166 www.atccpa.com

PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

***Negaunee Public Schools***
*Communication with Those Charged with Governance*
*For the Year Ended June 30, 2017*

October 23, 2017

To the Board of Education of
Negaunee Public Schools
101 South Pioneer Avenue, Suite 1
Negaunee, Michigan 49866

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Negaunee Public Schools (the School District) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 8, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in the footnotes to the financial statements. Newly adopted GASB standards are disclosed in the notes to the financial statements. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Management's estimate of accumulated depreciation is based on historical cost. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of compensated absences is based on employee pay rates and the various subsidiary ledgers maintained for hour balances. We

evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of terminal leave is based on various labor and union contract terms or administrative policies. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the School District's proportionate share of Net Pension Liability is based on an actuarial performed for the Michigan Public Employees' Retirement System (MPSERS) to determine its liability. We evaluated the key factors and assumptions used to develop the School District's proportionate share of Net Pension Liability, based on information provided by the Michigan Department of Technology, Management and Budget Office of Retirement Services, in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements was:

The disclosure of the School District's proportionate share of the Defined Benefit Pension Plan includes significant actuarial assumptions used in calculating the valuation. Gabriel, Roeder, Smith & Company was the actuarial company hired by the Retirement Board of the Michigan Public Employees' Retirement System (MPSERS) and the Michigan Department of Technology, Management and Budget Office of Retirement Services for preparation of the annual actuarial valuation. A full listing of the actuarial assumptions used can be found MPSERS' Comprehensive Annual Financial Report of the Fiscal Year Ended September 30, 2016.

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

*Difficulties Encountered in Performing the Audit*

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

*Corrected and Uncorrected Misstatements*

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

*Disagreements with Management*

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

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 23, 2017.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

<u>Other Matters</u>

We applied certain limited procedures to the required supplementary information (RSI), as listed in the table of contents. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI

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

Board of Education of the
Negaunee Public Schools

Restriction on Use

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

Very truly yours,

*Anderson, Tackman & Company, PLC*
Certified Public Accountants