ISHPEMING PUBLIC SCHOOL DISTRICT NO. 1
ISHPEMING, MICHIGAN

FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Ishpeming Public School District No. 1
319 E. Division Street
Ishpeming, Michigan 49849

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ishpeming Public School District No. 1 (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, 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 thereof 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 in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The other supplemental information, as listed on the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and were 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 are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 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, PLC
Certified Public Accountants

October 15, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Ishpeming Public School District No. 1 (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 was reported at ($4,696,415). Net position is comprised of 100% governmental activities.

- During the year, the School District expenses were $9,345,632, while revenues from all sources totaled $9,532,473, resulting in an increase in net position of $186,841.

- The general fund reported a net decrease of $90,513. This is $88,678 less than the forecasted decrease of $179,191. This was a result of revenues being $14,345 higher than forecasted, expenses being $71,675 lower than forecasted, and other financing sources (uses) being $2,658 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 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 these 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 funds, as listed in the notes 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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 of Education 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, auditorium fund, and special needs fund. 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:

Table 1
Net Position

	Governmental Activities – 2017	Governmental Activities – 2016
Current and other assets	$3,979,370	$4,941,702
Capital assets, net	14,728,141	13,937,649
Total Assets	18,707,511	18,879,351
Deferred outflows of resources	1,962,585	1,645,417
Current liabilities	2,330,955	2,293,411
Long-term liabilities	22,916,970	23,003,745
Total Liabilities	25,247,925	25,297,156
Deferred inflows of resources	118,586	110,868
Net Position:		
Net investment in capital assets	3,706,595	2,420,411
Restricted	1,454,014	2,359,315
Unrestricted	(9,857,024)	(9,662,982)
Total Net Position	($4,696,415)	($4,883,256)

The School District's net position was ($4,696,415) at June 30, 2017. Net investment in capital assets of $3,706,595, 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 limit the School District's ability to use those net position for day-to-day operations. There is an unrestricted net position balance of ($9,857,024).

The ($9,857,024) 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	$309,944	$244,982
Operating grants and contributions	2,303,370	1,998,927
General Revenues:		
Property taxes	2,014,262	2,025,296
State sources not restricted to specific program	4,727,883	4,575,330
Investment earnings	26,572	31,953
Gain on sale of capital assets	2,150	2,002
Miscellaneous	148,292	46,350
Total Revenues	9,532,473	8,924,840
Program Expenses:		
Instruction	5,231,051	4,927,462
Supporting services	3,112,463	3,093,257
Community services	61,082	63,939
Food services	242,590	-
Payments to other governmental agencies	-	-
Interest on long-term debt	364,899	404,530
Depreciation – unallocated	333,547	328,988
Total Expenses	9,345,632	8,818,176
Increase (decrease) in net position	186,841	106,664
Net position, beginning	(4,883,256)	(4,989,920)
Net Position, Ending	($4,696,415)	($4,883,256)

As reported in the Statement of Activities, the cost of all of our governmental activities this year was $9,345,632. Certain activities were partially funded from those who benefited from the programs $309,944 or by other governments and organizations that subsidized certain programs with grants and contributions $2,303,370. We paid for the remaining "public benefit" portion of our governmental activities with $2,014,262 in taxes, $4,727,883 in State Aid, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position for the year of $186,841.

Key reasons for the change in net position were as follows:

- Net change in governmental fund balances of ($1,002,474).
- Depreciation charged to expense of ($333,547).
- Purchase of capital assets in the amount of $1,124,039.
- Proceeds from borrowing totaling ($161,413).
- Principal payment on debt in the amount of $657,105.
- Deferred amounts on debt in the amount of $19,499.
- Change in accrued interest of $2,598.
- Change in employee benefit obligations of $2,572.
- Change in pension expense related to timing of contributions ($121,538).

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 of Services
Instruction	$5,231,051	$2,975,846
Supporting services	3,112,463	2,995,095
Food services	242,590	1,849

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 on the table of contents) reported a combined fund balance of $1,705,508, a decrease of $1,002,474 from the beginning of the year.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board 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. A 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.

Changes to the General Fund original budget occurred during the annual budget reviews in January and June 2017.

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	$7,871,154	$8,092,321	$221,167	2.81%

The increase in budgeted revenues was mainly due to adjustments related to state sources. The main factors impacting the adjustment to state sources was 1) an increase in the pupil count accounted for approximately $61,000 of the increase and 2) a change to the State's vocational education formula accounted for approximately $76,000 of the increase.

Local source revenue was also adjusted during the year. This revenue comes from various sources such as property taxes, athletic revenues, local grants, and private contributions. As the year progresses these amounts are adjusted based on the actual amounts received and expected to be received through the remainder of the year. Adjustments to local sources accounted for approximately $77,000 of the increase in budgeted revenues.

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	$7,950,966	$8,527,394	($576,428)	(7.25)%

General Fund budgeted original to final expenditures increased due to a number of factors. The budget was increased slightly for all services provided. However, the instruction, student services, and transportation budgets increased the most.

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	$8,092,321	$8,106,666	$14,345	0.18%

Total actual revenues came in higher than the final forecast because the revenue from local sources came in slightly higher than expected.

ACTUAL EXPENDITURES

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

	Expenditures		Variance Positive / (Negative)	
	Final Budget	Actual	Amount	Percentage
Total expenditures	$8,527,394	$8,455,719	$71,675	0.84%

Actual expenditures as compared to the final budget were decreased due to cost savings efforts and close monitoring of expenditures by the School District.

Enrollment

The School District's 2016-2017 State aid blended membership enrollment from the fall count totaled 799. This is an increase of 20 students from the previous year. The School District has been declining in enrollment for several years and projects the decline to continue 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. As a result, families have moved out of the area. 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	799	20
2015-2016	779	(27)
2014-2015	806	(53)
2013-2014	859	14
2012-2013	845	(15)

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 $14,728,141 invested in a variety of capital assets including land, construction in progress, land improvements, buildings and improvements, machinery and equipment, and buses and other vehicles. (See Table 4 below)

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

	Governmental Activities – 2017	Governmental Activities – 2016
Land	$14,301	$14,301
Construction in progress	-	8,650,635
Land improvements	836,886	881,271
Buildings and improvements	13,527,272	4,122,045
Equipment	19,814	9,460
Buses and other vehicles	329,868	259,937
Total	$14,728,141	$13,937,649

This year's additions were $1,124,039, which included the purchase of two school buses, various land improvements and building improvements, which utilized the Sinking Fund millage and proceeds from the 2014 School Building and Site Bonds originally issued in June 2014. The Proposal 1, Proposal 2, and Energy Conservation projects were completed during the year.

During the year one school bus was disposed. Further information on capital assets can be found in the notes to the financial statements.

Debt

At the end of this year, the School District had $11,021,546 in bonds and notes outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year End

	Governmental Activities – 2017	Governmental Activities – 2016
Vehicle notes	$346,546	$262,238
General obligation bonds	10,675,000	11,255,000
Total	$11,021,546	$11,517,238

During the year the School District entered into two installment agreements for the purchasing of two school buses. Further information on debt can be found 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 September 2017. Approximately 75 - 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess 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.

Since the State routinely determines the amount of foundation allowance in an untimely manner and often chances the amount mid-year, the revenue estimates do not become facts until the end of October – when an official pupil count is taken and verified.

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 Ishpeming Public School District No. 1 Administration, 319 E. Division Street, Ishpeming, Michigan 49849.

Ishpeming Public School District No. 1

STATEMENT OF NET POSITION

June 30, 2017

		Governmental Activities
ASSETS		
Current Assets:		
Cash and cash equivalents	$	2,363,275
Investments		38,180
Receivables:		
Accounts receivable		24,374
Due from other governmental units		1,452,277
Prepaids		101,264
Non-current Assets:		
Capital assets:		
Land and construction in progress		14,301
Other capital assets, net		14,713,840
TOTAL ASSETS		18,707,511
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to proportionate share of net pension liability		803,559
District's contributions made subsequent to pension measurement date		1,159,026
TOTAL DEFERRED OUTFLOWS OF RESOURCES		1,962,585
LIABILITIES		
Current Liabilities:		
Accounts payable		80,838
Accrued payroll and other liabilities		264,326
Accrued interest		57,093
Due to other governmental units		300,689
State aid notes payable		1,500,000
Tax anticipation notes payable		120,000
Unearned revenue		8,009
Non-current Liabilities:		
Due or payable within one year		
Notes payable		108,778
Bonds payable		615,000
Employee benefit obligations		9,600
Due or payable after one year		
Notes payable		237,768
Bonds payable		10,087,613
Employee benefit obligations		166,396
Proportionate share of net pension liability		11,691,815
TOTAL LIABILITIES		25,247,925
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on refunding bonds		60,000
Deferred inflows related to proportionate share of net pension liability		58,586
TOTAL DEFERRED INFLOWS OF RESOURCES		118,586
NET POSITION		
Net investment in capital assets		3,706,595
Restricted		1,454,014
Unrestricted		(9,857,024)
TOTAL NET POSITION	$	(4,696,415)

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

Ishpeming Public School District No. 1

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Function / Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:				
Instruction	$ 5,231,051	$ 193,280	$ 2,061,925	$ (2,975,846)
Supporting services	3,112,463	60,125	57,243	(2,995,095)
Community services	61,082	-	-	(61,082)
Food services	242,590	56,539	184,202	(1,849)
Payments to other governmental agencies	-	-	-	-
Interest on retirement of debt	364,899	-	-	(364,899)
Depreciation - unallocated	333,547	-	-	(333,547)
TOTAL GOVERNMENTAL ACTIVITIES	$ 9,345,632	$ 309,944	$ 2,303,370	(6,732,318)

General Revenues:	
Taxes	
Property taxes, levied for general purposes	978,982
Property taxes, levied for debt services	726,682
Property taxes, levied for building and site fund	308,598
State Aid not restricted to specific purposes	4,727,883
Interest and investment earnings	26,572
Gain on sale of capital assets	2,150
Miscellaneous	148,292
TOTAL GENERAL REVENUES	6,919,159
CHANGES IN NET POSITION	186,841
Net Position, July 1	(4,883,256)
NET POSITION, JUNE 30	$ (4,696,415)

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

Ishpeming Public School District No. 1

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2017

	General Fund	Special Revenue Scholarship Fund	Other Non-major Governmental Funds	Total
ASSETS				
Cash and cash equivalents	$ 924,049	$ 1,275,132	$ 164,094	$ 2,363,275
Investments	-	38,180	-	38,180
Receivables:				-
Accounts receivable	6,581	-	2,500	9,081
Due from other governmental units	1,442,541	-	9,736	1,452,277
Due from other funds	15,293	-	25	15,318
Prepaids	101,264	-	-	101,264
TOTAL ASSETS	2,489,728	1,313,312	176,355	3,979,395
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,489,728	$ 1,313,312	$ 176,355	$ 3,979,395
LIABILITIES				
Accounts payable	$ 69,944	$ -	$ 10,894	$ 80,838
Accrued liabilities	264,326	-	-	264,326
Due to other governmental units	300,689	-	-	300,689
Due to other funds	-	-	25	25
State aid notes payable	1,500,000	-	-	1,500,000
Tax anticipation notes payable	-	-	120,000	120,000
Unearned revenue	2,011	-	5,998	8,009
TOTAL LIABILITIES	2,136,970	-	136,917	2,273,887
DEFERRED INFLOWS OF RESOURCES	-	-	-	-
FUND BALANCES				
Non-spendable	101,264	978,336	-	1,079,600
Restricted	-	334,976	39,438	374,414
Committed	-	-	-	-
Assigned	40,227	-	-	40,227
Unassigned	211,267	-	-	211,267
TOTAL FUND BALANCES	352,758	1,313,312	39,438	1,705,508
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 2,489,728	$ 1,313,312	$ 176,355	$ 3,979,395

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

Ishpeming Public School District No. 1

GOVERNMENTAL FUNDS

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

June 30, 2017

Total Fund Balances for Governmental Funds		$ 1,705,508
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	$ 34,255,800	
Accumulated depreciation	(19,527,659)	14,728,141
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	11,691,815	
Deferred outflows related to proportionate share of net pension liability	(803,559)	
District's contributions made subsequent to pension measurement date	(1,159,026)	
Deferred inflows related to proportionate share of net pension liability	58,586	(9,787,816)
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:		
Unamortized bond discount	(7,020)	
Accrued interest	57,093	
Notes payable - current portion	108,778	
Notes payable - long-term portion	237,768	
Bonds payable - current portion	615,000	
Bonds payable - long-term portion	10,060,000	
Employee benefit obligations - current portion	9,600	
Employee benefit obligations - long-term portion	166,396	
Unamortized bond premium	34,633	
Deferred gain on refunding bonds	60,000	(11,342,248)
Net Position of Governmental Activities		$ (4,696,415)

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

Ishpeming Public School District No. 1

GOVERNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2017

	General Fund	Special Revenue Scholarship Fund	Other Non-major Governmental Funds	Total
REVENUES:				
Local sources	$ 1,811,736	$ 31,493	$ 1,102,985	$ 2,946,214
State sources	6,031,429	-	-	6,031,429
Federal sources	263,501	-	184,202	447,703
TOTAL REVENUES	8,106,666	31,493	1,287,187	9,425,346
EXPENDITURES:				
Current:				
Instruction	5,147,900	-	-	5,147,900
Supporting services	3,115,872	33,991	269	3,150,132
Community services	60,664	-	-	60,664
Food services	-	-	242,590	242,590
Debt Service:				
Principal	77,099	-	580,000	657,099
Interest	22,317	-	358,148	380,465
Issuance costs	2,721	-	3,816	6,537
Facilities acquisition	29,146	-	1,021,827	1,050,973
TOTAL EXPENDITURES	8,455,719	33,991	2,206,650	10,696,360
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(349,053)	(2,498)	(919,463)	(1,271,014)
OTHER FINANCING SOURCES (USES):				
Proceeds from borrowing	161,413	-	-	161,413
Proceeds from sale of capital assets	2,150	-	-	2,150
Proceeds from insurance	95,969	-	-	95,969
Other sources	9,008	-	-	9,008
Payments to other governments	-	-	-	-
Transfers in	-	-	10,025	10,025
Transfers (out)	(10,000)	-	(25)	(10,025)
TOTAL OTHER FINANCING SOURCES (USES)	258,540	-	10,000	268,540
NET CHANGE IN FUND BALANCES	(90,513)	(2,498)	(909,463)	(1,002,474)
Fund Balance, July 1	443,271	1,315,810	948,901	2,707,982
FUND BALANCE, JUNE 30	$ 352,758	$ 1,313,312	$ 39,438	$ 1,705,508

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

Ishpeming Public School District No. 1

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		$ (1,002,474)
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 are 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	$ (333,547)	
Capital outlays	1,124,039	
Net book value of disposed assets	-	790,492
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.		(161,413)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		657,105
Deferred gain/(loss) on refunding bonds is reported as revenue/(expenditure) in the 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.		
Amortized deferred gain on defeased bonds	12,857	12,857
Premium and discounts are recognized in the financial statements as other financing sources or uses but they are amortized over the term of the bonds in the government-wide financial statements.		
Amortized bond discount	(780)	
Amortized bond premium	7,422	6,642
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		2,598
Some expense 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.		2,572
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	(121,538)	
Change in deferred outflows related to timing of pension contributions	-	(121,538)
Change in Net Position of Governmental Activities		$ 186,841

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

Ishpeming Public School District No. 1

FIDUCIARY FUNDS

STATEMENTS OF FIDUCIARY NET POSITION

June 30, 2017

	Private-Purpose Trust Funds		Agency Funds
	Auditorium Fund	Special Needs Fund	Student Activity Fund
ASSETS			
Cash and equivalents	$ 8,852	$ -	$ 202,610
Investments	-	110,110	-
Due from other funds	-	-	-
TOTAL ASSETS	8,852	-	$ 202,610
DEFERRED OUTFLOWS OF RESOURCES	-	-	
LIABILITIES			
Due to groups, organizations and activities	-	-	$ 187,737
Due to other funds	420	-	14,873
TOTAL LIABILITIES	420	-	$ 202,610
DEFERRED INFLOWS OF RESOURCES	-	-	
NET POSITION			
Held in trust for individuals, organizations, and other governments	8,432	110,110	
TOTAL NET POSITION	$ 8,432	$ 110,110	

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

Ishpeming Public School District No. 1

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2017

	Private-Purpose Trust Fund	
	Auditorium Fund	**Special Needs Fund**
ADDITIONS:		
Contributions:		
Gifts, bequests and endowments	$ -	$ 10,000
Total Contributions	-	10,000
Investment Income:		
Interest and dividends	21	61
Net Investment Income (Loss)	21	61
TOTAL ADDITIONS (DEDUCTIONS)	21	10,061
DEDUCTIONS:		
Payments in accordance with trust agreements	548	-
TOTAL DEDUCTIONS	548	-
CHANGE IN NET POSITION	(527)	10,061
Net position, beginning of year	8,959	100,049
NET POSITION, END OF YEAR	$ 8,432	$ 110,110

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Ishpeming Public School District No. 1 (the School District) was organized in 1869. The School District operates under a Board-Superintendent form of government. The accounting policies of 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:

FINANCIAL 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 these criteria, the basic financial statements of the School District contain all the funds controlled by the School District's Board of Education as 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.

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

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

resources are allocated to and accounted for in the 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 fund 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 ten 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 five percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund, the Scholarship Fund, the Debt Service Fund, and the Proposal #1 Capital Projects Fund as its major governmental funds in accordance with the above criteria. The funds of the School District are described below:

<u>Governmental Fund Types</u>

General Fund – The General Fund is the general 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 – Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the Scholarship Fund.

Debt Retirement Funds – Debt Retirement Funds are used to record tax, 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 Fund Types</u>

Trust and Agency Fund – The Student Activity 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.

Auditorium Fund – The Auditorium Fund is a private-purpose trust fund used to account for assets held by the School District in a trustee capacity for operations of the Auditorium.

Special Needs Fund – The Special Needs Fund is a private-purpose trust fund used to account for assets held by the School District in a trustee capacity for the purpose of various special projects of the School District.

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

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.

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, sets, 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 considers cash and cash equivalents to be cash on hand, demand deposits and certificates of deposit. 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

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets, which include land, construction in progress, land improvements, buildings, machinery and equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than $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	10 – 20 years
Buildings and improvements	20 – 50 years
Equipment	5 – 10 years
Buses and other vehicles	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. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

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 government 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.

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

Long-Term Liabilities

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. Bonds payable are reported net of the applicable bond premium or discount.

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 government has two items that qualify for reporting in this category:

> 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.
>
> 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.

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

Equity Classification

District-Wide Statements
Equity is classified as net position and displayed in three components:

1. 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.

2. 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.

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

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

Revenues

District-Wide Statements
In the district-wide Statement of Activities, revenues are segregated by activity, and are classified as either program revenue or 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 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 fiscal year are recognized as revenue when collected.

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

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 governmental 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 all governmental fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts are as approved and amended by the Board of Education.

e. All annual appropriations lapse at fiscal year-end.

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.

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

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 DATE, 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 Equivalents

As of June 30, 2017, the School District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and equivalents	$2,363,275	$211,462	$2,574,737
Investments	38,180	110,110	148,290
Total	$2,401,455	$321,572	$2,723,027

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 $2,574,737 and the bank balance was $2,739,509. The bank balance is categorized as follows.

Amounts insured by FDIC	$751,812
Amount uncollateralized and uninsured	1,987,697
Total	$2,739,509

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.

			Fair Value Measurements Using		
Investments	Fair Value		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Equity securities:					
Mutual Funds	$38,180	*	$38,180	$-	$-
MILAF	110,110	*	-	110,110	-
Total	$148,290		$38,180	$110,110	$-

*Investments mature within one year

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

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's investment policy does not limit 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's investment policy does not further limit its investment choices. Ratings are not required for the School District's investment in Michigan Liquid Asset Fund-Mutual Funds. The School District's investments are in accordance with statutory authority.

Concentration of Credit Risk
The School District places no limit on the amount the School District may invest in any one issuer. All of the School District's investments are in the Franklin Income Fund.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments totaled $1,452,277. Of that balance, $1,099,363 is due from the State of Michigan for State Aid.

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. Interfund transactions resulting in interfund receivables and payables are as follows:

		DUE FROM OTHER FUNDS			
		General Fund	School Lunch Fund	Capital Projects Funds	Total Due To Other Funds
DUE TO OTHER FUNDS	General Fund	$-	$-	$-	$-
	Capital Projects Funds	-	-	25	25
	Auditorium Fund	420	-	-	420
	Student Activity Fund	14,873	-	-	14,873
	Total Due From Other Funds	$15,293	$-	$25	$15,318

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

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.

TRANSFERS IN FROM OTHER FUNDS	TRANSFERS OUT TO OTHER FUNDS: General Fund	School Lunch Fund	Capital Projects Funds	Total Due To Other Funds
General Fund	$-	$-	$-	$-
School Lunch Fund	10,000	-	-	10,000
Capital Projects Funds	-	-	25	25
Total Due From Other Funds	$10,000	$-	$25	$10,025

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 and (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	$14,301	$-	$-	$14,301
Construction in progress	8,650,635	926,073	(9,576,708)	-
Subtotal	8,664,936	926,073	(9,576,708)	14,301
Capital assets being depreciated:				
Land improvement	1,441,247	27,036	-	1,468,283
Buildings and improvements	20,228,786	9,576,708	-	29,805,494
Equipment	2,145,131	9,517	-	2,154,648
Buses and other vehicles	711,168	161,413	(59,507)	813,074
Subtotal	24,526,332	9,774,674	(59,507)	34,241,499
Total Capital Assets	33,191,268	10,700,747	(9,636,215)	34,255,800
Less accumulated depreciation:				
Land improvement	(559,976)	(71,421)	-	(631,397)
Buildings and improvements	(16,106,741)	(171,481)	-	(16,278,222)
Equipment	(2,130,683)	(4,151)	-	(2,134,834)
Buses and other vehicles	(456,219)	(86,494)	59,507	(483,206)
Total Accumulated Depreciation	(19,253,619)	(333,547)	59,507	(19,527,659)
CAPITAL ASSETS, NET	$13,937,649	$10,367,200	($9,576,708)	$14,728,141

Depreciation expense charged to governmental activities was $333,547.

NOTE F – ACCRUED LIABILITIES:

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

		Governmental Activities
Accrued wages		$189,164
Accrued fringes		57,212
Other accrued expenses		17,950
	Total	$ 264,326

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 June 30, 2016	Additions	Deductions	Balance June 30, 2017
State Anticipation Note:				
2015-2016	$1,500,000	$-	$1,500,000	$-
2016-2017	-	1,500,000	-	1,500,000
Tax Anticipation Note:				
2016-2017	-	120,000	-	120,000
Total	$1,500,000	$1,620,000	$1,500,000	$1,620,000

NOTE H – LONG-TERM DEBT:

A summary of long-term obligations at June 30, 2017, and transactions related thereto for the year then ended as follows:

	Balance 6/30/16	Additions	Deductions	Balance 6/30/17	Due Within One Year
GOVERNMENTAL ACTIVITIES:					
Notes Payable:					
Bus Installment, 8/28/2012	$30,000	$-	($15,000)	$15,000	$15,000
Bus Installment, 8/1/2013	50,340	-	(16,780)	33,560	16,780
Bus Installment, 7/1/2014	60,532	-	(15,133)	45,399	15,133
Truck Installment, 11/23/2015	44,866	-	(14,892)	29,974	14,876
Bus Installment, 7/9/2015	76,500	-	(15,300)	61,200	15,300
Bus Installment, 7/15/2016	-	81,927	-	81,927	15,901
Bus Installment, 12/9/2016	-	79,486	-	79,486	15,788
Total Notes Payable	262,238	161,413	(77,105)	346,546	108,778
Bonds Payable:					
2006 Serial Bonds	655,000	-	(50,000)	605,000	55,000
Plus: deferred discount	(7,800)	780	-	(7,020)	-
2014 Building and Site Bonds	7,595,000	-	(145,000)	7,450,000	150,000
2015 Refunding Bonds	1,535,000	-	(220,000)	1,315,000	240,000
Plus: deferred premium	42,055	-	(7,422)	34,633	-
2015 Energy Conservation Bonds	1,470,000	-	(165,000)	1,305,000	170,000
Total Bonds Payable	11,289,255	780	(587,422)	10,702,613	615,000
Total Notes and Bonds Payable	11,551,493	162,193	(664,527)	11,049,159	723,778

NOTE H – LONG-TERM DEBT (Continued):

	Balance 6/30/16	Additions	Deductions	Balance 6/30/17	Due Within One Year
Employee Benefit Obligations:					
Compensated absences	$132,168	$405	($9,377)	$123,956	$-
Early Retirement Incentive	46,400	16,800	(10,400)	52,800	9,600
Total Employee Benefit Obligations	178,568	17,205	(19,777)	176,756	9,600
TOTAL	$11,730,061	$179,398	($684,304)	$11,225,155	$733,378

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

Bus Installment dated August 28, 2012
June 30, 2017

	July 15		
Fiscal Year	Principal	Interest	Total
2018	$15,000	$298	$15,298
Total	$15,000	$298	$15,298

Bus note payable originally issued for $75,298 and dated August 28, 2012 matures annually as scheduled above on the 28th of August, 2013 through August 28, 2017 bearing an interest rate of 1.99% per annum.

Bus Installment dated August 1, 2013
June 30, 2017

	July 15		
Fiscal Year	Principal	Interest	Total
2018	$16,780	$722	$17,502
2019	16,780	361	17,141
Total	$33,560	$1,083	$34,643

Bus note payable originally issued for $83,907 and dated August 1, 2013 matures annually as scheduled above on the 15th of July, 2014 through July 15, 2018 bearing an interest rate of 2.15% per annum.

Bus Installment dated July 1, 2014
June 30, 2017

	July 15		
Fiscal Year	Principal	Interest	Total
2018	$15,133	$754	$15,887
2019	15,133	502	15,635
2020	15,133	251	15,384
Total	$45,399	$1,507	$46,906

Bus note payable originally issued for $75,665 and dated July 1, 2014 matures annually as scheduled above on the 15th of July, 2015 through July 15, 2019 bearing an interest rate of 1.66% per annum.

NOTE H – LONG-TERM DEBT (Continued):

Truck Installment dated November 23, 2015
June 30, 2017

	July 15		
Fiscal Year	Principal	Interest	Total
2018	$14,876	$450	$15,326
2019	15,098	226	15,324
Total	$29,974	$676	$30,650

Truck note payable originally issued for $44,866 and dated November 23, 2015 matures annually as scheduled above on the 15th of July, 2016 through July 15, 2018 bearing an interest rate of 1.50% per annum.

Bus Installment dated July 9, 2015
June 30, 2017

	July 15		
Fiscal Year	Principal	Interest	Total
2018	$15,300	$979	$16,279
2019	15,300	734	16,034
2020	15,300	490	15,790
2021	15,300	245	15,545
Total	$61,200	$2,448	$63,648

Bus note payable originally issued for $76,500 and dated July 9, 2015 matures annually as scheduled above on the 15th of July, 2016 through July 15, 2020 bearing an interest rate of 1.60% per annum.

Bus Installment dated July 15, 2016
June 30, 2017

	July 15		
Fiscal Year	Principal	Interest	Total
2018	$15,901	$1,229	$17,130
2019	16,140	990	17,130
2020	16,382	748	17,130
2021	16,627	503	17,130
2022	16,877	253	17,130
Total	$81,927	$3,723	$85,650

Bus note payable originally issued for $81,927 and dated July 15, 2016 matures annually as scheduled above on the 15th of July, 2017 through July 15, 2021 bearing an interest rate of 1.50% per annum.

Bus Installment dated December 9, 2016
June 30, 2017

	July 20		
Fiscal Year	Principal	Interest	Total
2018	$15,788	$739	$16,527
2019	15,571	955	16,526
2020	15,804	722	16,526
2021	16,041	485	16,526
2022	16,282	244	16,526
Total	$79,486	$3,145	$82,631

NOTE H – LONG-TERM DEBT (Continued):

Bus note payable originally issued for $79,486 and dated December 9, 2016 matures annually as scheduled above on the 20th of July, 2017 through July 15, 2021 bearing an interest rate of 1.50% per annum.

School Building and Site Bonds, Series 2006
June 30, 2017

	November 1	May 1		
Fiscal Year	Interest	Interest	Principal	Total
2018	$12,816	$12,816	$55,000	$80,632
2019	11,689	11,689	55,000	78,378
2020	10,547	10,547	60,000	81,094
2021	9,302	9,302	65,000	83,604
2022	7,921	7,921	65,000	80,842
2023-2027	16,752	16,752	305,000	338,504
Total	$69,027	$69,027	$605,000	$743,054

General Obligation School Building and Site Serial Bonds originally issued for $1,040,000 and dated June 28, 2006 mature annually on May 1, 2008 through May 1, 2026 and bear interest at a rate of 4.0% to 4.3% per annum. Interest is paid semi-annually on May 1 and November 1 each year.

School Building and Site Bonds, Series 2014
June 30, 2017

	November 1	May 1		
Fiscal Year	Interest	Interest	Principal	Total
2018	$126,650	$126,650	$150,000	$403,300
2019	124,100	124,100	150,000	398,200
2020	121,550	121,550	155,000	398,100
2021	118,915	118,915	165,000	402,830
2022	116,110	116,110	175,000	407,220
2023-2027	495,890	495,890	2,220,000	3,211,780
2028-2032	276,930	276,930	3,055,000	3,608,860
2033-2037	35,360	35,360	1,380,000	1,450,720
Total	$1,415,505	$1,415,505	$7,450,000	$10,281,010

General Obligation School Building and Site Serial Bonds originally issued for $7,840,000 and dated June 26, 2014 mature annually on May 1, 2015 through May 1, 2034 and bear interest at a rate of 3.4% per annum. Interest is paid semi-annually on May 1 and November 1 each year.

2015 Refunding Bonds
June 30, 2017

	November 1	May 1		
Fiscal Year	Interest	Interest	Principal	Total
2018	$15,175	$15,175	$240,000	$270,350
2019	12,775	12,775	265,000	290,550
2020	10,125	10,125	270,000	290,250
2021	7,425	7,425	270,000	284,850
2022	4,050	4,050	270,000	278,100
Total	$49,550	$49,550	$1,315,000	$1,414,100

NOTE H – LONG-TERM DEBT (Continued):

On March 12, 2015, the School District issued $1,730,000 in General Obligation Bonds with an average interest rate of 2.2% to advance refund $1,820,000 of outstanding 2005 Refunding Bonds with an average interest rate of 4.2%. The net proceeds of $1,858,753 (after payment of $51,697 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2005 Refunding Bonds. As a result, the 2005 Refunding Bonds 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 $90,000. This difference, reported in the accompanying financial statements as a deferred inflow of resources (deferred gain on refunding), is being charged to operations through the year 2022 using the effective-interest method. The School District completed the advance refunding to reduce its total debt service payments over the next 7 years by $145,579 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of $263,306.

The irrevocable trust accounts for the assets and the liability for the defeased 2005 Refunding Bonds are not included in the School District's financial statements. On June 30, 2017, $1,350,000 of the bonds outstanding are considered defeased.

On April 28, 2005, the School District issued $3,365,000 in General Obligation Bonds with an average interest rate of 4.2% to advance refund $3,340,000 of outstanding 1997 Serial Bonds with an average interest rate of 5.1%. The net proceeds of $3,307,500 (after payment of $57,500 in underwriting fees, insurance, and other issuance costs) plus an additional $197,000 of 1997 series Debt Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1997 series bonds. As a result, the 1997 series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position.

The irrevocable trust accounts for the assets and the liability for the defeased 1997 Serial Bonds are not included in the School District's financial statements. On June 30, 2017, $1,425,000 of the bonds outstanding are considered defeased.

2015 Energy Conservation Bonds
June 30, 2017

	November 1	May 1		
Fiscal Year	Interest	Interest	Principal	Total
2018	$16,639	$16,639	$170,000	$203,278
2019	14,471	14,471	175,000	203,942
2020	12,240	12,240	180,000	204,480
2021	9,945	9,945	185,000	204,890
2022	7,586	7,586	190,000	205,172
2023-2027	7,778	7,778	405,000	420,556
Total	$68,659	$68,659	$1,305,000	$1,442,318

NOTE H – LONG-TERM DEBT (Continued):

The General Obligation Limited Tax Energy Conservation Improvement Bonds, Series 2015 was originally issued for $1,630,000 and dated July 9, 2015 mature annually on May 1, 2016 through May 1, 2024 and bear interest at a rate of 2.55% per annum. Interest is paid semi-annually on May 1 and November 1 each year.

As of June 30, 2017 the aggregate maturities of long-term debt for the next succeeding five years are as follows:

Fiscal Year	Principal	Interest	Total
2018	$723,778	$347,731	$1,071,509
2019	739,022	329,838	1,068,860
2020	727,619	311,135	1,038,754
2021	732,968	292,407	1,025,375
2022	733,159	271,831	1,004,990
2023-2027	2,930,000	1,040,840	3,970,840
2028-2032	3,055,000	553,860	3,608,860
2033-2037	1,380,000	70,720	1,450,720
Total	$11,021,546	$3,218,362	$14,239,908

NOTE I – EMPLOYEE BENEFIT OBLIGATIONS:

COMPENSATED ABSENCES

Upon severing employment with the School District, a teacher has the option of selecting one of the following as severance pay:

1. Unused sick leave to be paid at $35.00 per day up to a maximum of $5,425 per employee.

2. An employee who has been employed for ten years or more shall be paid one week of current salary plus one day of current salary for each year of employment of the School District in excess of ten years to a maximum of $1,500.

Upon retirement (qualifying the employee for immediate payment of benefits pursuant to the School Employees Retirement Plan) while an active employee of the School District, the support personnel employee will be paid a sum equal to their accumulated sick leave days times $30.00 per day, not to exceed a maximum of $4,000.

A practicing administrator, after a minimum of ten (10) years of administrative service in the School District, will be entitled to a retirement benefit, computed by taking 1.0% of the administrator's final salary, multiplied by the years of administrative service in the School District, not to exceed a maximum of $5,425.

EARLY RETIREMENT INCENTIVE

Full-time teachers who meet requirements as established by the Michigan Public Schools Retirement System and who have taught a minimum of fifteen (15) years in the School District may also qualify for the Early Retirement Incentive (ERI) Plan. The ERI payment will be $200 per month for a maximum period of seven years (or until earlier qualification for reduced old age insurance and benefits under Title II of the Social Security Act, or death).

NOTE I – EMPLOYEE BENEFIT OBLIGATIONS (Continued):

As of June 30, 2017 the composition of the liability for employee benefits is as follows:

	Total	Current Portion	Long-term Portion
Compensated absences:			
Teachers	$119,384	$-	$119,384
Support personnel	4,572	-	4,572
Administration	-	-	-
Subtotal	123,956	-	123,956
Early retirement incentive	52,800	9,600	43,200
Total	$176,756	$9,600	$167,156

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.

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:

	General Fund	Scholarship Fund	Non-major Governmental Funds	Total Governmental Funds
Non-spendable:				
Pat Potter corpus	$-	$978,336	$-	$978,336
Prepaid	101,264	-	-	101,264
Subtotal	101,264	978,336	-	1,079,600
Restricted:				
Scholarships	-	305,576	-	305,576
Food Service	-	-	11,029	11,029
Debt Service	-	-	128,177	128,177
Construction Projects	-	-	(99,768)	(99,768)
FY17/18 Budgeted Shortfall	-	29,400	-	29,400
Subtotal	-	334,976	39,438	374,414

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

	General Fund	Scholarship Fund	Non-major Governmental Funds	Total Governmental Funds
Committed:	$-	$-	$-	$-
Assigned:				
FY17/18 Budgeted Shortfall	40,227	-	-	40,227
Unassigned	211,267	-	-	211,267
Total fund balances	$352,758	$1,313,312	$39,438	$1,705,508

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 Superintendent 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 – ECONOMIC DEPENDENCY:

The School District receives approximately 69 percent 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 L – STATE REVENUE:

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. Revenues 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 2017 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.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended

NOTE L – STATE REVENUE (Continued):

for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTE M – 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 $7,137 during fiscal 2017 in revenues and expenditures for USDA commodities.

NOTE N – 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 $121,833,417 ($64,359,544 designated as Homestead, $52,985,899 designated as Non-Homestead, $3,451,347 designated as Commercial personal property, and $1,036,627 as Industrial personal property). The total tax levy consists of 18.0000 mills on all non-homestead property (one mill is equal to $1.00 per $1,000 of taxable value), 6.0000 mills on all commercial personal property for the General Fund, 2.4870 mills for the Building Sinking Fund, and 5.8500 mills the Debt Service Fund.

NOTE O – CONTINGENT LIABILITIES:

<u>Grant Assistance</u>

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

<u>Risk Management</u>

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 carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

<u>Plan Description</u>

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.

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

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.

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 $1,052,322 for the year ended September 30, 2016.

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

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 $11,691,815 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 .04686252 percent, which was an increase of 0.00070624 percent from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of $1,197,318**.** At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between actual and expected experience	$145,711	($27,710)
Changes of assumptions	182,792	-
Net difference between projected and actual earnings on pension plan investments	194,318	-
Changes in proportion and differences between the Employer contributions and proportionate share of contributions	280,738	(30,876)
Subtotal	803,559	(58,586)
Employer contributions subsequent to the measurement date	1,159,026	-
Total	$1,962,585	($58,586)

Contributions subsequent to the measurement date totaling $1,159,026 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	$175,014
2018	159,591
2019	347,863
2020	62,505
Total	$744,973

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

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

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

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

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

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%
$15,056,115	$11,691,815	$8,855,387

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

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

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

Special Funding Situation

During the fiscal year, the School District recognized revenue in the amount of $363,716 from the State for the unfunded actuarial accrued liability related to the pension plan.

NOTE Q – 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 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 the 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 $33,606 which consisted of $10,615 from the School District and $22,991 from employees.

NOTE R – 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

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

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:

	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 S – SINGLE AUDIT:

The School District's audited financial statements report a total of $447,703 in federal expenditures. As the amount is less than the single audit threshold of $750,000, the District is not required to have an audit in accordance with the Uniform Guidance for the fiscal year ended June 30, 2017.

NOTE T – INSURANCE RECOVERIES:

In April 2016, the School District suffered damage to the high school building and playground equipment from a severe wind storm. The School District filed insurance claims related to the losses suffered. Additionally, during the school year, the School District suffered water damage to an elevator caused by failure of a sump pump. In total, the School District recorded revenues totaling $95,969 related to these insurance claims.

NOTE U – TAX ABATEMENTS:

For financial reporting purposes, GASB Statement No. 77, *Tax Abatement Disclosures*, defines a tax abatement as resulting from an agreement between an 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 reduce property tax revenues as a result of the Neighborhood Enterprise Zone (NEZ), 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

NOTE U – TAX ABATEMENTS (Continued):

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:

Issuing Government	Type of Tax Abatement Agreement	Tax Abated	Gross Amount Abated in Fiscal Year
City of Ishpeming	NEZ	Prop. Tax	$3,655
City of Ishpeming	IFT	Prop. Tax	1,818
Marquette County	Brownfield	Prop. Tax	6,013
			$11,486

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

NOTE V – 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 U for disclosures related to the School District's 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 No. 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 No. 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

NOTE V – NEW GASB STANDARDS (Continued):

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 No. 78; therefore, GASB No. 78 is not applicable to the School District.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*. GASB No. 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 W – UPCOMING STANDARDS:

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

NOTE W – UPCOMING STANDARDS (Continued):

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.

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 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.

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.

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.

NOTE W – UPCOMING STANDARDS (Continued):

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.

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.

NOTE X – DEFICIT FUND BALANCE:

During the year the School District incurred a deficit fund balance in the Sinking Fund. Any deficit incurred in a fund other than the General Fund is netted against the general fund balance. If the result is a negative amount, the school will be required to submit a deficit elimination plan with the Michigan Department of Education.

In March 2017, the School District issued a Tax Anticipation Note for $120,000 in the Sinking Fund. The deficit balance of $99,768 will be corrected when the School District receives its property taxes. As the deficit balance of the Sinking Fund in combination with the General Fund is not a negative amount the School District is not required to file a deficit elimination plan with the Michigan Department of Education in accordance with the criteria noted above.

REQUIRED SUPPLEMENTARY INFORMATION

Ishpeming Public School District No. 1

SCHEDULE OF THE DISTRICT'S 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	$ 1,306,427	$ 1,293,195	$ 1,336,774							
Contributions in relation to statutorily required contributions	1,306,427	1,293,195	1,336,774							
Contributions deficiency (excess)	$ -	$ -	$ -							
District's covered-employee payroll	$ 3,938,411	$ 4,087,707	$ 3,921,399							
Contributions as a percentage of covered-employee payroll	33.17%	31.64%	34.09%							

Ishpeming Public School District No. 1

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Plan Year Ended September 30

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
District's proportion of net pension liability	0.04507%	0.04616%	0.04686%							
District's proportionate share of net pension liability	$ 9,928,237	$ 11,273,684	$ 11,691,815							
District's covered-employee payroll	$ 3,931,261	$ 3,940,368	$ 3,988,551							
District's proportionate share of net pension liability as a percentage of covered-employee payroll	252.55%	286.11%	293.13%							
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.

Ishpeming Public School District No. 1

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	$ 1,716,000	$ 1,793,000	$ 1,811,736	$ 77,000	$ 18,736
State sources	5,880,777	6,032,294	6,031,429	151,517	(865)
Federal sources	274,377	267,027	263,501	(7,350)	(3,526)
TOTAL REVENUES	7,871,154	8,092,321	8,106,666	221,167	14,345
EXPENDITURES:					
Instruction:					
Basic programs	3,221,522	3,433,148	3,397,341	(211,626)	35,807
Added needs	1,624,480	1,763,870	1,750,559	(139,390)	13,311
Total Instruction	4,846,002	5,197,018	5,147,900	(351,016)	49,118
Supporting Services:					
Student services	338,721	412,845	418,247	(74,124)	(5,402)
Instructional staff	266,725	262,530	255,972	4,195	6,558
General administration	326,542	331,540	322,550	(4,998)	8,990
School administration	397,621	398,370	402,403	(749)	(4,033)
Business services	221,426	227,715	225,978	(6,289)	1,737
Operation and maintenance of plant	713,528	756,052	733,230	(42,524)	22,822
Pupil transportation	386,797	463,027	478,919	(76,230)	(15,892)
Central services	43,764	43,764	42,498	-	1,266
Other supporting services	247,292	235,285	236,075	12,007	(790)
Total Supporting Services	2,942,416	3,131,128	3,115,872	(188,712)	15,256
Community Services:					
Community recreation	41,287	50,987	46,429	(9,700)	4,558
Community activities	1,000	100	140	900	(40)
Childcare center	-	7,850	7,976	(7,850)	(126)
Other	7,146	6,596	6,119	550	477
Total Community Services	49,433	65,533	60,664	(16,100)	4,869
Debt Service:					
Principal	113,115	104,115	77,099	9,000	27,016
Interest	-	-	22,317	-	(22,317)
Issuance cost	-	-	2,721	-	(2,721)
Total Debt Service	113,115	104,115	102,137	9,000	1,978
Facilities Acquisition:					
Capital outlay	-	29,600	29,146	(29,600)	454
Total Facilities Acquisition	-	29,600	29,146	(29,600)	454
TOTAL EXPENDITURES	7,950,966	8,527,394	8,455,719	(576,428)	71,675
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(79,812)	(435,073)	(349,053)	(355,261)	86,020
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	81,927	161,413	161,413	79,486	-
Proceeds from sale of capital assets	-	-	2,150	-	2,150
Proceeds from insurance	-	97,469	95,969	97,469	(1,500)
Other sources	-	7,000	9,008	7,000	2,008
Payments to other governments	(2,000)	-	-	2,000	-
Transfers in	-	-	-	-	-
Transfers (out)	-	(10,000)	(10,000)	(10,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	79,927	255,882	258,540	175,955	2,658
NET CHANGE IN FUND BALANCE	115	(179,191)	(90,513)	(179,306)	88,678
Fund Balance, July 1	443,271	443,271	443,271	-	-
FUND BALANCE, JUNE 30	$ 443,386	$ 264,080	$ 352,758	$ (179,306)	$ 88,678

Ishpeming Public School District No. 1

SPECIAL REVENUE FUND - SCHOLARSHIP 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	$ 5,600	$ 10,600	$ 31,493	$ 5,000	$ 20,893
TOTAL REVENUES	5,600	10,600	31,493	5,000	20,893
EXPENDITURES:					
Supporting Services:					
Agency Activities:					
Scholarships granted	30,000	34,080	33,830	(4,080)	250
Other	-	-	161	-	(161)
Total Supporting Services	30,000	34,080	33,991	(4,080)	89
TOTAL EXPENDITURES	30,000	34,080	33,991	(4,080)	89
NET CHANGE IN FUND BALANCE	(24,400)	(23,480)	(2,498)	920	20,982
Fund Balance, July 1	1,315,810	1,315,810	1,315,810	-	-
FUND BALANCE, JUNE 30	$ 1,291,410	$ 1,292,330	$ 1,313,312	$ 920	$ 20,982

OTHER SUPPLEMENTAL INFORMATION

Ishpeming Public School District No. 1

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2017

	Special Revenue	Debt Service	Capital Projects				
	Food Service Fund	Debt Fund	Proposal 1 Fund	2015 Energy Conservation Fund	Sinking Fund	Proposal 2 Fund	Total
ASSETS							
Cash and cash equivalents	$ 15,685	$ 128,177	$ -	$ 25	$ 20,207	$ -	$ 164,094
Accounts Receivable	2,500	-	-	-	-	-	2,500
Due from other governmental units	9,736	-	-	-	-	-	9,736
Due from other funds	-	-	-	-	25	-	25
TOTAL ASSETS	27,921	128,177	-	25	20,232	-	176,355
DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 27,921	$ 128,177	$ -	$ 25	$ 20,232	$ -	$ 176,355
LIABILITIES							
Accounts payable	$ 10,894	$ -	$ -	$ -	$ -	$ -	$ 10,894
Due to other funds	-	-	-	25	-	-	25
Tax anticipation notes payable	-	-	-	-	120,000	-	120,000
Unearned Revenue	5,998	-	-	-	-	-	5,998
TOTAL LIABILITIES	16,892	-	-	25	120,000	-	136,917
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-	-	-
FUND BALANCES							
Non-spendable	-	-	-	-	-	-	-
Restricted	11,029	128,177	-	-	(99,768)	-	39,438
Committed	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
TOTAL FUND BALANCES	11,029	128,177	-	-	(99,768)	-	39,438
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 27,921	$ 128,177	$ -	$ 25	$ 20,232	$ -	$ 176,355

Ishpeming Public School District No. 1

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2017

	Special Revenue	Debt Service	Capital Projects				
	Food Service Fund	**Debt Fund**	**Proposal 1 Fund**	**2015 Energy Conservation Fund**	**Sinking Fund**	**Proposal 2 Fund**	**Total**
REVENUES:							
Local sources	$ 59,417	$ 732,183	$ 433	$ 65	$ 310,887	$ -	$ 1,102,985
Federal sources	184,202	-	-	-	-	-	184,202
TOTAL REVENUES	243,619	732,183	433	65	310,887	-	1,287,187
EXPENDITURES:							
Supporting services	-	269	-	-	-	-	269
Food services	242,590	-	-	-	-	-	242,590
Debt Service:							
Principal	-	415,000	-	-	165,000	-	580,000
Interest and fiscal charges	-	320,663	-	-	37,485	-	358,148
Issuance costs	-	3,316	-	-	500	-	3,816
Capital outlay	-	-	596,100	134,452	243,890	47,385	1,021,827
TOTAL EXPENDITURES	242,590	739,248	596,100	134,452	446,875	47,385	2,206,650
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,029	(7,065)	(595,667)	(134,387)	(135,988)	(47,385)	(919,463)
OTHER FINANCING SOURCES (USES):							
Proceeds from borrowing	-	-	-	-	-	-	-
Transfers in	10,000	-	-	-	25	-	10,025
Transfers (out)	-	-	-	(25)	-	-	(25)
TOTAL OTHER FINANCING SOURCES (USES)	10,000	-	-	(25)	25	-	10,000
NET CHANGE IN FUND BALANCE	11,029	(7,065)	(595,667)	(134,412)	(135,963)	(47,385)	(909,463)
Fund Balance, July 1	-	135,242	595,667	134,412	36,195	47,385	948,901
FUND BALANCE, JUNE 30	$ 11,029	$ 128,177	$ -	$ -	$ (99,768)	$ -	$ 39,438

COMPLIANCE SECTION

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PARTNERS
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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 FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education of the
Ishpeming Public School District No. 1
319 E. Division Street
Ishpeming, Michigan 49849

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ishpeming Public School District No. 1 (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 15, 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 15, 2017

COMMUNICATIONS SECTION

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Ishpeming Public School District No. 1
Report to Management
For the Year Ended June 30, 2017

To the Board of Education of the
Ishpeming Public School District No. 1
319 E. Division Street
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ishpeming Public School District No. 1 (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.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

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

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 15, 2017

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Ishpeming Public School District No. 1
Communication with Those Charged with Governance
For the Year Ended June 30, 2017

October 15, 2017

To the Board of Education of the
Ishpeming Public School District No. 1
319 E. Division Street
Ishpeming, Michigan 49849

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ishpeming Public School District No. 1 (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 notes 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 employee benefit obligations 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 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 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 15, 2017.

Board of Education of the
Ishpeming Public School District No. 1

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.

Other Matters

We applied certain limited procedures to the Require 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 in 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.

Restriction on Use

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

Very truly yours,

Anderson, Tackman & Company, PLC
Certified Public Accountants