

Elk Rapids Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

CONTENTS

	<u>Page</u>	
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i	
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	3	
 BASIC FINANCIAL STATEMENTS		
STATEMENT OF NET POSITION.....	6	
STATEMENT OF ACTIVITIES.....	7	
BALANCE SHEET - GOVERNMENTAL FUNDS.....	8	
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	9	
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES.....	10	
STATEMENT OF FIDUCIARY NET POSITION.....	11	
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION.....	12	
NOTES TO FINANCIAL STATEMENTS.....	13	
 REQUIRED SUPPLEMENTARY INFORMATION		
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND.....	33	
SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY.....	34	
SCHEDULE OF SCHOOL DISTRICT'S DEFINED BENEFIT PENSION CONTRIBUTIONS.....	34	
 COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS		
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS	36	
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS	37	
 INDEPENDENT AUDITORS' 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.....		

Management's Discussion and Analysis

As management of Elk Rapids Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

Financial Highlights

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by (\$4,409,781) resulting in a negative *net position*. Of this amount, *unrestricted net position* had a negative balance of (\$16,705,599). This amount is primarily impacted by the District's \$18,853,366 proportionate share of the MPSERS net pension obligation. This liability recognition is now required by GASB 68 as explained in Note J of the financial statements.
- The district's total net position decreased by (\$8,424) from the June 30, 2016 net position.
- As of the close of the current fiscal year, the District's *governmental funds* reported combined ending fund balances of \$4,518,667, a decrease of \$744,997 in comparison with the prior year. This net decrease is mainly attributable to the spend-down of bond proceeds from the 2012 and 2016 capital project funds. See pages 8, 9, and 37 for the exact composition of this net decrease. Of the \$4,518,667, approximately 23 percent, or \$1,027,503 is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,027,503 or 8.6 percent of total general fund expenditures.
- Investments for the future were made by the spending of \$1,638,807 on equipment and infrastructural improvements. Of this, the 2012 and 2016 Capital Project Funds invested \$1,546,733 in new computers, furniture, buses, renovations and equipment upgrades.

Overview of the Financial Statements

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, and athletics. The District has no business-type activities as of and for the year ended June 30, 2017.

The government-wide financial statements can be found on pages 6 - 7 of this report.

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

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

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

The District maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and 2016 Capital Projects Fund which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided for the General Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 8 - 10 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 11 - 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 - 31 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining fund statements can be found on pages 36 - 37 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by (\$4,409,781) at the close of the most recent fiscal year.

The District's net position, apart from the net pension obligation, is primarily comprised of its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net position

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Assets and Deferred Outflows of Resources		
Current and other assets	\$ 6,636,489	\$ 7,100,719
Capital assets, net	<u>12,908,631</u>	<u>12,435,187</u>
Total assets	19,545,120	19,535,906
Deferred outflows of resources	<u>1,916,369</u>	<u>1,464,985</u>
Total assets and deferred outflows of resources	<u>\$ 21,461,489</u>	<u>\$ 21,000,891</u>
Liabilities and Deferred Inflows of Resources		
Long-term outstanding	\$ 22,310,384	\$ 22,141,921
Other liabilities	<u>3,296,791</u>	<u>2,963,420</u>
Total liabilities	25,607,175	25,105,341
Deferred inflows of resources	<u>264,095</u>	<u>296,907</u>
Total liabilities and deferred inflows of resources	<u>\$ 25,871,270</u>	<u>\$ 25,402,248</u>
Net position		
Invested in capital assets, net of related debt	12,021,735	11,803,192
Restricted	274,083	421,602
Unrestricted	<u>(16,705,599)</u>	<u>(16,626,151)</u>
Total net position	<u>\$ (4,409,781)</u>	<u>\$ (4,401,357)</u>

Other components of the District's net position include \$201,817 for debt service, \$32,116 for capital projects and \$40,150 for food service. These represent resources that are subject to external restrictions on how they may be used. The component consisting of (\$16,705,599) represents *unrestricted net position*.

The government's net position decreased by (\$8,424) during the current fiscal year. See subsequent page for the major components of this decrease.

Included in the current fiscal year was foundation allowance funding, set by the State of Michigan, of \$7,511 per student.

Within the past decade, the District's enrollment has ranged between 1,300 and 1,550 students.

District's Changes in Net position

	Governmental Activities	
	2017	2016
Revenue		
Program revenue		
Charges for services	\$ 667,103	\$ 659,301
Operating grants/contributions	938,084	972,418
Capital grants/contributions	10,105	36,655
General revenue		
Property taxes	9,033,637	9,072,071
State school aid	3,049,952	2,791,926
Unrestricted investment earnings and other	653,916	470,542
Total Revenue	14,352,797	14,002,913
Expenses		
Instruction	7,690,521	7,444,531
Supporting services	4,249,299	4,247,547
Community services	292,794	262,769
Food services	493,014	475,297
Athletics	293,128	298,120
Depreciation – unallocated	1,165,363	1,041,770
Interest on long-term debt	83,397	23,799
Other	93,705	62,001
Total Expenses	14,361,221	13,855,834
Increase (decrease) in net position	(8,424)	147,079
Net position, beginning of year	(4,401,357)	(4,548,436)
Net position, end of year	\$ (4,409,781)	\$ (4,401,357)

Governmental activities. Net position decreased by (\$8,424). Five key elements of this net decrease are as follows:

- The \$1,030,000 *reduction* of 2016 Bonded debt outstanding was offset by \$1,165,363 of depreciation expense incurred from capital assets by \$135,363. This provided a decrease in the equity attributable to the District's capital assets.
- Net position decreased by \$149,910 due to the overall net increase in the combination of deferred outflows of resources, deferred inflows of resources and net pension liability.
- Net position (excluding the effect of \$81,970 in capitalized outlays) related to the general and special revenue funds increased by \$111,903 due to net operating surpluses for the year.
- Net position increased by \$83,933 due to the 2016 debt service fund's revenues exceeding expenditures. This added revenue was collected to maintain recommended debt service fund levels in relation to scheduled subsequent year debt service requirements.
- Net position increased by \$32,954 due to \$116,456 in interest earnings, grant and rebate revenues exceeding non-capitalized expenditures of \$83,502 within the 2012, 2016 and 2017 capital projects funds.

Financial Analysis of the Government's Funds

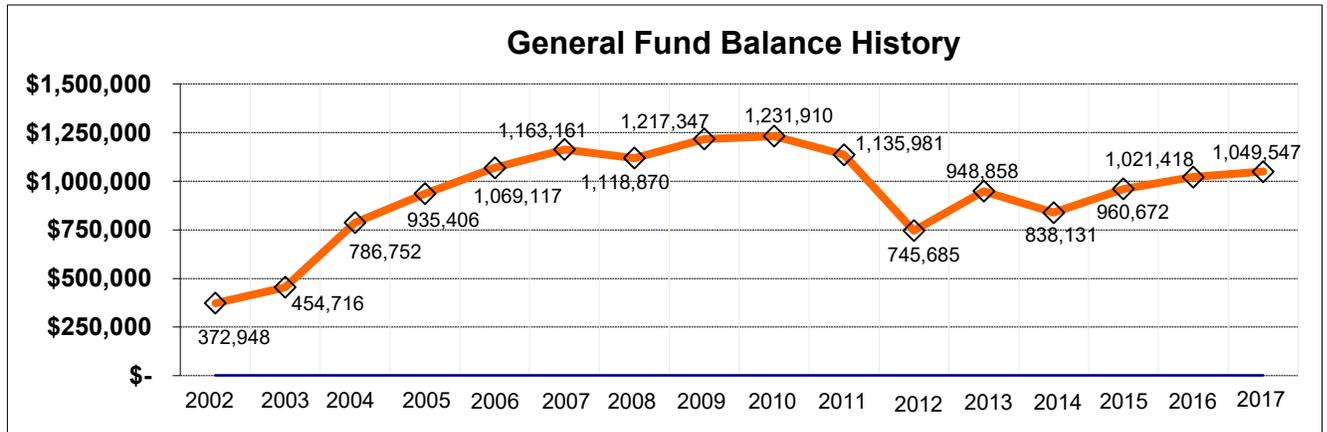
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$4,518,667, a decrease of (\$744,997) in comparison with the prior year. Approximately 23 percent of this total amount (\$1,027,503) constitutes *unassigned fund balance*, which is available for spending at the District's discretion. The remainder of fund balance is *non-spendable*, *restricted* or *assigned* to indicate that it is not available for new spending because the underlying assets are not available for current expenditures. This is because they are included as capital projects, school-based services and debt service fund accounts.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,027,503. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 8.6 percent of total general fund expenditures.

The fund balance of the District's general fund increased by \$28,129 during the current fiscal year.



The Food Service Fund has a total fund balance of \$40,150, which decreased by (\$15,366).

The Athletics Fund has a total fund balance of \$6,096, which decreased by (\$718).

The Preschool & Kid's Club Fund has a total fund balance of \$86,725, which increased by \$17,890.

The 2016 Debt Service fund had a total fund balance of \$213,536, which increased by \$83,933.

The Athletics Complex Fund has a total fund balance of \$6,854, which increased by \$514.

The Yuba School capital project fund has a total fund balance of \$122. This fund was created to account for monetary and in-kind donations directed at restoring the district-owned Yuba School in Acme Township.

The 2012 School Improvement capital project fund has a total fund balance of \$0, which decreased by \$230,385. This fund was created to account for the voter-approved improvements to technology, energy efficiency, learning environment and the bus fleet.

The 2016 School Improvement capital project fund had a total fund balance of \$2,482,356. This fund was created to account for the voter-approved improvements to technology, energy efficiency, learning environment and the bus fleet.

The 2017 School Improvement capital project fund, created during the year, had a total fund balance of \$633,281. This fund was created to account for voter-approved improvements to the athletics complex.

General Fund Budgetary Highlights

Significant differences between the original and final amended budgets were partly due to actual enrollments coming in above projections. Additionally, asset sales and the receipt of sizable non-recurring restricted grants from the state and intermediate sources contributed to the significant positive revenue variances.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2017, amounted to \$12,908,631 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 3.8 percent.

The major capital asset events during the current fiscal year were the following:

- \$781,346 for building renovations, site improvements, and furniture replacement. Funding was supported with bond proceeds from the 2012 and 2016 School Improvement Funds.
- \$765,387 for technology, equipment, buses and energy efficiency upgrades. Funding was supported with bond proceeds from the 2012 and 2016 School Improvement Funds.
- \$10,104 for improvements to the Yuba School. Funding was provided entirely with fundraising and in-kind contributions.

District's Capital Assets (net of depreciation) June 30, 2017

	<u>Governmental Activities</u>
Land	\$ 94,249
Buildings and building improvements	9,810,730
Machinery and equipment	1,198,962
Furniture and fixtures	579,776
Vehicles	634,308
Construction-in-progress	<u>590,606</u>
Total capital assets, net	<u>\$ 12,908,631</u>

Additional information on the District's capital assets can be found in Note E on page 21 of this report.

Long-term debt. At the end of the current fiscal year, the District had 2016 School Improvement and 2017 School Improvement debts outstanding of \$3,920,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the District.

The District's total general obligation bonds payable decreased by \$380,000 during the current fiscal year.

Additional information on the District's long-term debt can be found in Note F on page 22 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2017-18 fiscal year:

- Although currently approved, the State Aid Bill could be subject to adverse revisions later in the year. The ultimate State Aid Bill is expected to provide the District with per pupil funding that is materially close to the budget projection.
- Uncertainties related to enrollment counts continue to present budgeting challenges for all Michigan school districts. Careful attention to official pupil counts and interim tallies is undertaken to assist with trending projections needed for budget forecasting.
- The continued economic uncertainty affecting the State of Michigan could result in insufficient per-pupil increases in 2018-19. The impact from a funding freeze from 2017-18 levels would present very serious budgetary challenges for all districts. Spending decisions for 2017-18 are being made with consideration of potential 2018-19 funding issues.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, 707 E. Third Street, Elk Rapids, Michigan 49629.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Elk Rapids Schools

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 *Elk Rapids Schools* (the "School District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District'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 Elk Rapids Schools 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 on pages *i* through *viii*, budgetary comparison information on page 33 and the pension contribution schedules on page 34 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 inquires 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 combining non-major fund financial statements is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund financial statements are 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 combining non-major fund financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Summarized Comparative Information

We have previously audited the School District's 2016 and 2015 financial statements, and our reports dated September 30, 2016 and October 21, 2015, respectively, expressed unmodified opinions on those audited financial statements. In our opinion, the summarized comparative information presented on the statement of net position as of and for the years ended June 30, 2016 and 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 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.

Dennis, Gartland & Niergarth

October 12, 2017

Elk Rapids Schools

STATEMENT OF NET POSITION

June 30,

	2017	2016	2015
	<u>Governmental</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>	<u>Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
ASSETS			
Current assets			
Cash and cash equivalents	\$ 5,868,790	\$ 6,406,802	\$ 2,383,515
Due from other governments	668,032	636,056	717,835
Accounts receivables	68,052	27,410	40,235
Inventory	9,571	10,564	10,924
Deposits	6,190	6,190	6,190
Prepays	<u>15,854</u>	<u>13,697</u>	<u>14,736</u>
Total current assets	6,636,489	7,100,719	3,173,435
Non-current assets			
Capital assets, net of accumulated depreciation	<u>12,908,631</u>	<u>12,435,187</u>	<u>12,638,658</u>
Total assets	19,545,120	19,535,906	15,812,093
DEFERRED OUTFLOWS OF RESOURCES	<u>1,916,369</u>	<u>1,464,985</u>	<u>1,750,517</u>
Total assets and deferred outflows of resources	<u><u>\$ 21,461,489</u></u>	<u><u>\$ 21,000,891</u></u>	<u><u>\$ 17,562,610</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
LIABILITIES			
Current liabilities			
Accounts payable	\$ 139,147	\$ 91,959	\$ 95,060
Salaries payable and related liabilities	1,173,261	1,209,503	1,159,376
Accrued expenses	690,956	339,977	61,792
Unearned revenue	126,177	196,082	102,137
Current portion of long-term liabilities	<u>1,167,250</u>	<u>1,125,899</u>	<u>1,478,013</u>
Total current liabilities	3,296,791	2,963,420	2,896,378
Non-current portion of long-term obligations	3,457,018	3,922,661	657,631
Net pension obligation	<u>18,853,366</u>	<u>18,219,260</u>	<u>16,709,766</u>
Total liabilities	<u>25,607,175</u>	<u>25,105,341</u>	<u>20,263,775</u>
DEFERRED INFLOWS OF RESOURCES	<u>264,095</u>	<u>296,907</u>	<u>1,847,271</u>
NET POSITION			
Invested in capital assets, net of related debt	12,021,735	11,803,192	11,791,048
Restricted for			
Capital Projects	32,116	236,949	9,171
Debt Service	201,817	129,137	156,059
Food Service	40,150	55,516	29,439
Unrestricted (deficit)	<u>(16,705,599)</u>	<u>(16,626,151)</u>	<u>(16,534,153)</u>
Total net position (deficit)	<u>(4,409,781)</u>	<u>(4,401,357)</u>	<u>(4,548,436)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 21,461,489</u></u>	<u><u>\$ 21,000,891</u></u>	<u><u>\$ 17,562,610</u></u>

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

Elk Rapids Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental activities					
Instruction	\$ 7,690,521	\$ 4,565	\$ 410,824	\$ -	\$ (7,275,132)
Supporting Services	4,249,299	28,638	206,534	10,105	(4,004,022)
Community Services	23,505	-	3,390	-	(20,115)
Food Service	493,014	208,443	250,996	-	(33,575)
Athletics	293,128	140,751	44,862	-	(107,515)
Preschool and Kid's Club	269,289	284,706	21,478	-	36,895
Other	93,705	-	-	-	(93,705)
Interest on long-term debt	83,397	-	-	-	(83,397)
Depreciation - unallocated	1,165,363	-	-	-	(1,165,363)
Total governmental activities	<u>\$ 14,361,221</u>	<u>\$ 667,103</u>	<u>\$ 938,084</u>	<u>\$ 10,105</u>	<u>(12,745,929)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					7,855,138
Levied for Debt Service					1,178,499
State school aid - unrestricted					3,049,952
Investment and other					653,916
Total general purpose revenues					12,737,505
Change in net position					(8,424)
Net position (deficit), beginning of year					(4,401,357)
Net position (deficit), end of year					\$ (4,409,781)

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

Elk Rapids Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General Fund	2016 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,698,864	\$ 3,123,206	\$ 1,046,720	\$ 5,868,790
Due from other governments	661,754	-	6,278	668,032
Taxes receivable	-	-	20	20
Accounts receivables	19,589	41,365	7,078	68,032
Due from other funds	23,935	-	-	23,935
Inventory	-	-	9,571	9,571
Deposits	6,190	-	-	6,190
Prepaid	15,854	-	-	15,854
	<u>\$ 2,426,186</u>	<u>\$ 3,164,571</u>	<u>\$ 1,069,667</u>	<u>\$ 6,660,424</u>
Total assets				
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenditures	\$ 1,304,728	\$ 673,526	\$ 13,391	\$ 1,991,645
Unearned revenue	71,911	-	54,266	126,177
Due to other funds	-	8,689	15,246	23,935
	<u>1,376,639</u>	<u>682,215</u>	<u>82,903</u>	<u>2,141,757</u>
FUND BALANCES				
Non-spendable for inventory, prepaids and deposits	22,044	-	9,571	31,615
Restricted for debt retirement	-	-	213,536	213,536
Restricted for capital projects	-	2,482,356	640,257	3,122,613
Restricted for food service	-	-	30,579	30,579
Assigned - reported in special revenue funds	-	-	92,821	92,821
Unassigned	1,027,503	-	-	1,027,503
	<u>1,049,547</u>	<u>2,482,356</u>	<u>986,764</u>	<u>4,518,667</u>
Total fund balances				
Total liabilities and fund balances				
	<u>\$ 2,426,186</u>	<u>\$ 3,164,571</u>	<u>\$ 1,069,667</u>	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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 as assets in governmental funds. The cost of the assets is \$27,828,367 and the accumulated depreciation is \$(14,919,736). 12,908,631

Deferred outflows of resources for pension obligation is not a financial resource and, therefore, is not reported as an asset in governmental funds. 1,916,369

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ (3,920,000)	
Unamortized bond premium	(57,393)	
Accumulated leave liability	(646,875)	
Accrued interest on bonds	(11,719)	
Net pension obligation	<u>(18,853,366)</u>	(23,489,353)

Deferred inflow of resources for pension obligation is not a claim against a current financial resource and, therefore, is not reported as a liability in the governmental funds. (264,095)

Total net position (deficit) - governmental activities \$ (4,409,781)

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

Elk Rapids Schools

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

Year Ended June 30, 2017

	General Fund	2016 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 7,855,138	\$ -	\$ 1,178,499	\$ 9,033,637
Interest	19,271	24,832	7,533	51,636
State sources	3,389,175	-	78,655	3,467,830
Federal sources	233,981	-	210,687	444,668
Other	567,705	90,884	677,305	1,335,894
Total revenues	12,065,270	115,716	2,152,679	14,333,665
Expenditures				
Instruction	7,615,692	-	-	7,615,692
Supporting services	4,189,469	-	-	4,189,469
Community services	22,754	-	269,289	292,043
Food service	-	-	479,046	479,046
Athletics	-	-	293,128	293,128
Debt service				
Principal	-	-	1,030,000	1,030,000
Interest	-	-	72,144	72,144
Capital outlay	96,278	1,315,614	251,603	1,663,495
Other	6,948	62,378	24,319	93,645
Total expenditures	11,931,141	1,377,992	2,419,529	15,728,662
REVENUES OVER (UNDER) EXPENDITURES	134,129	(1,262,276)	(266,850)	(1,394,997)
Other financing sources (uses)				
Operating transfers in	19,000	-	125,000	144,000
Operating transfers out	(125,000)	-	(19,000)	(144,000)
Proceeds from bond issue	-	-	650,000	650,000
Total other financing sources (uses)	(106,000)	-	756,000	650,000
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	28,129	(1,262,276)	489,150	(744,997)
Fund balances, beginning of year	1,021,418	3,744,632	497,614	5,263,664
Fund balances, end of year	<u>\$ 1,049,547</u>	<u>\$ 2,482,356</u>	<u>\$ 986,764</u>	<u>\$ 4,518,667</u>

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

Elk Rapids Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Total Net Change in Fund Balances - Governmental Funds \$ (744,997)

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capitalized outlays exceed depreciation expense in the period.

Capitalized outlays	\$ 1,638,807	
Depreciation expense	<u>(1,165,363)</u>	473,444

Change in deferred outflows of resources for pension obligation. 451,384

Repayment of bond and notes principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 1,030,000

Some of the capital assets acquired this year were financed with proceeds from long-term debt. The amount financed by the proceeds is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net position. (650,000)

Amortization of bond premium 19,131

In the statement of activities, certain operating expenses (unused sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was less than the amounts used by \$25,161. 25,161

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The lower interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds and notes payable. (11,253)

Change in net pension obligation. (634,106)

Change in deferred inflows of resources for pension obligation. 32,812

Changes in Net Position of Governmental Activities \$ (8,424)

Elk Rapids Schools

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds Student Activities</u>
ASSETS		
Cash and cash equivalents	<u>\$ 9,393</u>	<u>\$ 210,596</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Due to student groups	\$ -	\$ 210,596
NET POSITION		
Reserved for scholarships	3,801	-
Reserved for auditorium maintenance	1,123	-
Reserved for alumni activities	<u>4,469</u>	<u>-</u>
Total liabilities and net position	<u>\$ 9,393</u>	<u>\$ 210,596</u>

Elk Rapids Schools

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2017

	<u>Private Private Trust Funds</u>
Additions	
Private donations and interest	\$ 69
Net position, beginning of year	<u> 9,324</u>
Net position, end of year	<u><u> \$ 9,393</u></u>

Elk Rapids Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Elk Rapids Schools (the "School District") is a Michigan public school district consisting of two elementary buildings, one middle school, one high school building and one alternative high school building. The School District primarily serves the Elk Rapids community. As of June 30, 2017, the School District employed 78 professional staff and 65 non-professional staff and had 1,320 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2017.

Financial Reporting Entity

Elk Rapids Schools' Board is a special purpose government and considered to be a primary government because it has a separately elected governing body, is legally separate and is fiscally independent of other State and local governments. The financial reporting entity of Elk Rapids Schools includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature and significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 61, *The Financial Reporting Entity*, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available, if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The 2016 Capital Projects Fund is used to account for activity related to construction, equipping and furnishing additions to and remodeling, re-equipping and refurbishing School District buildings, including educational technology improvements.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund, the Athletics Fund and the Preschool and Kid's Club Fund.

The School District has one Debt Service Fund, which is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The School District has four non-major Capital Project Funds, which are used to account for financial resources to be used for the athletic infrastructure, the Yuba School renovation projects, and construction, equipping and furnishing additions to and remodeling, re-equipping and refurbishing School District buildings, including educational technology improvements. The Athletic Complex and Yuba Capital Projects funds acquire resources from fundraising sources only. The 2012 and 2017 Capital Projects Funds are funded by property taxes and interest earnings.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Private Purpose Trust Funds account for contributions earmarked for scholarships available to qualifying students of the School District, the maintenance of a community auditorium and alumni activities.

Cash and Cash Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less, when purchased, to be cash equivalents.

Investments

Investments are stated at market value.

NOTES TO FINANCIAL STATEMENTS - Continued

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25-50 years
Vehicles	10-12 years
Furniture and equipment	5-20 years

Long-term Debt and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as a liability. Bond discounts and premiums are deferred and amortized over the life of the bonds. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School District Board through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the School District Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

Spending Policy

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are International Baccalaureate Kellogg, Title I, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Pension Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement System ("MPERS") and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. 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.

Use of Estimates in the Preparation of Financial Statements

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

NOTE B - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2017, the School District was out of compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction	\$ 7,613,204	\$ 7,616,475	\$ (3,271)
Supporting Services	\$ 4,278,847	\$ 4,284,964	\$ (6,117)

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH AND EQUIVALENTS

At June 30, 2017, the School District's cash and cash equivalent investments include the following:

	<u>Total</u>
Cash on hand	\$ 505
Bank deposits	1,234,183
Investments	<u>4,854,091</u>
	<u>\$ 6,088,779</u>

Bank Deposits

	<u>Carrying Value</u>	<u>Uncollateralized Bank Balances</u>		
		<u>Insured</u>	<u>Uninsured</u>	<u>Total</u>
Bank deposits	<u>\$ 1,234,183</u>	<u>\$ 1,257,967</u>	<u>\$ -</u>	<u>\$ 1,257,967</u>

Custodial Credit Risk - Deposits

In the event of a bank failure, the School District's bank deposits may not be returned to it. As of June 30, 2017, \$1,257,967 of the School District's deposits were FDIC and NCUA insured.

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States or the State of Michigan.
2. Certificates of deposit issued by financial institutions organized and authorized to operate in Michigan.
3. Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government or Federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal deposit insurance corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Michigan Investment Liquid Asset Fund Plus ("MILAF").

NOTES TO FINANCIAL STATEMENTS - Continued

Investments at June 30, 2017 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 4,854,091</u>	<u>\$ 4,854,091</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities or MILAF and limiting the average maturity in accordance with the School District's cash requirements. MILAF investments are carried at amortized cost and are not subject to any withdrawal restrictions.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District's investment policy further limits its investment choices as described above. The School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value of \$429.7 million and \$6 per \$1,000 of equalized commercial personal property value of \$3.5 million was levied for general operating purposes. For debt service purposes, \$1.26 per \$1,000 of equalized principal, non-principal residence property and commercial property value of \$935.7 million was levied for bonded debt repayments by the Debt Service Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues are deferred in the governmental fund financial statements included in unearned revenue.

Amounts due from other governments at June 30, 2017 are as follows:

Due from the Federal Government	
Federal revenue	\$ 22,751
Due from the State of Michigan	
State Aid	619,353
Other	<u>25,928</u>
	<u>\$ 668,032</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Buildings	\$ 5,004,949	\$ -	\$ -	\$ 5,004,949
Building improvements	15,858,619	453,817	-	16,312,436
Machinery and equipment	2,851,225	388,266	(272,519)	2,966,972
Software	17,882	-	-	17,882
Furniture and fixtures	1,402,327	12,422	-	1,414,749
Vehicles	1,156,570	284,953	(14,999)	1,426,524
Construction in progress	<u>91,257</u>	<u>499,349</u>	<u>-</u>	<u>590,606</u>
Total depreciable assets	26,382,829	1,638,807	(287,518)	27,734,118
Less accumulated depreciation	(14,041,891)	(1,165,363)	287,518	(14,919,736)
Land	<u>94,249</u>	<u>-</u>	<u>-</u>	<u>94,249</u>
Total capital assets, net	<u>\$ 12,435,187</u>	<u>\$ 473,444</u>	<u>\$ -</u>	<u>\$ 12,908,631</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 1,165,363</u>
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NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2017 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 4,300,000	\$ 650,000	\$(1,030,000)	\$ 3,920,000	\$ 1,125,000
Unamortized bond premium	76,524	-	(19,131)	57,393	19,131
Accumulated leave liability	<u>672,036</u>	<u>-</u>	<u>(25,161)</u>	<u>646,875</u>	<u>23,119</u>
Total long-term debt	<u>\$ 5,048,560</u>	<u>\$ 650,000</u>	<u>\$(1,074,292)</u>	<u>\$ 4,624,268</u>	<u>\$ 1,167,250</u>

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability will be liquidated primarily by the General Fund.

At June 30, 2017, the School District's long-term debt consisted of the following:

2016 School Improvement Bonds ; due in annual installments of \$1,050,000 to \$1,125,000 through May 2020; interest rate of 2.00%.	\$ 3,270,000
2017 School Improvement Bonds ; due in annual installments of \$75,000 to \$100,000 through May 2024; interest rate of 1.35%-2.45%.	<u>650,000</u>
Total general obligation bonds	3,920,000
Unamortized bond premium	57,393
Accumulated leave liability	<u>646,875</u>
Total long-term debt	<u>\$ 4,624,268</u>

Total annual requirements to amortize general obligation bonds outstanding as of June 30, 2017, are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,125,000	\$ 76,190
2019	1,185,000	55,838
2020	1,215,000	32,588
2021	95,000	8,558
2022	100,000	6,800
2023-2024	<u>200,000</u>	<u>7,150</u>
	<u>\$ 3,920,000</u>	<u>\$ 187,124</u>

Interest expense for the year ended June 30, 2017 was \$83,397, and interest paid for the year ended June 30, 2017 was \$72,144.

Accumulated Leave Liability

Employees of the School District accumulate earned but unused compensated sick leave days, as specified by the bargaining units' contract. 50% of sick leave is accrued when incurred for non-teachers and 40% for teachers. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

NOTE G - OPERATING LEASES

The School District leases copiers which qualify as operating leases under generally accepted accounting principles. Net rental expense on operating leases for the year ended June 30, 2017, was \$20,133.

The following is a schedule of annual future minimum lease payments required as of June 30, 2017.

Years Ending June 30,	Amount
2018	\$ 20,133
2019	20,133
2020	<u>15,100</u>
	<u>\$ 55,366</u>

NOTE H - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipient benefits, this amount is billed to the School District. At June 30, 2017 there were no significant claims known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review, and processing services for all member governments pursuant to its charter.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE I - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 23,935	\$ -
2016 Capital Projects Fund	-	8,689
Other Non-Major Governmental Funds		
Food Service Fund	-	1,429
Athletics Fund	-	6,016
Preschool and Kid's Club Fund	-	1,326
2017 Capital Projects Fund	-	6,475
	<u>\$ 23,935</u>	<u>\$ 23,935</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

NOTES TO FINANCIAL STATEMENTS - Continued

The following schedule reports transfers and payments within the reporting entity:

	<u>Transfers in</u>	<u>Transfers out</u>
Major Governmental Funds		
General Fund	\$ 19,000	\$ 125,000
Other Non-Major Governmental Funds		
Food Service Fund	18,000	-
Athletics Fund	107,000	-
Preschool and Kid's Club Fund	<u>-</u>	<u>19,000</u>
	<u>\$ 144,000</u>	<u>\$ 144,000</u>

NOTE J - PENSION PLAN AND POST EMPLOYMENT BENEFITS

Plan Description

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

The system is administered by the Office of Retirement Services ("ORS") within the Michigan Department of Technology, Management and 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 are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation ("FAC"). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

Funding Policy

Defined Contribution Plan

Employer contributions to the Plan are dependent on the plan elected by the participant.

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 September 30, 2016 will be amortized over a 20 year period for the 2016 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2016:

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
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%

NOTES TO FINANCIAL STATEMENTS - Continued

Required contributions to the pension plan from the School District were \$1,696,898 for the year ended September 30, 2016.

The School District's contributions to the MPSERS Defined Contribution Plan were \$12,541, for the year ended June 30, 2017, which is equal to the pension expense recognized by the School District for the year.

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 having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. 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.

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 \$18,853,366 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 30, 2015. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2016, the School District's proportion was 0.07557%, which was an increase of 0.00097% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of \$1,770,763. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 234,963	\$ 44,683
Changes of assumptions	294,758	-
Net difference between projected and actual earnings on pension plan investments	313,343	-
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	182,157	219,412
School District contributions subsequent to the measurement date	<u>891,148</u>	<u>-</u>
Total	<u>\$ 1,916,369</u>	<u>\$ 264,095</u>

NOTES TO FINANCIAL STATEMENTS - Continued

From the above table, \$891,148 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date 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 as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>Amount</u>
2017	\$ 122,271
2018	97,628
2019	445,302
2020	<u>95,925</u>
Total	<u>\$ 761,126</u>

Actuarial Assumptions

Projection 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 actual valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

NOTES TO FINANCIAL STATEMENTS - Continued

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 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 for non-university employers
- Recognition period for assets is 5 years
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Investments

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

Investment Category	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 Pools	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Real Return, Opportunistic and Absolute Pools	15.5	6.0
Short-Term Investment Pools	2.0	0.0
	100.0 %	

**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 the 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%)
\$ 24,278,389	\$ 18,853,366	\$ 14,279,549

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR"). The 2015 MPERS CAFR is available at: www.michigan.gov/mpers-cafr.

Payables to the Michigan Public School Employees' Retirement System ("MPERS")

The School District reported \$153,747 and \$0 payable to the plan at June 30, 2017 for legally required defined benefit and defined contribution plan contributions, respectively.

NOTE K - COMMITMENTS AND CONTINGENCIES

School Improvement Commitment

The School District began work on a 2016 school improvement capital project during the year ended June 30, 2016. The School District has committed to a total project cost of approximately \$4,438,000. Of this amount, the School District issued bonds in the amount of \$4,300,000, plus an underwriter's discount of approximately \$19,000. Approximately \$28,000 will be received in the form of interest income. The remaining balance attained resulted from approximately \$91,000 received from a Michigan Energy Office Grant and utility rebates associated with an energy efficiency project. As of June 30, 2017, \$1,944,515 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$2,493,000. The 2016 Capital Projects Fund balance was \$2,482,356 at June 30, 2017.

The School District began work on a 2017 school improvement capital project during the year ended June 30, 2017. The School District has committed to a total project cost of approximately \$653,000. Of this amount, the School District issued bonds in the amount \$650,000. The remaining balance of approximately \$3,000 will be received in the form of interest income. As of June 30, 2017, \$16,925 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$636,000. The 2017 Capital Projects Fund balance was \$633,281 at June 30, 2017.

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Elk Rapids Education Association. The Board of Education and the Elk Rapids Education Association have a contract for the period September 1, 2015 through August 31, 2017. A new contract was ratified for the period of September 1, 2017 through August 31, 2018.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract for the period July 1, 2016 through June 30, 2018.

The transportation personnel at the School District are organized under the Elk Rapids Schools Transportation Association. The Board of Education and the Elk Rapids Schools Transportation Association have a contract for September 1, 2016 through August 31, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

Elk Rapids Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
	Revenues				
Local and intermediate sources	\$ 7,984,637	\$ 7,972,204	\$ 7,986,089	\$ (12,433)	\$ 13,885
State revenues	3,226,814	3,383,082	3,389,175	156,268	6,093
Federal revenues	254,142	232,338	233,981	(21,804)	1,643
Other	252,407	454,376	456,025	201,969	1,649
Total revenues	<u>11,718,000</u>	<u>12,042,000</u>	<u>12,065,270</u>	<u>324,000</u>	<u>23,270</u>
Expenditures					
Current					
Instruction	7,346,484	7,613,204	7,616,475	(266,720)	(3,271)
Supporting Services	4,227,249	4,278,847	4,284,964	(51,598)	(6,117)
Other	22,267	29,949	29,702	(7,682)	247
Total expenditures	<u>11,596,000</u>	<u>11,922,000</u>	<u>11,931,141</u>	<u>(326,000)</u>	<u>(9,141)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>122,000</u>	<u>120,000</u>	<u>134,129</u>	<u>(2,000)</u>	<u>14,129</u>
Other financing sources (uses)					
Operating transfers in	-	19,000	19,000	19,000	-
Operating transfers out	(122,000)	(125,000)	(125,000)	(3,000)	-
Total other financing sources (uses)	<u>(122,000)</u>	<u>(106,000)</u>	<u>(106,000)</u>	<u>16,000</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-	14,000	28,129	14,000	14,129
Fund balance, beginning of year	<u>1,021,418</u>	<u>1,021,418</u>	<u>1,021,418</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,021,418</u>	<u>\$ 1,035,418</u>	<u>\$ 1,049,547</u>	<u>\$ 14,000</u>	<u>\$ 14,129</u>

Elk Rapids Schools

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Michigan Public School Employees Retirement Plan

	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.07557 %	0.07459 %	0.07586 %
School District's proportionate share of net pension liability	\$ 18,853,366	\$ 18,219,260	\$ 16,709,766
School District's covered-employee payroll	6,407,985	6,397,542	6,464,270
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	294.22 %	284.79 %	258.49 %
Plan fiduciary net position as a percentage of total pension liability	63.27 %	63.17 %	66.20 %

SCHEDULE OF SCHOOL DISTRICT'S DEFINED BENEFIT PENSION CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required employer contributions	\$ 1,169,000	\$ 1,211,419	\$ 1,377,283
School District contributions made to the Plan	<u>1,169,000</u>	<u>1,211,419</u>	<u>1,377,283</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 6,223,732	\$ 6,185,204	\$ 6,286,625
Contributions as a percentage of covered-employee payroll	18.78 %	19.59 %	21.91 %

Change of benefit terms: There were no changes of benefit terms in 2016.

Change of assumptions: There were no changes of benefit assumptions in 2016.

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Elk Rapids Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2017

	Special Revenue			Debt Service	Capital Projects			Total Non-Major Governmental Funds	
	Food Service Fund	Athletics Fund	Preschool and Kid's Club Fund	2016 School Improvement Bond Fund	Athletic Complex Fund	Yuba Capital Projects Fund	2012 Capital Projects Fund		2017 Capital Projects Fund
ASSETS									
Cash and cash equivalents	\$ 22,476	\$ 47,314	\$ 99,719	\$ 213,516	\$ 18,105	\$ 122	\$ -	\$ 645,468	\$ 1,046,720
Due from other governments	6,278	-	-	-	-	-	-	-	6,278
Taxes receivable	-	-	-	20	-	-	-	-	20
Accounts receivables	5,155	-	1,923	-	-	-	-	-	7,078
Inventory	9,571	-	-	-	-	-	-	-	9,571
Total assets	<u>\$ 43,480</u>	<u>\$ 47,314</u>	<u>\$ 101,642</u>	<u>\$ 213,536</u>	<u>\$ 18,105</u>	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ 645,468</u>	<u>\$ 1,069,667</u>
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable and accrued expenditures	\$ 1,901	\$ 123	\$ 5,655	\$ -	\$ -	\$ -	\$ -	\$ 5,712	\$ 13,391
Unearned revenue	-	35,079	7,936	-	11,251	-	-	-	54,266
Due to other funds	1,429	6,016	1,326	-	-	-	-	6,475	15,246
Total liabilities	<u>3,330</u>	<u>41,218</u>	<u>14,917</u>	<u>-</u>	<u>11,251</u>	<u>-</u>	<u>-</u>	<u>12,187</u>	<u>82,903</u>
FUND BALANCES									
Nonspendable	9,571	-	-	-	-	-	-	-	9,571
Restricted for Debt Service	-	-	-	213,536	-	-	-	-	213,536
Restricted for Capital Projects	-	-	-	-	6,854	122	-	633,281	640,257
Restricted for Food Service	30,579	-	-	-	-	-	-	-	30,579
Assigned for fund use	-	6,096	86,725	-	-	-	-	-	92,821
Total fund balances	<u>40,150</u>	<u>6,096</u>	<u>86,725</u>	<u>213,536</u>	<u>6,854</u>	<u>122</u>	<u>-</u>	<u>633,281</u>	<u>986,764</u>
Total liabilities and fund balances	<u>\$ 43,480</u>	<u>\$ 47,314</u>	<u>\$ 101,642</u>	<u>\$ 213,536</u>	<u>\$ 18,105</u>	<u>\$ 122</u>	<u>\$ -</u>	<u>\$ 645,468</u>	<u>\$ 1,069,667</u>

Elk Rapids Schools

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	Special Revenue			Debt Service	Capital Projects			Total Non-Major Governmental Funds	
	Food Service Fund	Athletics Fund	Preschool and Kid's Club Fund	2016 School Improvement Bond Fund	Athletic Complex Fund	Yuba Capital Projects Fund	2012 Capital Projects Fund		2017 Capital Projects Fund
Revenues									
Property taxes	\$ -	\$ -	\$ -	\$ 1,178,499	\$ -	\$ -	\$ -	\$ -	\$ 1,178,499
Interest	209	247	746	5,465	124	1	535	206	7,533
State sources	40,309	16,868	21,478	-	-	-	-	-	78,655
Federal sources	210,687	-	-	-	-	-	-	-	210,687
Other	208,443	168,295	284,706	5,307	450	10,104	-	-	677,305
Total revenues	459,648	185,410	306,930	1,189,271	574	10,105	535	206	2,152,679
Expenditures									
Food service	479,046	-	-	-	-	-	-	-	479,046
Athletics	-	293,128	-	-	-	-	-	-	293,128
Preschool and Kid's Club	-	-	269,289	-	-	-	-	-	269,289
Debt service									
Principal	-	-	-	1,030,000	-	-	-	-	1,030,000
Interest	-	-	-	72,144	-	-	-	-	72,144
Capital outlay	13,968	-	751	-	60	10,104	226,720	-	251,603
Other	-	-	-	3,194	-	-	4,200	16,925	24,319
Total expenditures	493,014	293,128	270,040	1,105,338	60	10,104	230,920	16,925	2,419,529
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(33,366)	(107,718)	36,890	83,933	514	1	(230,385)	(16,719)	(266,850)
Other financing sources (uses)									
Operating transfers in	18,000	107,000	-	-	-	-	-	-	125,000
Operating transfers out	-	-	(19,000)	-	-	-	-	-	(19,000)
Proceeds from bond issue	-	-	-	-	-	-	-	650,000	650,000
Total other financing sources (uses)	18,000	107,000	(19,000)	-	-	-	-	650,000	756,000
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(15,366)	(718)	17,890	83,933	514	1	(230,385)	633,281	489,150
Fund balance, beginning of year	55,516	6,814	68,835	129,603	6,340	121	230,385	-	497,614
Fund balance, end of year	40,150	6,096	86,725	213,536	6,854	122	-	633,281	986,764



DENNIS, GARTLAND & NIERGARTH

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**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**

Board of Education
Elk Rapids Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Elk Rapids Schools*** (the "School District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 12, 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 School District'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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness:

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

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 School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

October 12, 2017