WELLS TOWNSHIP SCHOOL DISTRICT No.18
ARNOLD, MICHIGAN

FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Wells Township School District No. 18
P.O. Box 108
Arnold, Michigan 49819

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 Wells Township School District No. 18 (the School District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 18, 2017

Wells Township School District No.18

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of Wells Township School District No.18 (the School District) financial performance provides an overview of the School District's financial activities for the year ended June 30, 2017. Please read it in conjunction with the financial statements, which begin as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- Net position for the School District as a whole were reported at $320,106. Net position is comprised of 100% governmental activities.

- During the year, the School District expenses were $321,095, while revenues from all sources totaled $562,495, resulting in an increase in net position of $241,400.

- The general fund reported an increase of $191,260 before other financing sources (uses) and a total increase of $173,013. This is $11,071 or 7% more than the forecasted increase of $161,942.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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

The School District as a Whole

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

Table 1
Net Position

	Governmental Activities – 2017	Governmental Activities – 2016
Current and other assets	$613,475	$434,633
Capital assets, net	134,667	108,758
Total Assets	748,142	543,391
Deferred outflows of resources	68,264	71,221
Current liabilities	32,314	26,459
Long-term liabilities	426,747	507,941
Total Liabilities	459,061	534,400

Table 1
Net Position (Continued)

	Governmental Activities – 2017	Governmental Activities – 2016
Deferred inflows of resources	$37,239	$1,506
Net Position:		
Net investment in capital assets	134,667	65,985
Restricted	708	10,800
Unrestricted	184,731	1,921
Total Net Position	$320,106	$78,706

The School District's net position was $320,106 at June 30, 2017 Net investment in capital assets totaling $134,667, compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accreted interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net position are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net position for day-to-day operations. The remaining amount of net position of $184,731 was unrestricted.

The $184,731 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

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

Table 2
Statement of Activities

	Governmental Activities – 2017	Governmental Activities – 2016
Revenues:		
Program Revenues:		
Charges for services	$3,174	$3,070
Operating grants and contributions	51,043	54,286
General Revenues:		
Property taxes	502,845	412,333
State sources not restricted to specific program	837	912
Investment earnings	1,678	1,098
Miscellaneous	2,918	6,330
Total Revenues	562,495	478,029

Table 2
Statement of Activities (Continued)

	Governmental Activities – 2017	Governmental Activities – 2016
Program Expenses:		
Instruction	$138,969	$143,638
Supporting services	123,421	145,814
Community services	-	2,304
Payments to others	33,753	-
Other expenditures	1,337	1,927
School lunch activities	23,615	23,405
Total Expenses	321,095	317,088
Increase (decrease) in net position	241,400	160,941
Net position, beginning	78,706	(82,235)
Net Position, Ending	$320,106	$78,706

As reported in the Statement of Activities, the cost of all of our governmental activities this year was $321,095. Certain activities were partially funded from those who benefited from the programs with $3,174 or by other governments and organizations that subsidized certain programs with grants and contributions of $51,043. We paid for the remaining "public benefit" portion of our governmental activities with $502,845 in taxes, $837 in State Foundation Allowance and with our other revenues, such as interest and miscellaneous income.

The School District experienced an increase in net position for the year of $241,400.

Key reasons for change in net position are as follows:

- Net change in governmental fund balances of $172,987.
- Depreciation charged to expense of ($17,189).
- Capital outlay of $43,098.
- Principal payments on debt of $42,773.
- Pension expense of ($269).

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

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$138,969	($113,719)
Supporting services	123,421	(99,752)
School lunch activities	23,615	(18,317)

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

The School District's Funds

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

As the School District completed the year, its governmental funds (as presented in the balance sheet as listed in the table of contents) reported a combined fund balance of $581,161, an increase of $172,987 from the beginning of the year. This was due to an increase of $173,013 in the General Fund with the School Lunch Fund having a decrease of $26.

General Fund Budgetary Highlights

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

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

BUDGETED REVENUES

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

	Original Budget	Final Budget	Budget Variance Amount	Budget Variance Percent
Total	$534,074	$560,280	$26,206	4.9%

BUDGETED EXPENDITURES

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

	Original Budget	Final Budget	Budget Variance Amount	Budget Variance Percent
Total	$364,712	$379,203	($14,491)	(4.0%)

ACTUAL REVENUES

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

	Final Budget	Actual	Budget Variance Amount	Budget Variance Percent
Total	$560,280	$557,153	($3,127)	(0.6%)

Wells Township School District No.18's final budgeted revenues differed from the actual revenues as follows:

- By $3,127 or 0.6% less than the final budget.

ACTUAL EXPENDITURES

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

	Final Budget	Actual	Budget Variance Amount	Budget Variance Percent
Total	$379,203	$365,893	$13,310	3.5%

Wells Township School District No.18's final budgeted expenditures differed from the actual expenditures as follows:

- By $13,310 or 3.5% less than the final budget.

Enrollment

The School District's 2016-2017 State aid blended membership enrollment from the fall count totaled nine. This is an increase of two students from the previous year. The School District has been declining in enrollment for several years and projects enrollment to stabilize in coming years. The School District is located in Michigan's Upper Peninsula, which is currently experiencing an economic downturn. Some businesses have closed and others have decreased their work force. As a result, families have moved out of the area. A decline in birth rate is another factor in the decline in enrollment. School of choice is another factor in declining enrollment.

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

Fiscal Year	(Fall) Student FTE	Increase (Decrease) in Student Enrollment (FTE)
2016-2017	9	2
2015-2016	7	(6)
2014-2015	13	4
2013-2014	9	(3)
2012-2013	12	(3)

State funding for the School District is based on a per pupil formula; however, due to the amount of property taxes collected, the School District is considered to be out-of-formula and fluctuations in enrollment have less of an impact on the School Districts financial health.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2017 and 2016, the School District had $134,667 and $108,758, respectively invested in a variety of capital assets including land, buildings and improvements, and school buses. (See Table 4 below)

Table 4
Capital Assets

	Governmental Activities – 2017	Governmental Activities – 2016
Land	$150	$150
Land improvements	11,375	11,375
Buildings	230,000	230,000
Building improvements	98,813	65,060
School buses	81,011	71,666
Capital Assets	421,349	378,251
Less accumulated depreciation	(286,682)	(269,493)
Total	$134,667	$108,758

Depreciation expense for the year was $17,189. Further information on capital assets can be found in the notes to the financial statements.

Debt

At the end, the School District had $0 in notes outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year End

	Governmental Activities – 2017	Governmental Activities – 2016
Vehicle note	$-	$42,773
Total	$-	$42,773

There was no new debt issued this year. Further information on debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2017-2018 budget. One of the most important factors affecting the budget is the collection of local property taxes. Local property taxes account for approximately 89 percent of our revenue.

The collection of revenues by the State can also affect the School District's general operation budget. School districts throughout the state must adjust their budgets if the State decreases the pupil foundation grant or categorical funding during its fiscal year. While we are optimistic about the 2017-2018 school year, the state of the economy on a state and national level will be reflected in our budget.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Wells Township School District No.18 Administration, PO Box 108, Arnold, Michigan, 49819.

Wells Township School District No. 18

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 587,639
Receivables:	
Accounts receivable	33
Due from other governmental units	25,095
Prepaid expenses	605
Inventories	103
Non-current Assets:	
Capital assets:	
Land and construction in progress	150
Other capital assets, net	134,517
TOTAL ASSETS	748,142
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to proportionate share of net pension liability	29,228
District's contributions made subsequent to pension measurement date	39,036
TOTAL DEFERRED OUTFLOWS OF RESOURCES	68,264
LIABILITIES	
Current Liabilities:	
Accounts payable	2,597
Accrued liabilities	25,622
Due to other government units	3,042
Unearned revenue	1,053
Non-current Liabilities:	
Portion due or payable within one year:	
Notes payable	-
Portion due or payable after one year:	
Notes payable	-
Employee benefits payable	10,555
Proportionate share of net pension liability	416,192
TOTAL LIABILITIES	459,061
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to proportionate share of net pension liability	37,239
TOTAL DEFERRED INFLOWS OF RESOURCES	37,239
NET POSITION	
Net investment in capital assets	134,667
Restricted	708
Unrestricted	184,731
TOTAL NET POSITION	$ 320,106

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

Wells Township School District No. 18

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Function / Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:				
Instruction	$ 138,969	$ -	$ 25,250	$ (113,719)
Supporting services	123,421	-	23,669	(99,752)
Community services	-	-	-	-
Facility acquisition	33,753	-	-	(33,753)
Other expenditures	1,337	-	-	(1,337)
School lunch activities	23,615	3,174	2,124	(18,317)
TOTAL GOVERNMENTAL ACTIVITIES	$ 321,095	$ 3,174	$ 51,043	(266,878)

General revenues:	
Taxes	
Property taxes, levied for general purposes	502,845
State aid not restricted to specific purposes	
General	837
Interest and investment earnings	1,678
Miscellaneous	2,918
TOTAL GENERAL REVENUES	508,278
CHANGES IN NET POSITION	241,400
Net Position, July	78,706
NET POSITION, JUNE 30	$ 320,106

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

Wells Township School District No. 18

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2017

	General Fund	Non-major Governmental Funds School Lunch Fund	Total
ASSETS			
Cash and cash equivalents	$ 587,639	$ -	$ 587,639
Receivables:			
Accounts receivable	-	33	33
Due from other governmental units	25,086	9	25,095
Due from other funds	42	-	42
Prepaid expenditures	605	-	605
Inventories	-	103	103
TOTAL ASSETS	613,372	145	613,517
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 613,372	$ 145	$ 613,517
LIABILITIES			
Accounts payable	$ 2,597	$ -	$ 2,597
Accrued liabilities	25,622	-	25,622
Due to other government units	3,042	-	3,042
Due to other funds	-	42	42
Unearned revenue	1,053	-	1,053
TOTAL LIABILITIES	32,314	42	32,356
DEFERRED INFLOWS OF RESOURCES	-	-	-
FUND BALANCES:			
Non-spendable	605	103	708
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	580,453	-	580,453
TOTAL FUND BALANCES	581,058	103	581,161
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 613,372	$ 145	$ 613,517

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

Wells Township School District No. 18

GOVERNMENTAL FUNDS

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

June 30, 2017

Total Fund Balances for Governmental Funds		$ 581,161
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Cost of capital assets	$ 421,349	
Accumulated depreciation	(286,682)	134,667
Net pension liability is not due and payable in the current period and is not reported in the funds.		
Proportionate share of net pension liability	416,192	
Deferred outflows related to proportionate share of net pension liability	(29,228)	
Deferred outflows made subsequent to pension measurement date	(39,036)	
Deferred Inflows related to proportionate share of net pension liability	37,239	(385,167)
Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:		
Notes payable - current	-	
Notes payable - long-term	-	
Employee benefits payable	10,555	(10,555)
Net Position of Governmental Activities		$ 320,106

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

Wells Township School District No. 18

GOVERNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2017

	General Fund	Non-major Governmental Funds School Lunch Fund	Total
REVENUES:			
Local sources	$ 512,996	$ 3,174	$ 516,170
State sources	20,618	262	20,880
Federal sources	23,539	1,862	25,401
TOTAL REVENUES	557,153	5,298	562,451
EXPENDITURES:			
Current:			
Instruction	138,803	-	138,803
Supporting services	149,227	-	149,227
Community services	-	-	-
Facility acquisition	33,753	-	33,753
Other expenditures	44,110	-	44,110
School lunch activities	-	23,615	23,615
TOTAL EXPENDITURES	365,893	23,615	389,508
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	191,260	(18,317)	172,943
OTHER FINANCING SOURCES (USES):			
Other sources	44	-	44
Transfers in	2,780	21,071	23,851
Transfers (out)	(21,071)	(2,780)	(23,851)
TOTAL OTHER FINANCING SOURCES (USES)	(18,247)	18,291	44
NET CHANGE IN FUND BALANCES	173,013	(26)	172,987
Fund balance, July 1	408,045	129	408,174
FUND BALANCE, JUNE 30	$ 581,058	$ 103	$ 581,161

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

Wells Township School District No. 18

GOVERNMENTAL FUNDS

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

For the Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds		$ 172,987
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.		
Depreciation expense	$ (17,189)	
Capital outlays	43,098	25,909
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		42,773
Increase in net pension liability reported in the statement of activities does not require the use of current resources, and therefore, is not reported in the fund statements until it comes due for payment.		
Pension expense	(269)	(269)
Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current in governmental funds.		-
Change in Net Position of Governmental Activities		$ 241,400

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

Wells Township School District No. 18

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

	Student Activities Fund
ASSETS:	
Cash and cash equivalents	$ 2,832
Investments	-
Accounts receivable	-
TOTAL ASSETS	$ 2,832
LIABILITIES:	
Due to eighth grade	$ 2,832
TOTAL LIABILITIES	$ 2,832

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

NOTE A – THE FINANCIAL REPORTING ENTITY:

In evaluating how to define Wells Township School District No. 18 (the School District), for financial reporting purposes, management has considered all potential component units by applying the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the School District contain all the funds controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

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

Fund Financial Statements:
The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

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

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

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

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

<u>Governmental Funds</u>

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

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

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

<u>Fiduciary Funds</u>

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

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

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

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

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

Basis of Accounting

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

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

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

Investments
Investments are carried at market value.

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

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

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

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

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

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

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

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

Deferred Outflows of Resources
In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualify for reporting in this category:

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

Long-Term Debt
In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

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

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

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

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

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

> On the district-wide financial statements, the net difference between projected and actual pension plan investment earnings, differences between expected and actual experience, changes in assumptions and changes in proportion and differences between employer contributions and proportionate share of contributions create a deferred inflow of resources.

Equity Classification
District-Wide Statements

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

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

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

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

Fund Statements

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

Revenues
District-Wide Statements

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

Fund Statements

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

Property Taxes

Property taxes are levied on July 1 and December 1, on behalf of the School District by various taxing units and are payable without penalty by September 30 and February 28. The School District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year.) Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

Expenses/Expenditures

District-Wide Statements

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

Fund Statements

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

Interfund Activity

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

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

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

Budgets and Budgetary Accounting

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

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

b. Public hearings are conducted to obtain taxpayer comments.

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

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

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

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported

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

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 18, 2017 the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE C – DEPOSITS AND INVESTMENTS:

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

	Primary Government	Fiduciary Funds	Total
Unrestricted:			
Cash and cash equivalents	$587,639	$2,832	$590,471
Investments	-	-	-
Total	$587,639	$2,832	$590,471

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. State law does not require and the School District does not have a deposit policy for custodial credit risk. The carrying amount of the School District's deposits with financial institutions was $590,471 and the bank balance was $590,607. The bank balance is categorized as follows.

Amount insured by the FDIC		$264,130
Amount uncollateralized and uninsured		326,477
	Total	$590,607

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

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

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

Credit Risk

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

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

Concentration of Credit Risk

The School places no limit on the amount the School District may invest in any one issuer. There were no investments subject to concentration of credit risk disclosure.

NOTE D – DUE FROM OTHER GOVERNMENTAL UNTIS:

Amounts due from other governmental units totaled $25,095. Of that balance, $3,587 is due from the State of Michigan for State Aid, $20,916 is due from federal grants, and the remaining $592 is due from governmental units for the operation of special programs and grant projects.

NOTE E – INTERFUND, RECEIVABLES, PAYABLES, AND TRANSFERS:

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

		DUE TO OTHER FUNDS	
		School Lunch Fund	Total Due From Other Funds
DUE FROM OTHER FUNDS	General Fund	$42	$42
	Total Due From Other Funds	$42	$42

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

The amounts transferred to and from individual funds for the year ended June 30, 2017 are as follows:

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

TRANSFERS IN FROM OTHER FUNDS	TRANSFERS OUT TO OTHER FUNDS: General Fund	School Lunch Fund	Total Transfers In From Other Funds
General Fund	$-	$2,780	$2,780
School Lunch Fund	21,071	-	21,071
Total Transfers Out To Other Funds	$21,071	$2,780	$23,851

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE F – CAPITAL ASSETS:

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

	Balance 6/30/16	Additions	Deductions	Balance 6/30/17
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	$150	$-	$-	$150
Construction in progress	-	-	-	-
Capital assets being depreciated:				
Land improvements	11,375	-	-	11,375
Buildings	230,000	-	-	230,000
Building improvements	65,060	33,753	-	98,813
School buses	71,666	9,345	-	81,011
Total Capital Assets	378,251	43,098	-	421,349
Less accumulated depreciation:				
Land improvements	(11,375)	-	-	(11,375)
Buildings	(203,750)	(2,500)	-	(206,250)
Building improvements	(15,550)	(4,660)	-	(20,210)
School buses	(38,818)	(10,029)	-	(48,847)
Total Accumulated Depreciation	(269,493)	(17,189)	-	(286,682)
CAPITAL ASSETS, NET	$108,758	$25,909	$-	$134,667

Depreciation expense charged to supporting services was $17,189.

NOTE G – ACCRUED LIABILITIES:

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

		Governmental Activities
Accrued wages		$17,295
Accrued benefits		7,875
Accrued payroll taxes		452
	Total	$25,622

NOTE H – LONG-TERM DEBT:

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

	Balance 6/30/16	Additions	Deductions	Balance 6/30/17	Due in One year
GOVERNMENTAL ACTIVITIES:					
Notes Payable:					
2013 School Bus	$42,773	$-	($42,773)	$-	$-
Subtotal	42,773	-	(42,773)	-	-
Employee Benefits:					
Accrued sick & vacation	10,555	-	-	10,555	-
Subtotal	10,555	-	-	10,555	-
TOTAL	$53,328	$-	($42,773)	$10,555	$-

NOTE I – ACCRUED EMPLOYEE BENEFITS:

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. The current labor agreements stipulate sick leave must be taken in order to be paid, except at retirement. Teachers have the option of being paid for 75% of accumulated sick leave days, up to a maximum of 120 accumulated days up to $7,500 or 50% reimbursement of actual daily pay if leaving the district up to $5,000. Administration and supporting services personnel have the option of being paid 100% of accumulated sick leave days, up to a maximum of 50 accumulated days up to $5,000.

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

Sick Leave		$10,555
	Total	$10,555

NOTE J – FUND BALANCES – GOVERNMENTAL FUNDS:

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

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

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

Committed — amounts that can be used only for specific purposes determined by a formal action of the Board of Education. The Board of Education is the highest level of decision-

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

making authority for the School District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Education.

Assigned — amounts intended to be used for a specific purpose that do not meet the criteria to be classified as restricted or committed. The superintendent and finance committee may request amounts to be assigned, but only the Board of Education may assign amounts for specific purposes. Residual amounts in governmental funds other than the general fund are assigned. Also, an appropriation of the existing fund balance to cover current year expenditures is considered as assignment of fund balance. The board of education establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget or a board policy.

Unassigned — all other spendable amounts.

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

	General Fund	Special Revenue Funds	Total Governmental Funds
Non-Spendable:			
Prepaid expense	$605	$-	$605
Inventories	-	103	103
Restricted:	-	-	-
Committed:	-	-	-
Assigned:	-	-	-
Unassigned	580,453	-	580,453
Total Fund Balances	$581,058	$103	$581,161

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

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

NOTE K – ECONOMIC DEPENDENCY:

The School District receives approximately 8 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of the School District.

NOTE L – STATE REVENUE:

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

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2016 – August 2017.

The School District also received revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTE M – NON-MONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized $318 during fiscal 2017 in revenues and expenditures for USDA commodities.

NOTE N – PROPERTY TAXES:

The taxable value of real and personal property located in the School District for the 2016 tax year which represents approximately 50% of the estimated current value, totaled $39,073,072 (consisting of $10,031,963 for Homestead, $29,030,309 for Non-Homestead, and $10,800 for Commercial Personal Property). The tax levy for the year was based on a rate of 18.0000 mills on the Non-homestead property (one mill is equal to $1.00 per $1,000 of taxable value), and 6.0000 mills on the Commercial Personal Property, and is remitted to the School District's general fund by the taxing unit.

NOTE O – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be

NOTE O – CONTINGENT LIABILITIES (Continued):

economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $500,000 for each insured event.

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

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

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Plan Description

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

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

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

Benefits Provided

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

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

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

Contributions and Funded Status

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

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

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

Pension Contribution Rates

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

Required contributions to the pension plan from the School District were $37,459 for the year ended September 30, 2016.

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

At June 30, 2017, the School District reported a liability of $416,192 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the School District's proportion was 0.0016682 percent, which was a decrease of 0.000193 percent from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the School District recognized pension expense of $33,584. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between actual and expected experience	$5,187	($986)
Changes of assumptions	6,507	-
Net difference between projected and actual earnings on pension plan investments	6,917	-
Changes in proportion and differences between the District contributions and proportionate share of contributions	10,617	(36,253)
Subtotal	29,228	(37,239)
District contributions subsequent to the measurement date	39,036	-
Total	$68,264	($37,239)

Contributions subsequent to the measurement date totaling $39,036 reported as deferred outflows of resources related to pensions will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow by Year (to Be Recognized in Future Pension Expenses)

Plan Year Ended September 30	Amount
2017	($2,807)
2018	(3,351)
2019	2,816
2020	(4,669)
Total	($8,011)

During the fiscal year, the School District recognized revenue in the amount of $12,187 from the State for the unfunded actuarial accrued liability.

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

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

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	8.0%
- Pension Plans (Hybrid)	7.0%
Projected Salary Increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the system. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report. (www.michigan.gov/mpsers-cafr)

Long-Term Expected Return on Plan Assets

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

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

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

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

Discount Rate

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

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

The following presents the School District's proportionate share of the net pension liability calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one 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%
$535,951	$416,192	$315,224

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

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

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

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

At June 30, 2017, the School District reported a payable of $3,042 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Special Funding Situation

During the fiscal year, the School District recognized revenue in the amount of $16,722 from the State for the unfunded actuarial accrued liability related to the pension plan.

NOTE Q – EMPLOYEE RETIREMENT SYSTEM – DEFINED CONTRIBUTION PLANS:

Employees of the School District who began working for a Michigan public school July 1, 2010, or later, are members of the Pension Plus plan or Defined Contribution (DC) plan, defined contribution pension plans. Under Public Act 300 of 2012, eligible members of MPSERS had the option to increase, maintain, or stop their contributions to the pension fund as of the transition date. Members of MPSERS who elected to stop their contributions became participants in the DC plan as of their transition date.

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

Pension Plus Plan

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

Defined Contribution Plan

The Defined Contribution Plan, is a defined contribution plan under sections 401(k) and section 457 of the Internal Revenue Code and is administered by Voya Financial. Benefit terms, including employer contribution requirements are established and may be amended by MPSERS.

Employee contributions are 8% of wages with the employer matching contributions dollar for dollar on the first 2% of wages and 50 cents on the dollar on the next 6% of wages. Employee contributions are made into the 457 Plan while employer matching contributions are made in other 401(k) Plan. Employees are considered 100% vested for their own contributions; for employer contributions employees are considered 100% vested after four years of service. Employees are eligible to receive benefits and make contributions to the Plan in accordance with IRS regulations for 401(k) and 457 plans.

Contributions

The total amount contributed to the Plan for the year ended June 30, 2017 was $17 which consisted of $6 from the School District and $11 from employees.

NOTE R – EMPLOYEE RETIREMENT SYSTEM – POST-EMPLOYMENT BENEFITS:

Post-Employment Benefits

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

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

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

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

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

NOTE S – SINGLE AUDIT:

The School District's audited financial statements report a total of $25,401 in federal expenditures. As this amount is less than the single audit threshold of $750,000, the School District is not required to have an audit in accordance with the Uniform Guidance for the fiscal year ended June 30, 2017.

NOTE T – TAX ABATEMENTS

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

For the fiscal year ended June 30, 2017, there were no significant tax abatements made by the School District; additionally, no significant tax abatements were disclosed to the School District by other governmental units.

NOTE U – NEW GASB STANDARDS:

Recently Issued and Adopted Accounting Pronouncements

August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The standard requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. This Statement is effective for periods beginning after December 15, 2015. See Note T for the School District's disclosures related to tax abatements.

Other Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Others than Pension Plans*. GASB 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet certain criteria. It also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB

NOTE U – NEW GASB STANDARDS (Continued):

plans that are *not* administered through trusts that meet the specified criteria. This statement is effective for periods beginning after June 15, 2016. The School District does not have any postemployment plans that meet the criteria for GASB 74; therefore, GASB 74 is not applicable to the School District.

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

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

NOTE V – UPCOMING STANDARDS:

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

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

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

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

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

NOTE V – UPCOMING STANDARDS (Continued):

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

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

GASB 81: Irrevocable Split-Interest Agreements

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

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

GASB 83: Certain Asset Retirement Obligations

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

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

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

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

The statement also gives guidance on situations in which a government may have a minority share (less than 50 percent) of ownership interest in a jointly owned tangible capital asset in which a nongovernmental entity is the majority owner and reports its ARO in accordance with the guidance of another recognized accounting standards setter. The government's minority share of

NOTE V – UPCOMING STANDARDS (Continued):

an ARO should be reported using the measurement produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, without adjustment to conform to the liability measurement and recognition requirements of this Statement.

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

GASB 84: Fiduciary Activities

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

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

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

GASB 85: Omnibus 2017

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

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

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

NOTE V – UPCOMING STANDARDS (Continued):

GASB 86: Certain Debt Extinguishment Issues

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

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

GASB 87: Leases

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

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

REQUIRED SUPPLEMENTAL INFORMATION

Wells Township School District No. 18

SCHEDULE OF THE WELLS TOWNSHIP SCHOOL DISTRICT #18'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Fiscal Year Ended June 30

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily required contributions	$ 54,417	$ 51,347	$ 34,395							
Contributions in relation to statutorily required contributions	54,417	51,347	34,395							
Contributions deficiency (excess)	$ -	$ -	$ -							
District's covered-employee payroll	$ 162,922	$ 123,101	$ 136,858							
Contributions as a percentage of covered-employee payroll	33%	42%	25%							

Wells Township School District No. 18

SCHEDULE OF THE WELLS TOWNSHIP SCHOOL DISTRICT #18'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Plan Year Ended September 30

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
District's proportion of net pension liability	0.00179%	0.00186%	0.00167%							
District's proportionate share of net pension liability	$ 393,816	$ 454,613	$ 416,192							
District's covered-employee payroll	$ 146,304	$ 152,157	$ 133,641							
District's proportionate share of net pension liability as a percentage of covered-employee payroll	269.18%	298.78%	311.43%							
Plan fiduciary net position as a percentage of total pension liability	66.20%	63.17%	63.27%							

Wells Township School District No. 18

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual (GAAP Basis)	Variances Positive (Negative) Original Budget to Final Budget	Variances Positive (Negative) Final Budget to Actual
REVENUES:					
Local sources	$ 511,256	$ 513,859	$ 512,996	$ 2,603	$ (863)
State sources	22,740	20,680	20,618	(2,060)	(62)
Federal sources	78	25,741	23,539	25,663	(2,202)
TOTAL REVENUES	534,074	560,280	557,153	26,206	(3,127)
EXPENDITURES:					
Instruction:					
Basic instruction	116,681	138,010	134,492	(21,329)	3,518
Special education	-	4,311	4,311	(4,311)	-
Total Instruction	116,681	142,321	138,803	(25,640)	3,518
Supporting Services:					
Pupil support	100	1,500	310	(1,400)	1,190
Instructional Staff	250	2,547	1,488	(2,297)	1,059
General administration	11,650	10,720	10,408	930	312
School administration	43,779	51,691	51,261	(7,912)	430
Business support	16,392	16,432	14,150	(40)	2,282
Operation and maintenance	49,875	37,834	36,573	12,041	1,261
Pupil transportation	47,442	37,820	34,810	9,622	3,010
Central support	100	227	227	(127)	-
Total Supporting Services	169,588	158,771	149,227	10,817	9,544
Facility Acquisitions:					
Capital outlay	34,000	34,000	33,753	-	247
Total Facility Acquisitions	34,000	34,000	33,753	-	247
Other:					
Loan payment	44,443	44,111	44,110	332	1
Total Other	44,443	44,111	44,110	332	1
TOTAL EXPENDITURES	364,712	379,203	365,893	(14,491)	13,310
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	169,362	181,077	191,260	11,715	10,183
OTHER FINANCING SOURCES (USES):					
Other sources	1,600	44	44	(1,556)	-
Transfers in	2,900	3,000	2,780	100	(220)
Transfers (out)	(22,460)	(22,179)	(21,071)	281	1,108
TOTAL OTHER FINANCING SOURCES (USES)	(17,960)	(19,135)	(18,247)	(1,175)	888
NET CHANGE IN FUND BALANCE	151,402	161,942	173,013	10,540	11,071
Fund balance, July 1	408,045	408,045	408,045	-	-
FUND BALANCE, JUNE 30	$ 559,447	$ 569,987	$ 581,058	$ 10,540	$ 11,071

OTHER SUPPLEMENTAL INFORMATION

Wells Township School District No. 18

SCHOOL LUNCH FUND

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

For the Year Ended June 30, 2017

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local sources	$ 3,052	$ 3,174	$ 122
State sources	262	262	-
Federal sources	2,200	1,862	(338)
TOTAL REVENUES	5,514	5,298	(216)
EXPENDITURES:			
School Lunch Activities:			
Salaries	11,837	11,567	270
Fringe benefits	5,286	5,057	229
Purchased services	1,000	838	162
Supplies and materials	6,570	6,153	417
Capital outlay	-	-	-
Other expense	-	-	-
TOTAL EXPENDITURES	24,693	23,615	1,078
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(19,179)	(18,317)	862
OTHER FINANCING SOURCES (USES):			
Other sources	-	-	-
Transfers in	22,179	21,071	(1,108)
Transfers (out)	(3,000)	(2,780)	220
TOTAL OTHER FINANCING SOURCES (USES)	19,179	18,291	(888)
NET CHANGE IN FUND BALANCE	-	(26)	(26)
Fund balance, July 1	129	129	-
FUND BALANCE, JUNE 30	$ 129	$ 103	$ (26)

Wells Township School District No. 18

AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

For the Year Ended June 30, 2017

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017
ASSETS:				
Cash and cash equivalents	$ 1,991	$ 1,615	$ 774	$ 2,832
TOTAL ASSETS	$ 1,991	$ 1,615	$ 774	$ 2,832
LIABILITIES:				
Due to eighth grade	$ 1,991	$ 1,615	$ 774	$ 2,832
TOTAL LIABILITIES	$ 1,991	$ 1,615	$ 774	$ 2,832

COMPLIANCE SECTION

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

To the Board of Education of the
Wells Township School District No. 18
P.O. Box 108
Arnold, Michigan 49819

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 the Wells Township School District No. 18 (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 18, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Report to Management that we consider to be significant deficiencies (Item 2017-001).

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*.

The School District's Response to Findings

The School District's response to the findings identified in our audit is described in the accompanying Report to Management. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 18, 2017

COMMUNICATIONS SECTION

ANDERSON, TACKMAN & COMPANY, PLC
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PARTNERS
Daniel E. Bianchi, CPA
Michael A. Grentz, CPA
William C. Sheltrow, CPA

Wells Township School District No. 18
Report to Management
For the Year Ended June 30, 2017

To the Board of Education of the
Wells Township School District No. 18
P.O. Box 108
Arnold, Michigan 49819

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wells Township School District No. 18 (the School District) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

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

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

SIGNIFICANT DEFICIENCIES

2017-001 – SEGREGATION OF DUTIES (REPEAT)

Condition/Criteria: The accounting staff of the School District is made up of one individual, which does not allow for proper segregation of duties.

Cause of Condition: The size of the organization's accounting staff precludes certain internal design controls that would be preferred if the office staff were large enough to provide optimum segregation of duties.

Effect: Because of the limited staff, there is an increased chance that misstatements in financial statements would not be prevented or detected on a timely basis.

Recommendation: Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
  - Business Manager
- Corrective Action Planned:
  - The Board of Education closely monitors all payments and reviews the financial statements on a month basis. The Board of Education has also hired Marquette-Alger Regional Educational Service Agency (MARESA) to provide accounting review services for the School.
- Anticipated Completion Date:
  - Not Applicable

The School District's written response to the significant deficiencies identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Anderson, Tackman & Company, PLC
Certified Public Accountants

October 18, 2017

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PARTNERS
Daniel E. Bianchi, CPA
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Wells Township School District No. 18
Communication with Those Charged with Governance
For the Year Ended June 30, 2017

October 18, 2017

To the Board of Education of the
Wells Township School District No. 18
P.O. Box 108
Arnold, Michigan 49819

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wells Township School District No. 18 (the School District) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the *Uniform Guidance*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 8, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

> Management's estimate of accumulated depreciation is based on historical cost. Depreciation is calculated using the straight-line method. We evaluated the key factors and assumptions used to develop the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

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

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 18, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Our consideration of internal control was for the limited purpose described in a separate letter 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Report to Management that we consider to be significant deficiencies item 2017-001.

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*.

<u>Other Matters</u>

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

Board of Education of the
Wells Township School District No. 18

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

Restriction on Use

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

Very truly yours,

Anderson, Tackman & Company, PLC
Certified Public Accountants