JOHANNESBURG-LEWISTON AREA SCHOOLS

REPORT ON FINANCIAL STATEMENTS

JUNE 30, 2017

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

CERTIFIED PUBLIC ACCOUNTANTS
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JOHANNESBURG-LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017

TABLE OF CONTENTS

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October 2, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Johannesburg-Lewiston Area Schools
Johannesburg, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Johannesburg-Lewiston Area Schools, Johannesburg, Michigan as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as identified in the table of contents, on pages iii through ix and 33-36 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017, on our consideration of Johannesburg-Lewiston Area Schools' 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 solely 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 the effectiveness of Johannesburg-Lewiston Area Schools' 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 Johannesburg-Lewiston Area Schools' internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

This section of Johannesburg-Lewiston Area Schools' ("the District") annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

A. Government-Wide Financial Statements

The government-wide statements provide short-term and long-term financial information about the District's overall financial status. The district-wide financial statements are compiled using full accrual basis of accounting and more closely represent financial statements presented by business and industry. The Statement of Net Position includes all of the District's assets and liabilities. All of the year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

Over time, increases and decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District requires consideration of additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are all shown in one category titled "Governmental Activities". These activities, including regular and special education, supporting services, food services, facilities acquisition, construction, and improvements, and community services, are primarily financed with state and federal aids and property taxes.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, rather than the District as a whole. Funds that do not meet the threshold to be classified as major funds are called "non-major" funds. Detailed financial information for non-major funds can be found in the combining and individual fund statements section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes.

The District maintains the following kinds of funds:

Governmental Funds – The District's basic services are included in governmental funds, which generally focus on 1) how cash and other financial assets that can be readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

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

Notes to Financial Statements

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

Other Information

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

C. Summary of Net Position

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

	2017	2016 As Restated
Assets		
Current Assets	$ 2,188,548	$ 1,551,111
Non Current Assets		
Net of Accumulated Depreciation and Amortization	7,015,018	6,938,174
Total Assets	9,203,566	8,489,285
Deferred Outflows of Resources		
Deferred Outflows of Resources Related to Pensions	1,671,949	1,407,407

	2017	2016 As Restated
Liabilities		
Current Liabilities	740,320	649,326
Long-Term Liabilities	9,982,782	9,681,149
Total Liabilities	10,723,102	10,330,475
Deferred Inflows of Resources		
Deferred Inflows of Resources Related to Pensions	334,108	293,531
Net Position		
Net Investment in Capital Assets	7,015,018	6,938,174
Restricted	444,683	130,656
Unrestricted - (Deficit)	(7,641,396)	(7,796,144)
Total Net Position - (Deficit) As Restated	$ (181,695)	$ (727,314)

D. Analysis of Financial Position

During the fiscal year ended June 30, 2017, the District's net position increased by $545,619. A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

The school district is required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2017, $485,547 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2017, $562,391 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of $76,844 for the fiscal year ended June 30, 2017. An increase to net capital assets is a rise in net position.

3. Pension Expense

GASB 68 now requires the District to account for its payments to the Michigan Public School Employees’ Retirement System in a manner that has a significant effect on the District’s change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District’s proportionate share of the net pension liability increases or decreases in any given year. For the year ended June 30, 2017, the District reported a decrease in net position of $34,384 related to GASB 68.

E. Change in Net Position

The following schedule summarizes the results of operations, on a district-wide basis, for the year ended June 30:

	2017	2016 As Restated
Revenue		
Program Revenue:		
Charges for Services	$ 178,285	$ 157,398
Operating Grants	1,454,416	1,333,245
Capital Grants	0	20,866
General Revenue:		
Property Taxes - Levied for General Purposes	4,613,073	4,803,876
Property Taxes - Levied for Debt Service	4,555	963,822
Property Taxes - Levied for Capital Projects	923,452	0
Investment Earnings	4,741	0
State Sources	919,875	705,977
Other	54,054	20,049
Total Revenue	8,152,451	8,005,233
Function/Program Expense		
Instruction	3,984,760	4,521,936
Supporting Services	2,699,652	2,879,357
Community Services	16,088	18,070
Facilities Acquisition, Construction, and Improvements	2,789	0
Food Services	394,878	332,553
Interest on Long-Term Debt	0	28,620
Prior Period Adjustment	23,118	0
Unallocated Depreciation	485,547	0
Total Expenses	7,606,832	7,780,536
Change in Net Position	$ 545,619	$ 224,697

F. Financial Analysis of the District's Funds

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

	2017	2016	Increase (Decrease)
Major Fund			
General Fund	$ 943,925	$ 769,848	$ 174,077
2012 Bus Bond	14,024	15,057	(1,033)
2004 Refunding Bonds	58,939	68,911	(9,972)
Sinking Fund	371,720	0	371,720
Nonmajor Funds			
Food Service	59,620	47,969	11,651
Total Governmental Funds	$ 1,448,228	$ 901,785	$ 546,443

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

As the District completed this year, the governmental funds reported a combined fund balance of $1,448,228, which is an increase of $546,443 from last year.

- The General Fund, our principal operating fund, increased its fund balance by $174,077 for an ending balance of $943,925. This increase is primarily due to a decrease in expenditures, when compared to the prior year, in added needs, school administration, operations and maintenance, and transportation. Of the fund balance of $943,925, $13,383 is nonspendable for prepaid expenditures, $145,861 is assigned for subsequent year budget shortfall, and $784,681 is unassigned.

- The 2012 Bus Bond Fund decreased its fund balance by $1,033 for an ending balance of $14,024. The decrease in fund balance is a result of final determinations on tax tribunal chargebacks completed during the year.

- The 2004 Refunding Bonds Fund decreased its fund balance by $9,972 for an ending balance of $58,939. The decrease in fund balance is a result of final determinations on tax tribunal chargebacks completed during the year.

- The Sinking Fund increased its fund balance by $371,720 for an ending balance of the same amount. The increase is due to tax revenues exceeding capital project expenditures for the year. The entire fund balance is restricted for allowable future building improvements.

- The Food Service Fund increased its fund balance by $11,651 for an ending balance of $59,620. The increase can be attributed to the food service program receiving local, state, and federal revenues in excess of expenditures, as well as electing not to make an indirect cost transfer to the General Fund. Of the fund balance of $59,620, $1,941 is nonspendable for inventory and $57,679 is restricted for food service.

G. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2016-2017 fiscal year, the District amended the general fund budget various times throughout the year. The following schedule shows a comparison of the original general fund budget to actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
TOTAL REVENUES	$ 6,876,908	$ 6,895,276	$ 6,925,326
EXPENDITURES			
Instruction	$ 4,232,935	$ 4,183,984	$ 4,121,697
Supporting Services	2,676,558	2,618,884	2,590,298
Community Activities	22,700	15,800	16,088
Prior Period Adjustments	0	0	23,118
Total Expenditures	$ 6,932,193	$ 6,818,668	$ 6,751,201
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	$ 0	$ 0	$ (48)

The revenue budget was amended as it became clearer on the amounts the District would receive for State and Federal Funding, as well as funding from Property Taxes and Local Grants. There were minimal changes between both the original to final budget and final budget to actual results.

The expenditure variance between original budget to final budget and final budget to actual were minimal and mainly the result of many of the expenditures being less than originally projected by the District.

H. Capital Asset and Debt Administration

1. Capital Assets

At June 30, 2017, the District had $19,647,336 in a broad range of capital assets, including school buildings and facilities, school buses, and various types of equipment. Depreciation expense for the year amounted to $485,547, bringing the accumulated depreciation to $12,632,318 as of June 30, 2017.

The additions to capital assets included:

- Construction in Progress for various school improvements paid from resources from the Sinking Fund in the amount of $549,858.

- Turbo Air Outdoor Unit for Food Service program in the amount of $4,160.

Additional information on the District's capital assets can be found in the notes to this report.

In addition to purchasing the above assets, the School has committed to spend roughly $841,811 for building and site improvements within the district that will be added to capital assets in the 2017-2018 fiscal year.

2. Long-Term Debt

At the end of this year, the District had $9,982,782 in long-term debt outstanding versus $10,330,475 in the previous year. This represents a decrease of $347,693 from the prior year. The majority of this debt consists of net pension liability of $9,903,238. The other obligation is employee compensated absences in the amount of $79,544.

Additional information on the District's long-term debt can be found in the notes to this report.

I. Factors Bearing on the District's Future

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

- The economy of the State of Michigan appears to be making a comeback. With that said, per pupil foundation allowance allocations coupled with continued declining enrollment require the district to continue to prepare for worst case scenarios. Budgets were built with decreasing enrollments and minimal foundation allowance increases. The voter approved sinking fund has allowed for multiple necessary projects to be completed including roofs, new doors and secure entry ways, and carpeting as well as anticipated projects of wireless connectivity between buildings, updated bathrooms, and more door and carpet replacement.

J. Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Department, 10854 M-32, Johannesburg, Michigan 49751.

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JOHANNESBURG - LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2017

ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$	1,764,858
Accounts Receivable		2,942
Due from Other Governmental Units		405,424
Inventory		1,856
Prepaid Expenses		13,468
Total Current Assets		2,188,548
NON CURRENT ASSETS		
Capital Assets		19,647,336
Less Accumulated Depreciation		(12,632,318)
Total Non Current Assets		7,015,018
TOTAL ASSETS		9,203,566
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources Related to Pensions		1,671,949
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable		97,502
Salaries and Benefits Payable		585,578
Unearned Revenue		56,718
Due to External Parties		522
Total Current Liabilities		740,320
NON CURRENT LIABILITIES		
Compensated Absences		79,544
Net Pension Liability		9,903,238
Total Non Current Liabilities		9,982,782
TOTAL LIABILITIES		10,723,102
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources Related to Pensions		334,108
NET POSITION		
Net Investment in Capital Assets		7,015,018
Restricted for Debt Service		72,963
Restricted for Capital Projects		371,720
Unrestricted (Deficit)		(7,641,396)
TOTAL NET POSITION (DEFICIT)	$	(181,695)

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

JOHANNESBURG - LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES: CHARGES FOR SERVICES	PROGRAM REVENUES: OPERATING GRANTS & CONTRIBUTIONS	PROGRAM REVENUES: CAPITAL GRANTS & CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
GOVERNMENTAL ACTIVITIES					
Instruction	$ 3,984,760	$ 0	$ 590,340	$ 0	$ (3,394,420)
Supporting Services	2,699,652	97,567	591,042	0	(2,011,043)
Community Services	16,088	0	0	0	(16,088)
Food Service	394,878	80,718	273,034	0	(41,126)
Facilities Acquisition, Construction, and Improvements	2,789	0	0	0	(2,789)
Prior Period Adjustment	23,118	0	0	0	(23,118)
Unallocated Depreciation	485,547	0	0	0	(485,547)
TOTAL GOVERNMENTAL ACTIVITIES	$ 7,606,832	$ 178,285	$ 1,454,416	$ 0	(5,974,131)
GENERAL REVENUES					
Property Taxes - General Purposes					4,613,073
Property Taxes - Debt Service					4,555
Property Taxes - Capital Projects					923,452
Investment Earnings					4,741
State Sources					919,875
Other					54,054
Total General Revenues					6,519,750
Change in Net Position					545,619
NET POSITION - Beginning of Year - (Deficit) As Restated					(727,314)
NET POSITION - End of Year - (Deficit)					$ (181,695)

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

JOHANNESBURG - LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2017

	GENERAL FUND	2012 BUS BOND	2004 REFUNDING BONDS	SINKING FUND	NON-MAJOR FOOD SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS						
Cash and Cash Equivalents	$ 1,162,961	$ 14,024	$ 59,020	$ 444,693	$ 84,160	$ 1,764,858
Accounts Receivable	2,942	0	0	0	0	2,942
Due from Other Funds	33,818	0	0	0	11,584	45,402
Due from Other Governmental Units	403,437	0	0	0	1,987	405,424
Inventory	0	0	0	0	1,856	1,856
Prepaid Expenditures	13,383	0	0	0	85	13,468
TOTAL ASSETS	$ 1,616,541	$ 14,024	$ 59,020	$ 444,693	$ 99,672	$ 2,233,950
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts and Retainage Payable	$ 24,448	$ 0	$ 81	$ 72,973	$ 0	$ 97,502
Salaries and Benefits Payable	585,578	0	0	0	0	585,578
Unearned Revenue	50,484	0	0	0	6,234	56,718
Due to Other Funds	12,106	0	0	0	33,818	45,924
Total Liabilities	672,616	0	81 .	72,973	40,052	785,722
FUND BALANCES						
Nonspendable, Prepaid Expenditures	13,383	0		0	1,941	15,324
Restricted for Debt Service	0	14,024	58,939	0	0	72,963
Restricted for Capital Projects	0	0	0	371,720	0	371,720
Restricted for Food Service	0	0	0	0	57,679	57,679
Assigned for Subsequent Year Budget Shortfall	145,861	0	0	0	0	145,861
Unassigned	784,681	0	0	0	0	784,681
Total Fund Balances	943,925	14,024	58,939	371,720	59,620	1,448,228
TOTAL LIABILITIES, UNEARNED REVENUE, AND FUND BALANCES	$ 1,616,541	$ 14,024	$ 59,020	$ 444,693	$ 99,672	$ 2,233,950

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

JOHANNESBURG - LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

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

JUNE 30, 2017

Total Governmental Fund Balances		$ 1,448,228
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
The cost of the capital assets is	$ 19,647,336	
Accumulated depreciation is	(12,632,318)	7,015,018
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Compensated Absences		(79,544)
Net Pension Liability		(9,903,238)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions		1,671,949
Deferred Inflows of Resources Related to Pensions		(334,108)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (181,695)

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

JOHANNESBURG - LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

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

YEAR ENDED JUNE 30, 2017

	GENERAL FUND	2012 BUS BOND	2004 REFUNDING BONDS	SINKING FUND	NON-MAJOR FOOD SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES						
Local Sources	$ 4,732,682	$ 1,185	$ 3,440	$ 924,367	$ 80,718	$ 5,742,392
State Sources	1,725,459	0	0	0	13,470	1,738,929
Federal Sources	242,408	0	0	0	246,903	489,311
Other Transactions	224,777	0	0	0	0	224,777
Total Revenues	6,925,326	1,185	3,440	924,367	341,091	8,195,409
EXPENDITURES						
Instruction	4,121,697	0	0	0	0	4,121,697
Supporting Services	2,590,298	2,218	13,412	0	0	2,605,928
Community Services	16,088	0	0	0	0	16,088
Facilities Acquisition, Construction, and Improvements	0	0	0	552,647	0	552,647
Prior Period Adjustment	23,118	0	0	0	0	23,118
Food Service	0	0	0	0	329,488	329,488
Total Expenditures	6,751,201	2,218	13,412	552,647	329,488	7,648,966
Excess (Deficiency) of Revenues Over Expenditures	174,125	(1,033)	(9,972)	371,720	11,603	546,443
OTHER FINANCING SOURCES (USES)						
Transfer In	0	0	0	0	48	48
Transfers Out	(48)	0	0	0	0	(48)
Total Other Financing Sources (Uses)	(48)	0	0	0	48	0
Net Change in Fund Balance	174,077	(1,033)	(9,972)	371,720	11,651	546,443
FUND BALANCE - Beginning of Year	769,848	15,057	68,911	0	47,969	901,785
FUND BALANCE - End of Year	$ 943,925	$ 14,024	$ 58,939	$ 371,720	$ 59,620	$ 1,448,228

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

JOHANNESBURG - LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

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

YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances Total Governmental Funds	$ 546,443
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(485,547)
Capital Outlay	562,391
Governmental funds report District pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
Change in Pension Related Items	8,574
Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to Section 147 C pension contributions subsequent to the measurement date.	
Change in State Aid Funding for Pension	(42,958)
Employees' compensated absences are reported on the accrual method in the Statement of Activities, but only recorded as an expenditure when financial resources are used in the governmental funds.	
Change in Compensated Absences	(43,284)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 545,619

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

JOHANNESBURG-LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2017

	AGENCY FUND
ASSETS	
Cash and Cash Equivalents	$ 184,147
Due from Other Funds	522
TOTAL ASSETS	184,669
LIABILITIES	
Due to Groups and Organizations	184,669
NET POSITION	$ 0

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The School District ("the District") is located in Otsego County with its administrative offices located in Johannesburg, Michigan. The District operates under an elected 7-member board of education and provides services to its 722 students in elementary, middle school, high school, special education instruction, guidance, health, transportation, food service, and athletics. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major and nonmajor governmental funds, each displayed in a separate column. Major and nonmajor individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

The *2012 Bus Bond Fund* accounts for expenditures related to the 2012 bond issue.

The *2004 Refunding Bonds Fund* accounts for expenditures related to the 2004 bond refunding.

The *Sinking Fund* accounts for the acquisition of capital assets or construction of major capital projects, financed with property tax revenue.

Other non-major funds:

The *special revenue (Food Service) fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service activities in a special revenue fund.

Additionally, the District reports the following fund type:

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following fiduciary fund:

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

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

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

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

F. Budgetary Information

1. Budgetary Basis of Accounting

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

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

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

a) Prior to July 1, the business office submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.

b) A public hearing is conducted during June to obtain taxpayer comments.

c) Prior to June 30, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.

d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.

e) For purposes of meeting emergency needs of the school district, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.

g) Budgeted amounts are as originally adopted on June 29, 2016, or as amended by the School Board of Education throughout the year.

2. Excess of Expenditures Over Appropriations

General Fund

Supporting Services

a) Student Services expenditures of $204,459 exceeded appropriations by $1,473.

b) General Administration expenditures of $266,202 exceeded appropriations by $11,842.

c) Business expenditures of $172,066 exceeded appropriations by $21,917.

d) Community Services expenditures of $16,088 exceeded appropriations by $288.

e) Prior period adjustments expenditures of $23,118 exceeded appropriations by $23,118.

These overages were funded by savings in other expenditure areas compared to budget.

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments. The District considers all highly liquid investments (including certificates of deposit) to be cash equivalents.

2. Investments

Investments are carried at amortized cost which approximates fair value. The District complies with State statutes regarding investment of funds. Some investments authorized by state law are shown as cash on the financial statements.

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

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

(b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.

(c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

(d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

(e) United States government or federal agency obligation repurchase agreements.

(f) Bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation (FDIC).

(g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

(h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

3. *Inventory and Prepaid Items*

Inventory is valued at cost using the first-in-first-out method. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

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

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

4. *Capital Assets*

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their acquisition value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Land is not depreciated and construction in progress is not depreciated until the underlying assets are placed in service upon completion of the project. At that time, the asset costs are reclassified out of construction in progress and into the appropriate depreciable category.

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

Buildings, Additions and Improvements	10-50 years
Furniture and Equipment	2-15 years
Buses and Vehicles	7-15 years

The District's capitalization policy is to capitalize individual amounts exceeding $1,000 and aggregate purchases of similar items purchased at the same time, such as textbooks for a classroom.

5. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category, which is related to the pension plan for its employees. Details can be found in footnote 3.E.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category, which is related to the pension plan for its employees. Details can be found in footnote 3.E.

6. 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.

7. Unearned Revenue

Unearned revenue arises when resources are received by the District before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized. The District has unearned revenue related to state and local funds received and unspent due to restrictions on how the funds can be spent.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

10. Fund Balance Flow Assumption

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

11. Fund Balance Policies

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

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

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

12. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2017 the foundation allowance was based on pupil membership counts taken in February of 2016 and October of 2016. For fiscal year ended June 30, 2017, the per pupil foundation allowance was $7,667 for Johannesburg-Lewiston Area Schools.

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 and is funded through payments from October 2016 to August 2017. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

2. Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

3. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

4. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are billed as of December 1. The due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2017, the District levied the following amounts per $1,000 of taxable valuation:

Fund	Mills
General Fund - Non-Principal Residence Exemption (PRE)	18.0000
General Fund - Commercial Personal Property	6.0000
Sinking Fund - PRE, Non-PRE, Commercial Personal Property	2.3000

5. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay, vacation time and other benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Violations of Legal or Contractual Provisions

Note 1.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2017.

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2017, $1,263,725 of the District's bank balance of $2,013,725 was exposed to custodial credit risk because it was uninsured and uncollateralized. The risk is spread amongst the District's funds. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

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

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSOs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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

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

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

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. These may include quoted prices from similar activities, interest rates, prepayment speeds, credit risk, and others. Debt securities are valued in accordance with evaluated bid price supplied by the pricing service and generally categorized as Level 2 in the hierarchy. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S. government agency securities, corporate securities, and commercial paper.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the reporting entity's own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There are two types of valuation techniques most commonly used and vary depending on the level of investment. These two techniques are the market approach and income approach. The market approach uses prices and other relevant information generated by the market transactions involving identical or similar assets and liabilities. The income approach discounts future amounts to a single current amount and the discount rate used in the process should reflect current market expectations about risks associated with those future cash flows.

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

The carrying amount of deposits and investments is as follows:

	Total
Deposits – including Fiduciary Funds of $184,147	$ 1,948,790
Petty Cash	215
	$ 1,949,005

The above amounts are reported in the financial statements as follows:

	Total
Cash - Fiduciary Funds	$ 184,147
Cash - District-Wide	1,764,858
	$ 1,949,005

B. Receivables

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

	General	Nonmajor and Other Funds	Total
Receivables			
Accounts	$ 2,942	$ 0	$ 2,942
Due from Other Governmental Units	403,437	1,987	405,424
Total Receivables	$ 406,379	$ 1,987	$ 408,366

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

No allowance for doubtful accounts has been recorded.

C. Capital Assets

Capital assets activity for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Assets Not Being Depreciated				
Land	$ 6,253	$ 0	$ 0	$ 6,253
Construction in Progress	0	549,858	0	549,858
Subtotal	6,253	549,858	0	556,111
Other Capital Assets:				
Land Improvements	814,868	0	0	814,868
Buildings and Additions	14,942,476	0	0	14,942,476
Furniture and Equipment	2,343,466	12,533	0	2,355,999
Buses and Vehicles	977,882	0	0	977,882
Subtotal	19,078,692	12,533	0	19,091,225
Less Accumulated Depreciation for:				
Land Improvements	722,631	26,160	0	748,791
Buildings and Additions	8,892,838	342,099	0	9,234,937
Furniture and Equipment	2,045,562	37,982	0	2,083,544
Buses and Vehicles	485,740	79,306	0	565,046
Accumulated Depreciation	12,146,771	485,547	0	12,632,318
Net Capital Assets Being Depreciated	6,931,921	(473,014)	0	6,458,907
Net Capital Assets	$ 6,938,174	$ 76,844	$ 0	$ 7,015,018

Depreciation for the fiscal year ended June 30, 2017, amounted to $485,547. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Defined Benefit Plan and Post-Retirement Benefits

Plan Description – The Michigan Public School Employees' Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the

System. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

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

Benefit Provisions- Pension

Introduction

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

Plan Name	Plan Type	Plan Status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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

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

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

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of

MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

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

Regular Retirement

Eligibility – Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus Plan (PPP) members, age 60 with 10 years of credited service.

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

Pension Plus

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

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

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

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

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

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

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

Members Contributions

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

Employers Contributions

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree other post-employment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. 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 Plans	3.0-6.4%	17.73%
Defined Contribution	0.0%	14.56%

The District’s pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately $932,541. These amounts include contributions funded from state revenue Section 147c restricted to fund MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

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

Pension Liabilities

At June 30, 2017, the District reported a liability of $9,903,238 for its proportionate share of the 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 date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The

District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the District's proportion was .03969364% and .03948773%.

MPSERS (Plan) Net Pension Liability – As of September 30, 2016 and September 30, 2015

	September 30, 2016	September 30, 2015
Total Pension Liability	$ 67,917,445,078	$ 66,312,041,902
Plan Fiduciary Net Position	42,968,263,308	41,887,015,147
Net Pension Liability	$ 24,949,181,770	$ 24,425,026,755
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.27%	63.17%
Net Pension Liability as a Percentage of Covered-Employee Payroll	295.81%	292.61%

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

For the year ended June 30, 2017, the District recognized total pension expense of $619,439. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 123,420	$ 23,471
Section 147c revenue related to District Pension contributions subsequent to measurement date	0	304,529
Changes of assumptions	154,829	0
Net difference between projected and actual earnings on pension plan investments	164,592	0
Changes in proportion and differences between District contributions and proportionate share of contributions	364,436	6,108
District contributions subsequent to the measurement date	864,672	0
Total	$ 1,671,949	$ 334,108

$864,672 reported as deferred outflows of resources and $304,529 reported as deferred inflows or resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	Amount
2017	$ 206,952
2018	194,009
2019	333,043
2020	43,694
	$ 777,698

F. Actuarial Valuations and Assumptions of the Pension Plan

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return	
-MIP and Basic Plans (Non-Hybrid):	8.00%
-Pension Plus Plan (Hybrid):	7.00%
Projected Salary Increases:	3.5-12.3 % including wage inflation at 3.5%
Cost of Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combine Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 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.

Long-Term Expected Rate of Return on Investments

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

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity Pools	28.00%	5.90%
Alternative Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate & Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short-Term Investment Pools	2.00%	0.00%
	100.00%	

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

Discount Rate

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

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

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

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
$ 12,752,878	$ 9,903,238	$ 7,500,718

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2016 Comprehensive Annual Financial Report.

H. Payables to the Pension Plan

As of June 30, 2017, the District is current on all required pension plan payments. As of June 30, 2017, the District reported payables in the amount of $118,873 to the pension plan. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

I. Benefit Provisions – Other Post-Employment

Introduction

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus, plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

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

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013.

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

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015; from 2.20% - 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015; from 6.40% - 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016; and 5.69% - 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The District's contributions to MPSERS for post-employment healthcare contributions for the years ended June 30, 2017, 2016 and 2015 were approximately $315,800, $295,600 and $80,000.

J. Risk Management

Johannesburg-Lewiston Area Schools is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees.

The District participates in a distinct pool of education institutions within the State of Michigan for various risks of loss, including general liability, property and casualty, employee health and accident insurance, and workers' disability compensation. The pool is considered a public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

K. Lease Information

Operating Leases. The District is committed under various noncancelable leases for office equipment. The leases are operating leases with no contingent lease payments. The equipment may be purchased at the end of the lease for fair market value. For the year ended June 30, 2017, rental expenditures were $14,703. Future minimum lease payments are as follows:

YEAR ENDED JUNE 30,	AMOUNT
2018	$ 18,763
2019	18,763
2020	18,763
2021	17,422
	$ 73,711

L. Long-Term Liabilities

The following is a summary of the governmental long-term liability transactions for the District for the year ended June 30, 2017:

	ACCUMULATED UNPAID COMPENSATED ABSENCES	NET PENSION LIABILITY	TOTAL
Debt Payable at Beginning of Year	$ 36,260	$ 9,644,889	$ 9,681,149
Increase in Debt	43,284	1,149,780	1,193,064
Debt Retired	0	(891,431)	(891,431)
Debt Payable at End of Year	79,544	9,903,238	9,982,782
Less Current Portion	Unknown	Unknown	0
Net Long-Term Debt	$ 79,544	$ 9,903,238	$ 9,982,782

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

M. Interfund Receivables and Payables

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2017, were:

	INTERFUND RECEIVABLES	INTERFUND PAYABLE
General Fund	$ 33,818	$ 12,106
Food Service Fund	11,584	33,818
Trust and Agency Fund	522	0
	$ 45,924	$ 45,924

The outstanding balances between funds result mainly 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. All interfund balances outstanding at June 30, 2017, are expected to be repaid within one year.

N. Interfund Transfers

Interfund transfers are as shown in the individual fund financial statements at June 30, 2017, were:

	TRANSFERS IN	TRANSFERS OUT
General Fund	$ 0	$ 48
School Service Fund - Food Service Fund	48	0
	$ 48	$ 48

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

O. Other Information

1. Commitments and Contingencies

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

Commitments – The District has outstanding contracts of $841,811 with various contractors for building improvements related to the sinking fund.

P. Statement No. 77 – Tax Abatement Disclosures

Effective for the year ended June 30, 2017, the District is required to disclose significant tax abatements as required by GASB statement 77 (tax abatements).

The District received reduced property tax revenue as a result of Industrial Facilities Tax (IFT) exemptions granted by governmental entities within the District. Greenwood Township and Albert Township are the only governmental entities within the District with IFT abatements. Industrial facility exemptions are intended to promote construction of new industrial facilities, acquisition of personal property or to rehabilitate historical facilities.

For the fiscal year ended June 30, 2017, (tax year 2016) the District's property tax revenues were reduced by approximately $6,196 under this program.

The District is considered to be an "in-formula" district. The taxes abated for the General Fund operating millage are considered by the State of Michigan when determining the District's section 22 funding of the State School Aid Act. The District received approximately $3,813 from the State of Michigan's determination.

Q. Sinking Fund Tax Levy

In 2015, the taxpayers approved a sinking fund tax levy. The District is authorized to levy 2.30 mills, less any reductions for five years beginning with the 2016 tax roll. The transactions for the sinking fund are accounted for in a capital projects fund. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

R. Beginning Balances Restated

Beginning net position has been restated as a result of restating the deferred inflow of resources for Section 147 C revenue related to the District's pension contributions subsequent to the September 30th measurement date. The District receives 147 C revenue from the state and in return contributes that same amount to the pension liability. The beginning of the year net position only reflected the Section 147 C the District paid into the retirement system and not the Section 147 C received from the state. The effect of the adjustment is show in the following table:

Net Position - As Previously Reported as of June 30, 2016 - (Deficit)	$	(465,743)
Section 147 C revenue related to District Pension Contributions subsequent to measurement date		(261,571)
Net Position - As Previously Reported as of June 30, 2016 - (Deficit)	$	(727,314)

NOTE 4 – UPCOMING ACCOUNTING PRONOUNCEMENTS

The District is currently evaluating the impact these standards will have on the financial statements when adopted.

Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year-end. The Statement requires governments that participate in defined postemployment benefit plans to report in their statement of net position a net postemployment benefit liability. The net postemployment benefit liability is the difference between the total postemployment benefit liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net postemployment benefit liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the postemployment benefit liabilities and expense.

GASB Statement No. 84, *Fiduciary Activities*, was issued by the GASB in January 2017 and will be effective for the District's 2020 fiscal year-end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on 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. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

JOHANNESBURG-LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Local Sources	$ 5,043,509	$ 4,731,255	$ 4,732,682
State Sources	1,574,844	1,696,489	1,725,459
Federal Sources	258,555	242,755	242,408
Other Transactions	0	224,777	224,777
Total Revenues	6,876,908	6,895,276	6,925,326
EXPENDITURES			
Instruction			
Basic Programs	3,482,170	3,506,164	3,459,570
Added Needs	750,765	677,820	662,127
Supporting Services			
Student Services	142,073	202,986	204,459
General Administration	301,275	254,360	266,202
School Administration	675,190	690,401	679,726
Business	120,425	150,149	172,066
Operation and Maintenance	646,250	594,048	561,302
Pupil Transportation Services	538,000	482,278	472,896
Support Services - Central	90,610	84,400	83,105
Support Services - Other	162,735	160,262	150,542
Community Services	22,700	15,800	16,088
Prior Period Adjustments	0	0	23,118
Total Expenditures	6,932,193	6,818,668	6,751,201
Excess (Deficiency) of Revenues Over Expenditures	(55,285)	76,608	174,125
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	0	0	(48)
Net Change in Fund Balance	(55,285)	76,608	174,077
FUND BALANCE - Beginning of Year	769,848	769,848	769,848
FUND BALANCE - End of Year	$ 714,563	$ 846,456	$ 943,925

JOHANNESBURG-LEWISTON AREA SCHOOLS
JOHANNESBURG, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)
JUNE 30, 2017

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)								0.0396936%	0.0394877%	0.037090%
District's proportionate share of net pension liability								$ 9,903,238	$ 9,644,889	$ 8,170,436
District's covered-employee payroll								3,205,501	3,254,852	3,158,497
District's proportionate share of net pension liability as a percentage of its covered-employee payroll								308.95%	296.32%	258.68%
Plan fiduciary net position as a percentage of total pension liability								63.27%	63.17%	66.20%

JOHANNESURG-LEWISTON AREA SCHOOL
JOHANNESBURG, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2017

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions								$ 932,541	$ 761,770	$ 576,087
Contributions in relation to statutorily required contributions *								932,541	761,770	576,087
Contribution deficiency (excess)								$ 0	$ 0	$ 0
Covered-Employee Payroll								$ 3,321,281	$ 3,318,601	$ 3,252,935
Contributions as a percentage of covered-employee payroll								28.08%	22.95%	17.71%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2017

A. Changes of Benefit Terms:

There were no changes of benefit terms for the plan year ended September 30, 2016.

B. Changes of Assumptions:

There were no changes of benefit assumptions for the plan year ended September 30, 2016.

Baird, Cotter & Bishop, P.C.
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October 2, 2017

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
Johannesburg-Lewiston Area Schools
Johannesburg, Michigan

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 Johannesburg-Lewiston Area Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Johannesburg-Lewiston Area Schools' basic financial statements and have issued our report thereon dated October 2, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Johannesburg-Lewiston Area Schools' 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 Johannesburg-Lewiston Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Johannesburg-Lewiston Area Schools' 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. We identified certain deficiencies in internal control that we consider to be significant deficiencies, described below.

2017-001 – ***Segregation of Incompatible Duties and Documented Independent Review***

Significant Deficiency:

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the District. A key element of internal control is the segregation of incompatible duties.

Condition: The District has several accounting functions that are performed by the same individual.

Cause: This condition is primarily the result of staffing constraints typical of smaller Districts and the current financial position of the District.

Effect: As a result of this condition, the District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the District to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: With the financial status of the District, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The District and Superintendent will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

2017-002 - ***Preparation of Financial Statements in Accordance with GAAP***

Significant Deficiency:

Criteria: All Michigan School Districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is the responsibility of the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government- wide and fund financial statements, including related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the District's internal controls.

Cause: This condition was caused by the District's decision that it is more cost effective to outsource the preparation of its financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Effect: As a result of this condition, the District's internal controls over the preparation of financial statements in accordance with GAAP are incomplete. Instead, the District relies, in part, on its external auditors for assistance with this task.

Recommendation: Based on the staffing constraints the District faces, we recommend the District continue to rely on its external auditors to prepare financial statements that are in conformity with GAAP.

View of Responsible Officials: The District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and noted prior to approving them and accepting responsibility for their content and presentation.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Johannesburg-Lewiston Area Schools' 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.*

JOHANNESBURG-LEWISTON AREA SCHOOLS' RESPONSE TO FINDINGS

Johannesburg-Lewiston Area Schools' response to the findings identified in our audit is described in a separate letter. Johannesburg-Lewiston Area Schools' 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.

BAIRD, COTTER AND BISHOP, P.C.

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CORRECTIVE ACTION PLAN

JUNE 30, 2017

Finding 2017-001: Significant Deficiency Financial Statement Finding

Condition: The District has several accounting functions that are performed by the same individual, causing a lack of proper segregation of duties pertaining to accounting functions.

Corrective Steps Taken: At this time, no steps have been taken as the District management has determined that the cost of eliminating this deficiency outweighs the benefit to the District.

Corrective Steps to be Taken: In deciding what internal control procedures should be implemented, the District has considered the costs of implementing them and weighed those costs against the benefits to be derived from their implementation and determined that it is in the best interest of the District not to add additional staff.

Monitoring: The District will continue to monitor its staffing situation and consider adding additional staff if it is determined that the benefits outweigh the costs. In the meantime, the District will continue to explore ways to implement proper segregation of duties within their constraints.

Reasons Corrective Action Plan Not Necessary: As mentioned above, the District does not believe it is the best decision financially to take on more staff to segregate accounting functions at this time. The District is a small school District and the accounting staff currently have no issues performing the duties in a satisfactory manner.

Name of Responsible Person for Further Information: Katy Xenakis-Makowski, Superintendent

Questioned Costs Related to this Finding: None.

Finding 2017-002: Significant Deficiency Financial Statement Finding

Condition: As is the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the District's internal controls.

Corrective Steps Taken: At this time, no steps have been taken as the District's management has determined that it is more cost effective to outsource the preparation of its financial statements to its auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.

Corrective Steps to be Taken: Based on the staffing constraints the District faces, they have decided to continue to rely on its external auditors to prepare financial statements that are in conformity with GAAP.

Monitoring: The District will continue to monitor its ability to prepare GAAP basis financial statements and determine if a cost benefit can be obtained by doing so. The District will also carefully review draft financial statements and accept responsibility for their content and presentation. In the meantime, the District will continue to use its external auditors for the preparation of its financial statements.

Reasons Corrective Action Plan Not Necessary: As mentioned above, the District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements, make notes prior to approving them and accept responsibility for their content and presentation.

Name of Responsible Person for Further Information: Katy Xenakis-Makowski, Superintendent

Questioned Costs Related to this Finding: None.