MARCELLUS COMMUNITY SCHOOLS

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

GABRIDGE & CO.

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INDEPENDENT AUDITOR'S REPORT

To Management and the Board of Education
Marcellus Community Schools
Marcellus, 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 Marcellus Community Schools (the "School"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
October 5, 2017

Management's Discussion and Analysis

This section of Marcellus Community Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2017. It is to be read in conjunction with the School District's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ending June 30, 2017.

Financial Highlights

- For fiscal year ended 2017, the Board of Education adopted a final general fund budget with a projected increase in fund balance of $86,901. The actual results of operation in the general fund showed that actual expenditures were approximately $127,823 less than the final general fund budget and that actual revenues and other financing sources were approximately $1,455 less than the final general fund budget, resulting in an actual increase in fund balance of $213,269.

- At June 30, 2017 the total net position had a deficit balance of $4,349,510 of which $7,578,668 was the deficit unrestricted net position, $1,949,463 was the net investment in capital assets, and $1,279,695 was restricted for specific purposes.

- The governmental activities total net position increased $331,535 from $(4,681,045) as of June 30, 2016 to $(4,349,510) as of June 30, 2017. Refer to the government-wide financial statements – change in net position for fiscal year ended June 30, 2017 and June 30, 2016 for explanations regarding the net position increase.

- At June 30, 2017, the total fund balance for the general fund was $1,344,134.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements, the statement of net position and the statement of activities, are *district-wide financial statements* that provide both short-term and long-term information about the School District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the School District, reporting the School District's operations in more detail than the district-wide statements.

    - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

    - *Fiduciary funds statements* provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others.

The basic financial statements also include the notes to the financial statements that explain the information in the basic financial statements and provide more detailed data. Supplementary information follows and includes combining and individual fund statements, a budgetary comparison schedule for the general fund, and pension schedules.

District-wide Financial Statements

The district-wide financial statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School District's assets, deferred inflows / outflows, and liabilities. All of the current year's revenues 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 School District's net position, and how they have changed. Net position – the difference between the School District's assets, deferred inflows / outflows, and liabilities - is one way to measure the School District's financial health or position.

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

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

In the district-wide financial statements, the School District's activities are presented as governmental activities. *Governmental activities* include the School District's basic services, such as regular and special education, instructional support, transportation, administration, community services, food service, and athletics. State aid and property taxes finance most of these activities.

Financial Analysis of the School District as a Whole

The following is a comparative highlight of the current and prior year financial activities from the district-wide financial statements:

	2017	2016
ASSETS		
Current and Other Assets	$ 3,301,487	$ 6,484,675
Capital Assets, net	15,698,900	13,763,005
Total Assets	19,000,387	20,247,680
DEFERRED OUTFLOWS OF RESOURCES		
Pension	1,395,373	1,268,969
Total Assets and Deferred Outflows of Resources	20,395,760	21,516,649
LIABILIITES		
Current Liabilities	1,423,128	2,085,109
Long-term Liabilities	22,991,132	23,855,286
Total Liabilities	24,414,260	25,940,395
DEFERRED INFLOWS OF RESOURCES		
Pension	331,010	257,299
Total Liabilities and Deferred Inflows of Resources	24,745,270	26,197,694
NET POSITION		
Net Investment in Capital Assets	1,949,463	1,371,449
Restricted	1,279,695	942,856
Unrestricted	(7,578,668)	(6,995,350)
Total Net Position	$ (4,349,510)	$ (4,681,045)

Current and other assets decreased from $6,484,675 as of June 30, 2016 to $3,301,487 as of June 30, 2017. This change is a result of $2,102,286 of capital asset purchases during the year from the School District's capital projects fund. Financing was received in prior years from the issuance of 2014 building and site improvement bonds. Another $259,249 remains in the capital improvement fund and the School District anticipates investing the remaining bond funds in capital improvement projects in the upcoming fiscal year. Net capital assets showed a corresponding increase, from $13,763,005 as of June 30, 2016 to $15,698,900 as of June 30, 2017.

The School District's net investment in capital assets increased from $1,371,449 as of June 30, 2016 to $1,949,463 as of June 30, 2017. This is the result of the School District paying its debt obligations and purchasing capital assets at a cost that exceeded depreciation expense for the current year.

The results of the fiscal year's operations for the School District as a whole are presented in the statement of activities, which shows the change in total net position for the year.

The statement of activities presents the following changes in net position from operating results:

	2017	2016
Revenues		
Program Revenues		
Charges for Services	$ 204,439	$ 196,364
Operating Grants & Contributions	1,368,507	1,258,663
Total Program Revenues	1,572,946	1,455,027
General Revenues		
Local Sources	2,565,585	2,684,847
Unrestricted State Sources	4,149,363	4,349,116
Other Revenue	35,949	46,988
Total General Revenues	6,750,897	7,080,951
Total Revenues	8,323,843	8,535,978
Expenses		
Instruction	4,230,498	3,892,254
Support Services	2,702,654	2,747,484
Food Services	296,518	331,374
Interest on Long-term Debt	536,049	571,482
Unallocated Depreciation	226,589	218,997
Total Expenses	7,992,308	7,761,591
Change in Net Position	331,535	774,387
Net Position at Beginning of Period	(4,681,045)	(5,455,432)
Net Position at End of Period	$ (4,349,510)	$ (4,681,045)

Revenues decreased from $8,535,978 for the year ended June 30, 2016 to $8,323,843 for the year ended June 30, 2017, a decrease of $212,135. The primary reason for decreased revenues is related to enrollment being down, from 764 pupils in the prior year to 743 pupils in the current year. Total expenses also increased from $7,761,591 in 2016 to $7,992,308 in 2017, an increase of $230,717.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs.

The School District utilizes two kinds of funds:

- *Governmental funds*: Most of the School District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Since the district-wide financial statements and the fund financial statements use different methods of accounting to report the School District's financial condition, a reconciliation is included in the financial statements showing the differences between the two types of statements.

- *Fiduciary funds*: The School District is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and student activities funds. The School 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 School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the School District's Funds

The School District uses funds to record and analyze financial information. The School District has four major funds: its general fund, 2014 debt fund, capital projects fund, and sinking fund.

The ***general fund*** is the School District's primary operating fund. The general fund had revenues of $6,717,148, other financing sources of $665, and expenditures of $6,504,544. The School District ended the year with an $213,269 increase in fund balance for a total fund balance of $1,344,134 as of June 30, 2017, up from $1,130,865 as of June 30, 2016. This increase in fund balance is related to the actual revenues and expenditures closely matching the budgeted amounts and both budgeted and actual revenues exceeding expenditures for year.

The ***2014 debt fund*** is used to accumulate resources for the payment of debt service expenditures related to the 2014 building and site improvement bonds. The 2014 debt fund had an increase in fund balance during the year of $32,040, bringing its ending fund balance to $400,067. Given that the debt service millage is intended to service the debt without any surplus, the ending fund balance of the 2014 debt fund will eventually decrease to zero over the life of the bonds.

The ***capital projects fund*** is used to track expenditures using funds from the 2014 bond. The capital projects fund had revenues of $41,238, which consisted mostly of earnings on investment. Expenditures for this fund totaled $2,102,286, which brought the decrease in fund balance to $2,061,048. After subtracting the current year decrease in fund balance, the ending fund balance was $259,429.

The ***sinking fund*** tracks expenditures used from the School District's sinking fund millage. Expenditures in this fund must be authorized by the State of Michigan per Section 380.1212 of The Revised School Code (Act 451 of 1976). The total revenues for this fund were $3,133, which was attributed to earnings on deposit. Total expenditures in the fund were $65,703. This number is mainly attributable to building improvements. The decrease in fund balance was $62,570, making the total fund balance in the sinking fund $388,463 as of year-end.

The nonmajor governmental funds had an increase in fund balance for the year of $3,148 for total nonmajor governmental fund balances of $231,916 as of June 30, 2017, up from $228,768 as of June 30, 2016.

General Fund Budgetary Highlights

During the year the School District revised its budget to attempt to match changes in the school funding environment and current needs of students and faculty. State law requires that budgets be amended during the year so actual expenditures do not exceed appropriations. The initial budget for the year ended June 30, 2017, was adopted by the Board of Education on June 28, 2016.

Original budget compared to final budget. There were amendments made between the original and final budgets as actual activities throughout the year became known to management of the School District.

Final budget compared to actual results. The School District had no significant expenditures in excess of the amounts appropriated in the general fund during the year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2017, the School District had $15,698,900 invested in capital assets. This included a net increase during the past fiscal year of $1,935,895 consisting of depreciation charges of $226,589, a loss on disposal of $5,505, and capital asset additions of $2,167,989.

The School District's current year additions totaled $2,167,989, primarily in building improvement projects.

More detailed information about the School District's capital assets can be found in the notes to the financial statements section of this document.

Long-term Debt

At year end, the School District had total long-term liabilities of $14,031,582, of which $14,027,320 were bonds payable (along with the associated bond premiums). The remainder was an installment note of $4,262 and compensated absences of $163,261.

- The School District continued to pay down its debt, retiring $630,620 of outstanding bonds and installment notes payable during the year.

- The School District issued no new debt during the current year.

The State limits the amount of general obligation debt that schools can issue based on the assessed value of all taxable property within a district's boundaries. The School District is well under the State limit as of June 30, 2017.

More detailed information about the School District's long-term debt can be found in the notes to the financial statements section of this document.

Economic Factors and Next Year's Budget and Rates

The projected general appropriations budget for the 2017-2018 fiscal year includes $6,671,220 in total revenues and $6,668,618 in total expenditures, resulting in a projected $2,602 increase in general fund balance. This projected budget is very similar to the current year's actual total revenues of $6,717,813 and actual total expenditures of $6,504,544 in the general fund, and shows the continued effort of the School District to match revenues with expenditures in maintaining a stable fund balance in the general fund.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact:

Marcellus Community Schools
Nanette Pauley, Superintendent
305 W. Arbor Street
Marcellus, MI 49067
Ph | 269.646.7655

Basic Financial Statements

Marcellus Community Schools
Statement of Net Position
June 30, 2017

ASSETS		
Current Assets		
Cash	$	2,340,017
Due from Other Governmental Units		941,674
Inventory		4,796
Prepaid Items		15,000
Total Current Assets		3,301,487
Noncurrent Assets		
Capital Assets not Being Depreciated		11,938,781
Capital Assets Being Depreciated, net		3,760,119
Total Assets		19,000,387
DEFERRED OUTFLOWS OF RESOURCES		
Pension		1,395,373
Total Deferred Outflows of Resources		1,395,373
LIABILITIES		
Current Liabilities		
Accounts Payable		157,006
Accrued Liabilities		279,164
Accrued Salaries Payable		337,696
Current Portion of Long-term Debt		649,262
Total Current Liabilities		1,423,128
Noncurrent Liabilities		
Net Pension Liability		9,445,551
Compensated Absences		163,261
Long-term Debt		13,382,320
Total Liabilities		24,414,260
DEFERRED INFLOWS OF RESOURCES		
Pension		331,010
Total Deferred Inflows of Resources		331,010
NET POSITION		
Net Investment in Capital Assets		1,949,463
Restricted for:		
Food Service		38,051
Debt Service		593,932
Capital Projects		647,712
Unrestricted		(7,578,668)
Total Net Position	$	**(4,349,510)**

Marcellus Community Schools
Statement of Activities
For the Year Ended June 30, 2017

		Program Revenues			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue**
Governmental Activities:					
Instruction	$ 4,230,498	$ 600	$ 8,745	$ --	$ (4,221,153)
Supporting Services	2,702,654	133,420	1,101,169	--	(1,468,065)
Food Services	296,518	70,419	258,593	--	32,494
Interest on Long-term Debt	536,049	--	--	--	(536,049)
Unallocated Depreciation	226,589	--	--	--	(226,589)
Total	$ 7,992,308	$ 204,439	$ 1,368,507	$ --	$ (6,419,362)

General Purpose Revenues:	
State Aid - Unrestricted	4,149,363
Property Taxes	2,565,585
Interest and Investment Earnings	35,949
Total General Revenues	6,750,897
Change in Net Position	**331,535**
Net Position at Beginning of Period	(4,681,045)
Net Position at End of Period	$ **(4,349,510)**

Marcellus Community Schools
Balance Sheet
Governmental Funds
June 30, 2017

		Debt Service	Capital Projects			
	General	2014 Debt Fund	Sinking Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	$ 1,067,226	$ 400,067	$ 388,463	$ 260,129	$ 224,132	$ 2,340,017
Due from Other Governmental Units	926,153	--	--	--	15,521	941,674
Inventory	--	--	--	--	4,796	4,796
Prepaid Items	15,000	--	--	--	--	15,000
Total Assets	**$ 2,008,379**	**$ 400,067**	**$ 388,463**	**$ 260,129**	**$ 244,449**	**$ 3,301,487**
LIABILITIES						
Accounts Payable	$ 143,606	$ --	$ --	$ 880	$ 12,520	$ 157,006
Accrued Liabilities	182,943	--	--	--	13	182,956
Accrued Salaries Payable	337,696	--	--	--	--	337,696
Total Liabilities	664,245	--	--	880	12,533	677,658
FUND BALANCE						
Nonspendable	15,000	--	--	--	4,796	19,796
Restricted	--	400,067	388,463	259,249	227,120	1,274,899
Assigned	125,000	--	--	--	--	125,000
Unassigned	1,204,134	--	--	--	--	1,204,134
Total Fund Balance	1,344,134	400,067	388,463	259,249	231,916	2,623,829
Total Liabilities and Fund Balance	**$ 2,008,379**	**$ 400,067**	**$ 388,463**	**$ 260,129**	**$ 244,449**	**$ 3,301,487**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

Total Fund Balance - Governmental Funds	$	2,623,829
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement. This amount represents capital assets of $23,047,936 less accumulated depreciation of $7,349,036.		15,698,900
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		(8,403,204)
Deferred charges on refunding related to the issuance of long-term refunding debt will be amortized over the life of the debt on the statement of net position.		22,016
Accrued interest is not due and payable in the current period and, therefore, is not reported in the funds.		(96,208)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. This amount represents the sum of bonds payable $14,027,320, compensated absences of $163,261, and other loans payable and liabilities of $4,262.		(14,194,843)
Total Net Position - Governmental Activities	$	**(4,349,510)**

Marcellus Community Schools
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

		Debt Service	Capital Projects			
	General	2014 Debt Fund	Sinking Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Local Sources	$ 118,705	$ 449	$ 3,133	$ 41,238	$ 70,668	$ 234,193
State Sources	5,001,818	--	--	--	14,363	5,016,181
Federal Sources	255,089	--	--	--	244,230	499,319
Property Taxes	1,332,971	559,559	--	--	673,055	2,565,585
Other Revenues	8,565	--	--	--	--	8,565
Total Revenues	6,717,148	560,008	3,133	41,238	1,002,316	8,323,843
Expenditures						
Instruction	3,955,765	--	--	--	--	3,955,765
Supporting Services	2,537,845	--	--	--	--	2,537,845
Food Services	--	--	--	--	296,518	296,518
Capital Outlay	--	--	65,703	2,102,286	--	2,167,989
Debt Service - Principal	10,620	--	--	--	620,000	630,620
Debt Service - Interest & Other Expenditures	314	527,968	--	--	82,650	610,932
Total Expenditures	6,504,544	527,968	65,703	2,102,286	999,168	10,199,669
Excess of Revenues Over (Under) Expenditures	212,604	32,040	(62,570)	(2,061,048)	3,148	(1,875,826)
Other Financing Sources (Uses)						
Proceeds from Sale of Capital Assets	665	--	--	--	--	665
Net Other Financing Sources (Uses)	665	--	--	--	--	665
Net Change in Fund Balance	**213,269**	**32,040**	**(62,570)**	**(2,061,048)**	**3,148**	**(1,875,161)**
Fund Balance at Beginning of Period	1,130,865	368,027	451,033	2,320,297	228,768	4,498,990
Fund Balance at End of Period	**$ 1,344,134**	**$ 400,067**	**$ 388,463**	**$ 259,249**	**$ 231,916**	**$ 2,623,829**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2017

Total Net Change in Fund Balances - Governmental Funds	$	(1,875,161)
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This represents current year depreciation expense of $226,589 less capital outlay expenditures of $2,167,989.		1,941,400
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		74,883
Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(4,458)
The statement of net position reports the net pension liability and pension related deferrals related to the net pension liability as pension expense. However, the expenditures recorded on the governmental funds equals actual pension contributions.		(430,244)
Repayments of principal on long-term debt are expenditures in the governmental funds, but the repayments reduce the long-term liabilities in the statement of net position.		630,620
Gains and losses on the disposal of capital assets are not reflected in the statement of revenues, expenditures, and changes in fund balance because capital assets are fully expensed in the funds. This is the amount of loss on disposal of capital assets.		(5,505)
Changes in Net Position - Governmental Activities	$	**331,535**

Marcellus Community Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	Agency
	Private Purpose Trust Fund	**Agency Fund**
ASSETS		
Cash	$ 50,070	$ 88,252
Total Assets	50,070	88,252
LIABILITIES		
Due to Agency Fund Activities	--	88,252
Total Liabilities	--	88,252
NET POSITION		
Held in Trust	**$ 50,070**	**$ --**

The Notes to the Financial Statements are an integral part of these Financial Statements

Marcellus Community Schools
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Year Ended June 30, 2017

		Private Purpose Trust Fund
Additions		
Investment Income		
Interest, Dividends, and Other Investment Gains (Losses)	$	27
Total Investment Income		27
Total Additions		27
Deductions		
Scholarships Awarded		22,139
Total Deductions		22,139
Change in Net Position		**(22,112)**
Net Position at Beginning of Period		72,182
Net Position at End of Period	$	**50,070**

Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Marcellus Community Schools (the "School District") conform to generally accepted accounting principles as applicable to Schools. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School's significant accounting policies are described below.

Reporting Entity

The Board of Directors, a seven member group, is the level of government which has governance responsibilities over all activities related to public elementary, middle, and high school education within the jurisdiction of the School District. The School District receives funding from state and federal government sources and must comply with the requirements of these funding source entities. The School District has no component units.

District-wide and Fund Financial Statements

The School District's basic financial statements include both District-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all non-fiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The *statement of net position* presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The school's net position is reported in three parts 1) net investment in capital assets, 2) restricted net position, and 3) unrestricted net position.

The *statement of activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* 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. Unrestricted state aid and other items not properly included among program revenues are reported instead as *general revenues*.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements, the School District has eliminated interfund transactions.

The District-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Agency funds also use the accrual basis of accounting, but do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized 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 grantor or provider have been met.

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 School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or one year for reimbursement-based grants. 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.

Revenues susceptible to accrual are state aid, federal revenues, and interest income and, accordingly, have been recognized as revenues of the current fiscal year. Other revenues are recognized when received.

The School reports the following major funds:

The ***general fund*** is the general operating fund of the School. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

The ***capital project fund*** is used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

The ***sinking fund*** is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction, or repair of school buildings.

The ***2014 debt fund*** **is** used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt related to the School District's 2014 building and site improvement bonds.

Additionally, the School reports the following fund types:

The ***special revenue funds*** are used to account for the proceeds of specified purposes. The School District's special revenue funds include the Food Service Fund. Operating deficits generated by these activities are generally covered by a transfer from the general fund.

The ***debt service funds*** are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary funds Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent. The ***trust funds*** are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The ***Agency fund*** is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities, and Fund Equity

Cash & Cash Equivalents

The School considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Investments are reported at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

All receivables are shown net of an allowance for uncollectibles, as applicable. All amounts deemed to be uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. No amounts have been deemed uncollectable during the current year.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2017, the rates are as follows per $1,000 of assessed value:

General fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt service funds	7.00000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District’s boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Cass, St. Joseph, and Van Buren and remitted to the School District by May 15.

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in the governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the District-wide financial statements. Assets having a useful life in excess of two years and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset’s useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and additions, furniture and equipment and vehicles are depreciated using the straight-line method over the following estimated useful lives:

Description	Life
Buildings and improvements	15 - 50 years
Equipment and furniture	5 - 50 years
Buses and other vehicles	5 - 10 years

Deferred Outflows of Resources

A deferred outflow of resources is a consumption of net position by the School District that is applicable to a future reporting period.

For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

Deferred amounts on bond refundings are included in the district-wide financial statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

Compensated Absences

Sick days are earned by teachers and administrators. Retiring employees who meet certain years of service requirements are paid for accumulated sick days up to a maximum number of days and at a rate determined by their contracts. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences report in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for employees who currently are eligible to receive termination payments. The amount reported is salary-related and includes fringe benefits.

Long-term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bond issuance costs are recorded as a period expense. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance 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 expenditures.

Pension

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

Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net position by the School District that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

For District-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPSERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Net Position Flow Assumption

Sometimes the School 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 and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumptions

Sometimes the School 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 School'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.

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. Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. The School 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 School's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the School District 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 School District for specific purposes but do not meet the criteria to be classified as committed. The Board of Directors and the Superintendent can 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.

Unassigned fund balance is the residual classification for the School District's general fund and includes all spendable amounts not contained in the other classifications and is therefore available to be spent as determined by the Board of Directors.

Use of Estimates

The preparation of financial statements requires estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year-end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between accounts within a function within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

During the year, the School District did not incur significant expenditures in budgetary funds which were in excess of the amounts appropriated.

District-wide Deficits

The School District has an unrestricted net position deficit for District-wide activities in the amount of $7,578,668 as of June 30, 2017.

There are no governmental funds with a deficit.

Compliance with Sinking Funds

The Sinking Fund records capital project activities funded with the Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of section 1212 of the Revised School Code.

Compliance - Bond Proceeds

The capital project fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the 2014 Capital Project Funds from inception through the current fiscal year:

	2014 Capital Projects Fund
Revenues	$ 12,844,771
Expenditures	12,585,522
Balance	$ 259,249

Note 3 - Cash and Cash Equivalents

At year-end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash	$ 2,340,017	$ 138,322	$ 2,478,339

All $2,478,339 as of June 30, 2017 was held in checking accounts. Accordingly, no investments or fair value disclosures are included.

Custodial Credit Risk - Interest Rates

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy restricts investment maturities to within four years of the date of purchase. In addition, the policy restricts investments in commercial paper, which can only be purchased with no more than a 270-day maturity. The School District's policy does not address other ways to minimize interest rate risk.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be returned. State law does not require and the School District does not have a policy for deposit custodial credit risk. As of year-end, $2,143,634 of the School District's bank balance of $2,643,634 was exposed to custodial credit risk because it was uninsured and uncollateralized. Due to the dollar amounts of cash deposits and the limits of FDIC insurance, the School District believes it is impractical to insure all bank deposits at all times. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Capital Assets

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

	June 30, 2016	Additions	Reductions	June 30, 2017
Capital Assets Not Being Depreciated:				
Land	$ 100,000	$ -	$ -	$ 100,000
Construction-in-progress	9,736,495	2,102,286	-	11,838,781
Total Capital Assets not Being Depreciated	9,836,495	2,102,286	-	11,938,781
Capital Assets Being Depreciated:				
Buildings and improvements	9,353,206	-	-	9,353,206
Equipment and furniture	1,054,244	65,703	167,601	952,346
Buses and other vehicles	803,603	-	-	803,603
Total Capital Assets Being Depreciated	11,211,053	65,703	167,601	11,109,155
Less Accumulated Depreciation:				
Buildings and improvements	6,029,949	119,909	45,015	6,104,843
Equipment and furniture	791,673	50,286	117,081	724,878
Buses and other vehicles	462,921	56,394	-	519,315
Total Accumulated Depreciation	7,284,543	226,589	162,096	7,349,036
Net Capital Assets Being Depreciated	3,926,510	(160,886)	(5,505)	3,760,119
Net Capital Assets	$ 13,763,005	$ 1,941,400	$ (5,505)	$ 15,698,900

Depreciation expense for the fiscal year ended June 30, 2017 amounted to $226,589. The School District determined that is was impractical to allocate depreciation expense to the various government activities as the capital assets serve multiple functions.

Note 5 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the general fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	June 30, 2016	Additions	Reductions	June 30, 2017
State aid anticipation note	$ 103,593	$ 700,000	$ 803,593	$ -

Note 6 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

The following is a summary of the changes in long-term debt (including current portion) of the School for the year ended June 30, 2017:

	Interest Rate	Maturity	June 30, 2016	Additions	Reductions	June 30, 2017	Due Within One Year
2007 Refunding Bonds - General Obligation	4.00 - 5.25%	May 2019	$ 1,855,000	$ -	$ 620,000	$ 1,235,000	$ 620,000
GW Jones Technology Installment Note	2.50%	October 2017	12,553	-	8,291	4,262	4,262
GW Jones Lawn Mower Installment Note	3.25%	October 2016	2,329	-	2,329	-	-
2014 Building & Site Bond	4.00 - 5.00%	May 2032	11,785,000	-	-	11,785,000	25,000
Premium on Bonds			1,089,979	-	82,659	1,007,320	-
Compensated Absences			158,803	4,458	-	163,261	-
Total Long-term Liabilities			$ 14,903,664	$ 4,458	$ 713,279	$ 14,194,843	$ 649,262

For governmental activities, compensated absences and other notes payable are primarily liquidated by the general fund. The general obligation bonds are payable from the debt service funds. As of year-end, the funds had a balance of $593,932 to pay this debt. Future debt and interest will be payable from future tax levies.

Bonds Payable

General obligation bonds payable at year-end consist of the following:

2007 Refunding Bonds – General Obligation

$2,915,000 serial bond due in annual installments of $615,000 to $620,000 through May 2019 with interest ranging from 4.00% to 5.25%.

2014 Building and Site Bonds

$11,785,000 building and site bonds due in annual installments of $25,000 to $1,105,000 through May 2032 with interest ranging from 4.00% to 5.00%.

Notes Payable

Installment notes payable at June 30, 2017 consist of the following:

Technology Note

$44,255 technology installment note payable, due in bi-annual installments of $4,289 through October 1, 2017 with interest at 2.50%.

Future principal and interest requirements for installment notes and bonds payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	$ 649,262	$ 577,250	$ 1,226,512
2019	665,000	551,200	1,216,200
2020	695,000	524,100	1,219,100
2021	725,000	489,350	1,214,350
2022	760,000	453,100	1,213,100
2023-2027	4,330,000	1,660,500	5,990,500
2028-2032	5,200,000	637,200	5,837,200
Totals:	$ 13,024,262	$ 4,892,700	$ 17,916,962

Compensated Absences

Accrued compensated absences at year-end consist of $163,261 of accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Note 7 - Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year ended June 30, 2017. No provision has been made for possible future claims.

Note 8 - Pension Plans and Post-Employment Benefits

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) 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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at www://michigan.gov/mpserscafr.

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

Benefits Provided

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 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% - 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 (no reduction factor for age)

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 (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 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (member will receive benefit through a Defined Contribution plan). As a DC 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 a Defined Contribution 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.

Member Contributions

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

Employer Contributions

Employers 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 September 30, 2016 valuation will be amortized over a 20-year period for fiscal year 2016.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

October 1, 2015 - September 30, 2016	14.56% - 18.95%
October 1, 2016 - September 30, 2017	15.27% - 19.03%

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately $850,147. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

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

At June 30, 2017, the School District reported a liability of $9,445,551 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 0.03786% and 0.03560%.

MPSER (Plan) Non-university employers	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
Proportionate share		0.03786%		0.03560%
Net pension liability for the School District	$	9,445,551	$	8,951,606

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

For the year ended June 30, 2017, the District recognized pension expense of $900,289. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2017.

At June 30, 2017, the Reporting Unit 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	$ 117,716	$ 22,386
Changes of assumptions	147,674	-
Net difference between projected and actual earnings on pension plan investments	156,985	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	365,766	5,958
Employer contributions subsequent to the measurement date	585,216	302,666
Total	**$ 1,373,357**	**$ 331,010**

$282,550 reported as deferred outflows of resources related to pensions resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ended September 30	Amount:
2016	$ 186,572
2017	174,225
2018	324,681
2019	74,319

Actuarial Assumptions

Investment rate of return **-** 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus Plan).

Salary increases **-** The rate of pay increase used for individual members is 3.5%.

Inflation **-** 2.5%

***Mortality assumptions* -** RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB for men and women were used.

***Experience study* -** The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. 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 long-term expected rate of return on pension plan investments* -** The rate was 8% (7% Pension Plus Plan) net of investment and administrative expenses 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.

The target asset allocation at September 30, 2016 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short-term Investment Pools	2.0	0.0
Total	100.0 %	

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

***Discount rate* -** The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The discount rate did not change from the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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 net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8% (7% for Pension Plus Plan), as well as what the Reporting Unit'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 than the current rate:

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%
$12,163,492	$9,445,551	$7,154,065

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.

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

Other Information

Discount Rate - Assumed Rate of Return

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

Pension Reform 2017

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended). The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefit Provisions - Other Postemployment

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 subsidy 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% to 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016 5.69% to 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 School District postemployment healthcare contributions to MPSERS for the years ended June 30, 2017, 2016 and 2015 were approximately $188,100, $201,900, and $110,900.

Note 9 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial.

Required Supplementary Information

Marcellus Community Schools
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Variance Favorable (Unfavorable)
	Original	**Final**	**Actual**	**Final to Actual**
Revenues				
Local Sources	$ 1,448,528	$ 1,515,282	$ 1,451,676	$ (63,606)
State Sources	4,895,036	4,999,305	5,001,818	2,513
Federal Sources	193,056	204,681	255,089	50,408
Other Revenues	--	--	8,565	8,565
Total Revenues	6,536,620	6,719,268	6,717,148	(2,120)
Other Financing Sources				
Proceeds from Sale of Capital Assets	--	--	665	665
Total Revenues and Other Financing Sources	6,536,620	6,719,268	6,717,813	(1,455)
Expenditures				
Instruction				
Basic Programs	3,142,616	3,256,170	3,254,767	1,403
Added Needs	717,494	691,716	700,998	(9,282)
Total Instruction	3,860,110	3,947,886	3,955,765	(7,879)
Supporting Services				
Pupil Support	221,591	210,263	210,061	202
Instructional Staff Support	31,435	41,988	41,849	139
General Administration	200,264	192,453	190,633	1,820
School Administration	546,816	568,614	561,688	6,926
Business Services	207,395	229,509	229,856	(347)
Operations and Maintenance	679,585	614,945	616,086	(1,141)
Pupil Transportation	391,912	370,717	369,766	951
Other Central Support	316,021	320,058	317,906	2,152
Total Supporting Services	2,595,019	2,548,547	2,537,845	10,702
Capital Outlay	50,000	125,000	--	125,000
Debt Service - Principal	15,000	10,620	10,620	--
Debt Service - Interest	446	314	314	--
Total Expenditures	6,520,575	6,632,367	6,504,544	127,823
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	16,045	86,901	213,269	126,368
Net Change in Fund Balance	**16,045**	**86,901**	**213,269**	**126,368**
Fund Balance at Beginning of Period	1,130,865	1,130,865	1,130,865	--
Fund Balance at End of Period	**$ 1,146,910**	**$ 1,217,766**	**$ 1,344,134**	**$ 126,368**

Marcellus Community Schools
Schedule of Proportionate Share of Net Pension Liability
Michigan Public School Employee Retirement System
Last Three Fiscal Years (Determined as of the Plan Year Ended September 30)

	2016	2015	2014
School District's Portion of Net Pension Liability (%)	0.03786%	0.03560%	0.03562%
School District's Proportionate Share of Net Pension Liability	$ 9,445,551	$ 8,951,606	$ 7,845,847
School District's Covered Employee Payroll	$ 3,225,254	$ 2,982,638	$ 3,037,513
Districts Proportionate Share of Net Pension Liability as a Percentage of its Covered Employee Payroll	292.86%	300.12%	258.30%
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.27%	63.17%	66.20%

Marcellus Community Schools
Schedule of Contributions
Michigan Public School Employee Retirement System
Last Three Fiscal Years (Determined as of the Year Ended June 30)

	2017	2016	2015
Statutorily Required Contributions	$ 850,147	$ 577,808	$ 710,987
Contributions in Relation to Statutorily Required Contributions	850,147	577,808	710,987
Contribution Deficiency (Excess)	$ -	$ -	$ -
School District's Covered Employee Payroll	$ 3,135,365	$ 3,029,366	$ 3,231,954
Contributions as a Percentage of Covered Employee Payroll	27.11%	19.07%	22.00%

Combining and Individual Fund Statements and Schedules

Marcellus Community Schools
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue	Debt Service	
	Food Service Fund	**2007 Refunding Debt Fund**	**Total Nonmajor Governmental Funds**
ASSETS			
Cash	$ 30,267	$ 193,865	$ 224,132
Due from Other Governmental Units	15,521	--	15,521
Inventory	4,796	--	4,796
Total Assets	**$ 50,584**	**$ 193,865**	**$ 244,449**
LIABILITIES			
Accounts Payable	$ 12,520	$ --	$ 12,520
Accrued Liabilities	13	--	13
Total Liabilities	12,533	--	12,533
FUND BALANCE			
Nonspendable	4,796	--	4,796
Restricted	33,255	193,865	227,120
Unassigned	--	--	--
Total Fund Balance	38,051	193,865	231,916
Total Liabilities and Fund Balance	**$ 50,584**	**$ 193,865**	**$ 244,449**

Marcellus Community Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue	Debt Service	
	Food Service Fund	**2007 Refunding Debt Fund**	**Total Nonmajor Governmental Funds**
Revenues			
Local Sources	$ 70,428	$ 240	$ 70,668
State Sources	14,363	--	14,363
Federal Sources	244,230	--	244,230
Property Taxes	--	673,055	673,055
Total Revenues	329,021	673,295	1,002,316
Expenditures			
Food Services	296,518	--	296,518
Debt Service - Principal	--	620,000	620,000
Debt Service - Interest & Other Expenditures	--	82,650	82,650
Total Expenditures	296,518	702,650	999,168
Excess of Revenues Over (Under) Expenditures	32,503	(29,355)	3,148
Net Change in Fund Balance	**32,503**	**(29,355)**	**3,148**
Fund Balance at Beginning of Period	5,548	223,220	228,768
Fund Balance at End of Period	**$ 38,051**	**$ 193,865**	**$ 231,916**

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October 5, 2017

To the Board of Education
Marcellus Community Schools
Marcellus, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools (the "School District") for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 18, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2017. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The most sensitive estimates affecting the School District's financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the management's discussion and analysis, budgetary comparison schedules, and the schedule of proportionate share of net pension liability and contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Very truly yours,

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Education
Marcellus Community Schools
Marcellus, 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 Marcellus Community Schools (the "School District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 5, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Gabridge & Company

Gabridge & Company, PLC
Grand Rapids, MI
October 5, 2017