SAND CREEK COMMUNITY SCHOOLS
Report on Financial Statements
(With required supplementary and other supplemental information)

Year Ended June 30, 2018

Sand Creek Community Schools
Financial Report
For the Fiscal Year Ended
June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Sand Creek Community Schools
Sand Creek, 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 Sand Creek Community Schools (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Schools District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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.

Emphasis of Matter

As described in Note 1 to the basic financial statements, effective July 1, 2017, the School District adopted the provision of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The School District's unrestricted net position has been restated as of July 1, 2017 as a result of this change in accounting principle. Our opinion is not modified with respect to this matter.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of Sand Creek Community Schools, as of June 30, 2018, 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, the major fund budgetary comparison, the schedules of the School District's share of the net pension liability and pension contributions, and the schedules of the School District's share of the net postemployment benefit other than pensions (OPEB) liability and OPEB contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sand Creek Community Schools basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major 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 15, 2018, on our consideration of Sand Creek Community Schools internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sand Creek Community Schools internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sand Creek Community School's internal control over financial reporting and compliance.

Darnell & Meyering, P.C.

DARNELL & MEYERING, P.C.

Taylor, Michigan
October 15, 2018

0004Sand Creek Community Schools is a K-12 school district located in Lenawee County, Michigan. The Management's Discussion and Analysis, a requirement of the Governmental Accounting Standards Board Statement 34 (GASB 34), is intended to be an overview of the financial activities for the fiscal year ended June 30, 2018. This reporting model provides detailed explanation of specific items included in the financial statements. A comparative analysis of fiscal year ended June 30, 2018 to the prior year has been included in this discussion.

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government Wide Financial Statements and Fund Financial Statements. The presentation of these Financial Statements now reflect the direction of GASB 34 which requires that fund balances be defined in one of five separate categories (Nonspendable, Restricted, Committed, Assigned and Unassigned) so that any constraints placed on a government's fund balances are more transparent and better understood by the reader.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The *Government-Wide Statement of Net Position and Statement of Activities* report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid. These statements reflect an aggregate view of the District's finances for the fiscal year.

The statements report the District's net position, which is the difference between assets, deferred outflows of resources, liabilities, deferred inflows of resources and changes in them. The change in net position provides the reader a tool to assist in determining the District's financial health. Over time, increases or decreases in the School District's net position – as reported in the Statement of Activities – are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided, the safety of the schools, student enrollment, and facility conditions to assess the overall health of the District.

The statement of net position and statement of activities report the government-wide activities for the District (or the district as a whole), which encompass all of the District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Fund Financial Statements

The School District's fund financial statements (governmental funds) provide detailed information about the most significant funds – not the School District as a whole. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, Capital Project Funds, and Special Revenue Funds. The fund financial statements are reported on a modified accrual basis, as opposed to the full accrual basis of the Statement of Net Position and Statement of Activities, and are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". Only those revenues that are "measurable" and "currently available" are reported when using the modified accrual basis. Currently available is considered to be collected within 60 days of the end of the current fiscal period. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. The fund financial statement provides a detailed short-term view of the District's general operations and the basic services it provides. These fund statements help you determine whether there are financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between government-wide activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

For the period ended June 30, 2018, the District is reporting on only one major fund, the District's General Fund. The General Fund reports the district's operational expenditures and activities. The District has several non-major funds. Non-major funds consisted of the District's Special Revenue, Debt Service and Capital Project Funds.

The District has two Special Revenue Funds - the School Lunch Fund and the Community Service Fund. The School Lunch Fund reports the food service activities and the Community Service Fund reports the district's internal pop sales. The District's Capital Project Funds include the district's two Building and Site Sinking Funds and the FFA Capital Project Fund. These Capital Project Funds report various capital improvements in the district.

The District's Debt Service Funds were used to report the districts two debt retirement funds for the 2000 Bond and the 2012 Bus and Technology Bond. Principal and interest payments for both of these bonds are being made with tax levy dollars and will be paid off in 2020 and 2019, respectively.

The District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate Statements of Net Position. We exclude these activities from the District's other financial statements because the School District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in the funds are used for their intended purposes.

The District as a Whole (Statement of Net Position):

As discussed above, the Statement of Net Position provides the perspective of the District as a whole. Table 1 provides a summary of the District's Net Position as of June 30, 2018. The School District's net position was $7,215,594 at June 30, 2018, excluding the GASB 68 (net pension liability) and GASB 75 (net OBEB liability) effects. Capital assets, net of related debt totaling $5,621,965 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets. Most of this long-term debt will be repaid with voter approved bond millage revenue by May 2020.

The District had an unrestricted fund balance of $1,471,873 (excluding GASB 68 & 75), which represents the accumulated results of all past year's operations. Restricted funds are reported separately because the School District is limited in their ability to use these funds for day-to-day operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

GASB 68 - Net Pension Liability

GASB Statement No. 68 requires all Michigan school districts to record their proportionate share of the state's net pension liability, on their government-wide statements. The details of the GASB 68 requirement and how this figure was calculated is covered in more detail in the footnotes of this audit report. However, the net pension liability that must be recorded in the government-wide statements for Sand Creek Community Schools is $12,674,378. This figure (along with the GASB 75 figure discussed below) drastically changed the statements for the District, putting them into a negative net position of ($8,799,614). This is an estimated liability figure as it is calculated in part based on annual investment earnings. Dependent on market activity, this figure could increase or decrease every year.

GASB 75 - Net OPEB Liability

New this audit year, the GASB Statement No. 75 requires all Michigan school districts to record their proportionate share of the state's net Other Post Employment Benefit Liability (retiree health) on their government-wide statements. The details of the GASB 75 requirement and how this figure was calculated is covered in more detail in the footnotes of this audit report. However, the net OPEB liability that must be recorded in the government-wide statements for Sand Creek Community Schools is $4,350,348. This figure, along with the larger GASB 68 figure, drastically changed the statements for the District, putting them into a negative net position of ($8,799,614). This is an estimated liability figure as it is calculated in part based on annual investment earnings. Dependent on market activity, this figure could increase or decrease every year.

The GASB 68 and GASB 75 effect are included in the statements below.

Table 1

	June 30, 2018	June 30, 2017
Assets		
Current Assets	$ 3,136,783	$3,168,060
Noncurrent Assets	5,937,699	5,896,522
Total Assets	$ 9,074,482	$9,064,582
Deferred Outflows of Resources		
Contributions to pension plan	$ 2,688,420	$ 1,662,864
Contributions to OPEB	$ 251,609	0
Total Deferred Outflows of Resources	$ 2,940,029	$ 1,662,864
Liabilities		
Current Liabilities	$ 1,498,521	$ 1,634,986
Noncurrent Liabilities	17,385,093*	13,421,151*
Total Liabilities	$18,883,614	$15,056,137
Deferred Inflows of Resources:		
Deferred inflows of pension resources	1,783,438	643,008
Deferred inflows of OPEB resources	147,073	0
Total Deferred Inflows of Resources	$ 1,930,511	$ 643,008
Net Position		
Net investment in Capital Assets	5,621,965	5,161,753
Restricted for debt service	40,309	33,103
Restricted for Food Service	81,447	51,059
Unrestricted	(14,543,335)	(10,217,614)
Total Net Position	($ 8,799,614)	($ 4,971,699)

*Noncurrent Liability balance reflects $12,674,378 (GASB 68 net pension liability) and $4,350,348 (net OPEB liability) for 2017/18. The prior year number reflects $12,677,854 as required by GASB 68.

Table 2

Statement of Activities:

For the fiscal year ended June 30, 2018, the District wide results of operations as compared to June 30, 2017, were:

	June 30, 2018	June 30, 2017
Revenues:		
General Revenues:		
Property taxes levied for general operations	$ 255,097	$ 255,459
Property taxes levied for debt service	409,149	393,876
Property taxes levied for capital projects	225,101	223,291
Investment earnings	7,233	4,226
Intermediate Sources	15,387	70,179
State of Michigan unrestricted foundation aid	6,378,989	6,274,820
Contributions	12,000	4,517
Other general revenues	5,397	10,943
Gains on disposal of assets	2,650	0
Total General Revenues	7,311,003	7,237,311
Program Revenues:		
Operating Grants:		
Federal	448,667	416,060
State of Michigan	906,836	740,484
Other operating grants	452,226	351,440
Total Operating Grants	1,807,729	1,507,984
Charges for Services:		
Food service	171,258	178,123
Athletics	74,197	67,570
Instruction	52,780	74,584
Other	10,359	10,246
Total Charges for Services	308,594	330,523
Total Revenues	9,427,326	9,075,818

Expenses:		
Instruction	4,807,744	5,069,374
Support services	2,950,208	2,424,943
Food service	479,114	447,898
Athletics	326,767	251,650
Interest Expense	35,017	46,853
Capital Outlay	4,398	9,376
Unallocated Depreciation	393,722	396,898
Other	1,602	2,975
Total Expenses	8,998,572	8,649,967
Change in Net Position	**428,754**	**425,851**
Beginning Net Position	**(4,971,699)**	**(5,403,853)**
Prior Period Adjustment	**(4,256,669)***	**6.303**
Ending Net Position	**($8,799,614)**	**($ 4,971,699)**

*See Note 7 for further explanation and detail on the Deferred Inflows/Outflows for Pension Cost and the Net Pension Liability. See Note 1 for explanation of Prior Period Adjustment.

As shown in Table 2 above, the cost of all of *the District activities as a whole* this year was $8,998,572. This figure includes the net cost of the Deferred Inflows and Outflows of Resources which was $1,009,518, part of the GASB 68 and GASB 75 effect. (More about these figures are included in the footnotes.) The total change in net position for this year was positive $428,754. Certain activities received partial funding from those who benefited from the programs, or by other grants or categorical. The remaining costs were paid by a combination of the $889,347 in levied property taxes and $6,378,989 in unrestricted state aid, along with other additional revenue such as interest and miscellaneous contributions.

The net position in the chart above shows the financial burden that is placed on the state aid and the District's taxpayers by each of these functions. The majority of the district's revenue comes from property taxes and the unrestricted State aid, based on student enrollment. The Board of Education and Administration of the District must constantly evaluate the needs of the district to provide a high quality educational program in a highly competitive school of choice market, with the State-prescribed revenue available to the district.

Analysis of Financial Position

During the fiscal year ended June 30, 2018 the District's total governmental activities had a combined fund balance of $2,010,774 , an increase of $109,331 from the prior year. This combined fund balance consists of the District's one major fund – the General Fund; and the District's non-major funds that include the Capital Project, Debt Service and Special Revenue Funds (School Lunch Fund and Community Service Fund). An analysis of each fund's financial position is included below.

- In the General Fund, the District's principal operating fund, the fund balance increased by $27,090 and had an ending fund balance of $1,590,504, or 18.78% of expenditures. Of this balance, $15,873 are prepaid expenses for the 2018/2019 fiscal year and are therefore considered non-spendable funds and not available for general education operations. If you exclude these nonspendable-prepaid amounts, the district's unassigned fund balance is $1,574,631 or 18.60%.

- The District had a total fund balance of $294,266 at fiscal year-end in its Capital Project Funds. The District's Capital Project Sinking Fund makes up the bulk of this fund with an ending balance of $284,474, an increase of $45,035 for the fiscal year. The district voters approved the new 2017 sinking fund levy of 1.8424 mills in November 2017. This millage was approved by voters through 2021 and is used to pay for capital improvements and major repairs/upgrades to the district's buildings and grounds, as well as technology and security improvements which now allowed by law. These annual projects are discussed and recommended to the board by the district's building committee.

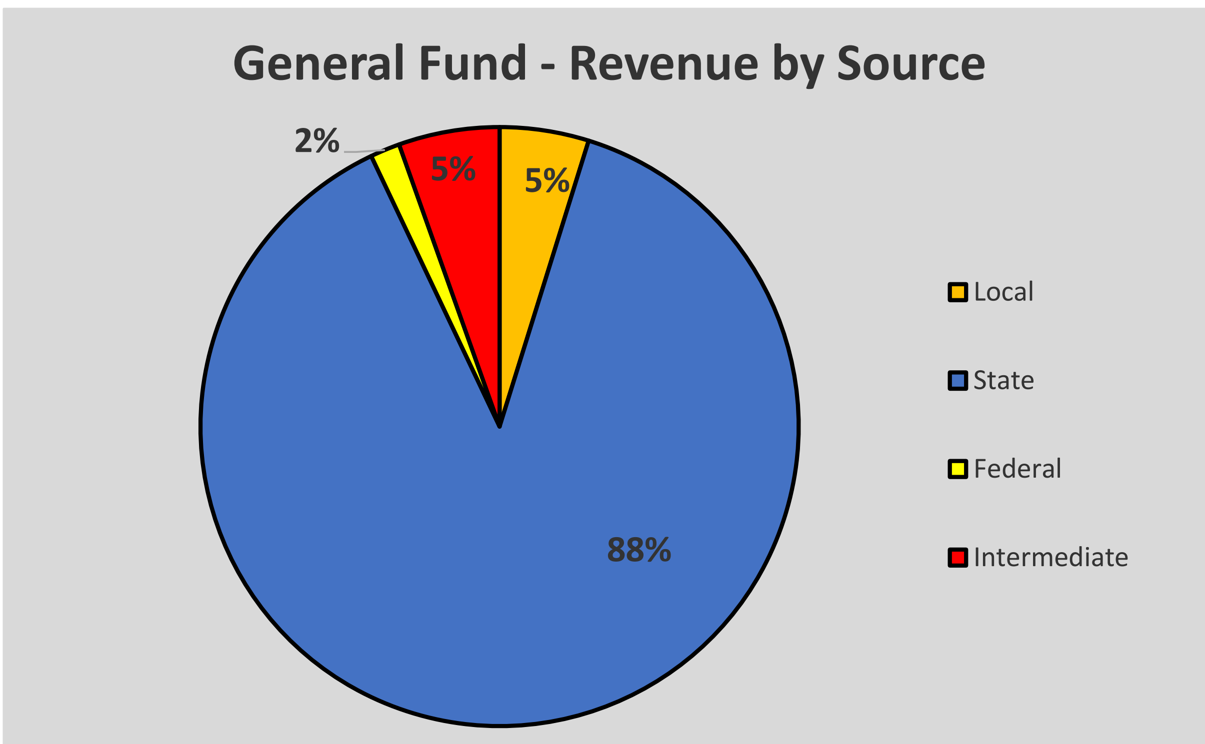
- The District's Debt Service Funds are comprised of two separate debt service funds that correspond to bonds issued in each of these years: the 2000 Debt Service and the 2012 Debt Service funds.
  - The 2000 Debt Service Fund had an ending fund balance of $40,073. This is a 1.95 mill levy for the district's 20 year High School Renovation Bond that expires in 2020.
  - The 2012 Debt Service Fund had an ending balance of $4,484. This is a 1.40 mill levy for the districts 7 year Bus and Technology Bond that expires in 2019.

- The Special Revenue Fund balance had an ending balance of $81,447. This fund is comprised of the School Lunch fund. The School Lunch Fund had an increase of $30,388 for the year. The goal of the Food Service program at the District continues to be to maintain a fund balance and be self-supporting. In the coming few years, the district will need to replace some of the aging appliances in the food service program, including ovens, dishwashers and stoves. This fund balance will help pay for the replacement of these often pricey pieces of commercial equipment.

It is the district management's goal to protect the fund balance while providing effective ongoing educational operations. It has been the management's goal to maintain at least an 8% fund balance (minimum). The board and management have done very well at growing this fund balance over the last few years, and the district has a much healthier fund balance with its current 18.78% as of 6/30/2018. The district continues to fight an overall declining enrollment, which is representative of the statewide decline in enrollment. In the last 15 years, the District enrollment has declined by close to 100 students. This represents over $680,000 in lost revenue for just the 2017/2018 fiscal year alone. The cumulative effect of this loss in revenue year after year amounts to millions of dollars in lost revenue. Declining enrollment is just one of the significant financial events that will continue to have an effect on the District's fund balance if this trend does not turn around.

Revenues

As illustrated in the following graph, The State of Michigan is the primary source of funds for the District. The State provides districts with a per pupil foundation grant, which is used for the overall operation of the district. During the 2017-2018 fiscal year, the District received $7,631 per pupil. In addition to this per pupil funding, the State also provides other grants and categorical grants that are restricted to specific purposes. Property taxes collected on non-residential homes are received by the District and are included in Local Sources. Federal funds are restricted for specific purposes. Intermediate funds are primarily received from the Intermediate School District.



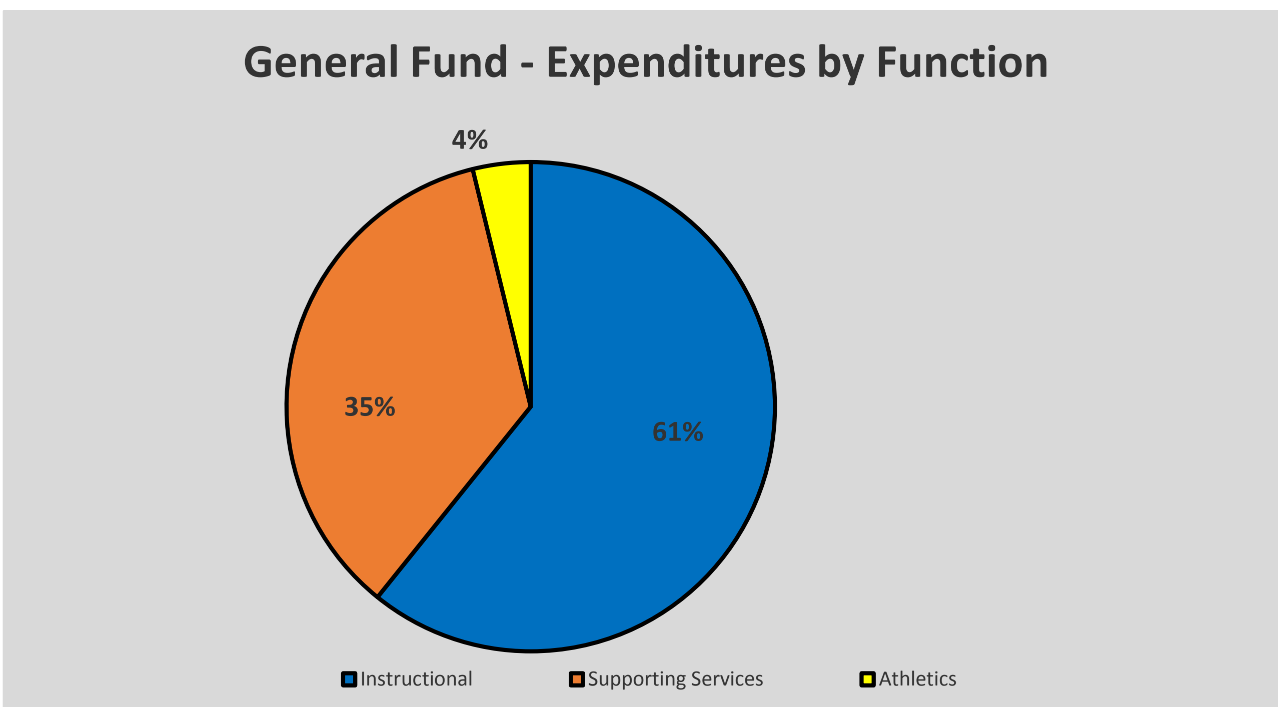
Foundation Allowance (State Aid)

The per pupil foundation allowance received is based on student enrollment. Enrollment is measured on two count days; the first Wednesday in October and the second Wednesday in February. The October count is weighted at 90% and the February count is weighted at 10%. In addition, new in 2013-14, FTE is allocated to students that transfer from one district to another between count days under Sec. 25e of the State School Aid Act. This increases the difficulty of budgeting as the final pupil count cannot be determined until this movement has been accounted for and certified.

As stated earlier, Sand Creek Community Schools has been experiencing an enrollment decline over the last 18 years. This past fiscal year saw a decrease in enrollment of eight students from the 2016/2017 school year. The preliminary enrollment number for the coming 2018/19 year is 848, down 34 students. The overall reduction in student count and the state funding that goes with it will put a financial strain on the district budget. As shown in the chart above, 88% of the districts revenue comes from the state, with much of that in the form of per-pupil funding. Therefore, the enrollment decline is a huge concern for the district board and management. The district has been extremely careful and cautious with budget planning, spending and negotiations and this diligence has allowed the fund balance to grow in the most recent years. Additional sources of grant funding, along with caution and conservative budgeting and spending have helped the district maintain a healthy fund balance. The maintenance of a health fund balance is crucial for the district's ability to weather the difficulties of enrollment/funding and unplanned expenditures.

Expenses

As illustrated in the graph below, the majority of the district's expenditures is in instructional and instructional support services. Within these functions, most of the expenditures are incurred for employee compensation and benefits.



The District's current agreement with the Sand Creek Education Association (SCEA) includes a salary pay system based on a new, leading edge salary agreement. The Board of Education and the SCEA have renewed this master agreement for another two years, through August 31, 2019. The annual teacher increase is based on performance, student count and salary level. By continuing to base increases on each individual teacher's salary level it helps the starting teachers reach an average teacher pay faster, but still gives senior teachers a small increase each year. The trust and strong working relationship between district management and the SCEA is a point of pride to the district and something that is protected and valued on both sides.

As teachers at the end of their career with higher salaries from the previous contracts retire, they are replaced with teachers placed into our new salary agreement. This has a cumulative positive effect on the district's budget. The district had two teachers retire at the end of the 2016/2017 year and were replaced with new hires at lower salary levels resulting in a savings in overall expenditures to the district. Health insurance costs continue to rise but the district has made changes to try to lower this cost effect. The state hard cap limit on district paid premium amounts reduces this cost effect by sharing the cost increases with the employee. The District is also a member of the Lenawee County Health Consortium that has helped to contain these cost increases. The Lenawee County Health Consortium continues to bid out health coverage to seek the best options for the country district employees and districts.

Contributions to the Michigan Public School Employee' Retirement System (MPSERS) for fiscal year 2018 was anywhere between 25 - 27%, depending on the employee's retirement plan. The state legislature has taken action to reduce the cost effect of increasing rates by using state funds to stabilize these rates. While this controls our retirement costs, it also uses state funds that could have otherwise been used for revenue increases. Even with these efforts, the fact remains that for each payroll dollar paid, an additional 26 cents or more is paid to the retirement system.

The district had major vehicle purchases during the 2017/2018 school year. Two buses were purchased during the fiscal year for a total amount of $168,000 along with a new truck, with the snowplow attachment, for $40,514. Another major purchase within the transportation department was the purchase of the bus camera system for the entire bus fleet. This purchase amounted to $33,798 and will greatly increase security for the district.

Energy costs (heat and electric) increased from the prior year by $14,680. Transportation fuel costs increased by $7,100, or 18%. Other major costs for the year were in the area of technology expenditures with the district annually spending around $65,000 towards continual technology upgrades and technology support services through the Lenawee Intermediate School District. The district finished its third year of the new Business Services Cooperative Agreement with the Lenawee Intermediate School. This cooperative agreement to share business services saves Sand Creek Schools close to $70,000 annually. This cooperative agreement involves sharing the district's Chief Financial Officer with another local county district thereby splitting this cost in half.

The District continues to make every effort to contain and reduce costs through attrition, efficiency and cooperative service agreements while maintaining a competitive educational program to draw more students. However, with an overall decrease in the number of students both statewide and countywide, the efforts to increase enrollment in the district continues to be a struggle. The net results of the 2017/2018 school year was a small increase in the general fund balance of $27,090.

General Fund and Special Revenue Fund Operations

The district's revenues from General Fund operations exceeded expenses by $27,090 for the fiscal year ended June 30, 2018. The district management was very pleased to end another fiscal year with an increase to the fund balance. At the end of the fiscal year, the fund balance for the School District's General Fund was $1,590,504, or 18.78%. Of this fund balance, $15,873 are prepaid expenditures considered nonspendable funds. Excluding these nonspendable costs, the district has a final unassigned fund balance of $1,574,631 or 18.60%.

Revenues and expenses for the district's athletic program are combined with the General Fund at the end of the fiscal year. The School District's General Fund supports the athletic program every year. In 2017/2018, the general fund contributed funds of $237,391 towards coaching salaries, benefits and other athletic costs.

This year's increase to the general fund balance was much better than had been predicted in the final amended budget, which called for a decrease of $54,377. The original budget adopted by the board in June 2017 showed a $285,362 hit to the fund balance. The positive change can be attributed to savings achieved by retirements and staff changes, changes in actual student count and funding, along with new grant revenues. District management has always maintained that to operate at its capacity and best efficiency it needs 1,000 students. As the enrollment decreases and gets further away from this goal, the district's struggles to make ends meet will increase. The district is therefore very pleased to end the year with this increase and a healthier fund balance. At the end of the fiscal year, the fund balance for the School District's General Fund was $1,590,504, or 18.78%.

The Lunch Fund (Food Service program) continues to successfully support itself. The fund had a net increase at the end of the 2017/18 school year of $30,388. The increase in lunch prices and participation resulted in a good year financially for the Food Service Program. The district's free and reduced eligibility percentage continues to increase and the result is an increase in federal meal reimbursements. Going into next year, our free and reduced percentages district-wide are at an all-time high at near 48%. While sadly this is a sign of the financial struggles of many of the district's families, the district will receive more federal funds for meal reimbursements as well as many state and federal grant allocations that are linked to this number. The Universal Free Breakfast program in our elementary program continues to be very successful, providing a free nutritious breakfast to over 80% of our elementary students.

Our food service management group works hard to use government commodities to provide nutritional and appetizing meals for our students and staff and keep costs down, while now abiding by federal regulations that limit choices and challenge staff to create menu choices that appeal to students. The district's food and milk sales to students and adults amounted to $171,258 for the fiscal year, a decrease of $7,000 from the prior year. The state and federal meal funding totaled $328,554, an increase of $25,270 from the prior year. This increase in federal and state reimbursement dollars, along with the decrease in student sales dollars, is a direct indication of the financial struggles in families within the district.

The food service program ended the year with a fund balance of $81,447.

Long-Term Bonded Debt and Long-Term Notes

The District had $610,000 in long-term debt as of June 30, 2018. During the fiscal year ending June 30, 2018, total principal payments on long-term debt were $370,000. All of the district's long-term debt is covered below and in the following pages of this report in further detail.

	Principal Balance June 30, 2017	Additions June 30, 2018	Principal Payments June 30, 2018	Balance June 30, 2018
2009 Refunding Bonds	$ 660,000		210,000	$ 450,000
2012 Bond	320,000		160,000	160,000
Total long-term bond obligations	$ 980,000	$ 0	$370,000	$ 610,000

VOTED BOND DEBT

On September 25, 2000, the qualified electors of the School District approved a proposal authorizing the School District to issue bonds in the sum of not to exceed Two Million Eight Hundred Ninety Thousand ($2,890,000) for the purpose of erecting, furnishing, and equipping additions to and partially remodeling, refurnishing, and re-equipping the Sand Creek High School; and developing and improving the site. Significant improvements were made to the Jr/Sr High School Building with these funds. A new media center, open computer lab, and computer classrooms were just a few of the improvements. This was a 20-year bond issue with interest paid semiannually on May 1 and November 1, and principal payments due annually on May 1.

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2000 Voted Bond for the High School Addition and Renovation, is based on the taxable valuation of all properties: homestead and non-homestead. The School District levied 2.9 mills on a taxable value of almost $75 million in the 2000 tax roll. Between 2001 and 2008, the rate was reduced to 2.4 mills because of a sufficient increase in the taxable value of the school district. The District's taxable valuation has maintained and even increased slightly over the last few years, which has allowed us to continue to decrease this rate. In 2014, the millage rate was further reduced to 1.95 mills. During the fiscal year ended 2018, this 1.95 mills levied on a taxable valuation of $120,125,178 generated revenue of $238,207. Final bond maturity is May 1, 2020.

TECHNOLOGY AND BUS BONDS

On May 8, 2012, the qualified electors of the School District approved a proposal authorizing the School District to issue bonds in the sum of not to exceed Nine Hundred Seventy Thousand ($970,000) for the purpose of acquiring and installing educational technology improvements, infrastructure, furnishings and equipment in school buildings; and acquiring school buses. The closing of this bond occurred on July 17, 2012, with work to begin in August 2012. This was a 7-year bond issue with interest paid semiannually on May 1 and November 1, and principal payments due annually on May 1.

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2012 School Technology and Bus Bonds, is based on the taxable valuation of all properties: homestead and non-homestead. The district levied the authorized 1.40 mills for the winter 2017 taxes. Final bond maturity is May 1, 2019.

During the fiscal year ended 2018, this 1.40 mills levied on a taxable valuation of $120,125,178 generated revenue of $170,942.

Net Investment in Capital Assets

At the end of fiscal year 2018, the School District had $12,573,470, invested in land and buildings, furniture and equipment, and vehicles and buses. From this amount, $6,635,771 in depreciation and amortization have been taken over the years. Our capital assets currently have a net book value of $5,937,699.

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets	$12,215,195	$434,899	($ 76,624)	$12,573,470
Less: Accumulated depreciation and amortization	(6,318,673)	(393,722)	76,624	(6,635,771)
Net investment capital outlay	$ 5,896,522	($ 41,177)	-0	$5,937,699

Economic Factors, Enrollment and Budget Comparisons

The two main factors affecting the School District's revenue picture during the 2017-2018 fiscal year, and any fiscal year, were the State Foundation Allowance and Student Enrollment. Another important revenue factor is the Property Tax levied for General Operations on the District's non-homestead property value. These three revenue areas, and the effect they had on the District's fiscal year ended 2018, are explained in more detail below.

State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

a. State of Michigan State Aid Act per student foundation allowance
b. Student Enrollment – Blended at 90 percent of current year's fall count and 10 percent of prior year's winter count
c. The District's non-homestead levy

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. For the 2017-2018 fiscal year, the Sand Creek Community School's foundation allowance was $7,631, an increase of $120 per student from the prior year. This increase was the result of a minimum foundation increase approved as part of the 2017/18 School Aid Package. Sand Creek Schools is at the minimum funding level. The state legislature also continues to fund the MPSERS Cost Offset funding to help with the cost burden of the retirement rates paid by the district. This additional funding amounted to $92,485 this past year.

Student Enrollment:

The District's student enrollment for the fall count of 2017-18 was 882 students. The school district has experienced an overall decline in enrollment. In September 2002, the enrollment was 980 and in September 2017 it had fallen to 882. In total, this is an 11% drop in enrollment! The following summarizes fall student enrollments in the past sixteen years:

	Student FTE	FTE Change from Prior Year
2017-18	882	(.90%)
2016-17	890	(.45%)
2015-16	894	(2.72%)
2014-15	919	(.96%)
2013-14	928	(1.83%)
2012-13	945	1.29%
2011-12	933	0.21%
2010-11	931	(0.21%)
2009-10	933	2.19%
2008-09	913	(0.77%)
2007-08	920	(1.52%)
2006-07	934	(4.39%)
2005-06	975	2.96%
2004-05	947	(2.87%)
2003-04	975	(.51%)
2002-03	980	0%
2001-02	980	

A preliminary enrollment figure of 848 for the 2018-2019 school year shows the 34 student, or 4%, drop in enrollment for this coming year. The enrollment decline is a concern for the district and one they will continue watching closely. If this continues, cost cuts will need to be made.

On a positive note, the district continues to be a very popular school of choice district within the county. In the 2017-2018 school year, 412 guest students from other county school districts were accepted for enrollment at Sand Creek Schools. This amounts to 47% of the district's total enrollment in 2017-2018. Since the "Schools of Choice" option became available at the school district, the number of choice students has continued to grow each year. However, the number of resident students has decreased.

Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable increase in property value is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. This non-homestead tax levy will be up for renewal again in November of 2020. Total authorized millage is currently 18.337, although the district only levies the 18.0 mills allowable by law.

The District's non-homestead property revenue for the 2017-18 fiscal year was $255,096.

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Sand Creek Community Schools amends its budget periodically during the school year. The June 25, 2018 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

General Fund Revenues:

Total Revenues - Original Budget	$ 7,622,664
Total Revenues - Final Budget	8,549,034
Increase in Budgeted Revenues	$ 926,370

The District's final, actual general fund revenue was $8,490,341, less than the final budget by $58,693, a difference of only .69% percent from final budget. This difference came mainly from state and federal grant revenue that was carried over into the 2018-19 school year and therefore not reflected in this year's actual revenue.

The final revenue budget was more than originally projected by $926,370. Actual revenues were larger than budgeted mainly due to the recording of the MPSERS 147 revenue for 2017/2018. The District does not include these MPSERS 147 funds in the original budget. Because this categorical line item is an "in and out"; meaning it comes in as a revenue line item on our State Aid Status report and then is paid back out to ORS the following month, the District waits to adjust both the revenue and expenditures for this same amount in the final budget amendment of the year. The amount of the 147 funding, plus some extra one time funding from the ORS not originally budgeted was $634,373, making up a good portion of the difference between the original and final approved budgets. Another major change was the difference between the originally budgeted enrollment and final enrollment for the fall 2017 count. The district budgeted for 870 and actual fall count was 882, an increase of 12 students to the budget. At $7,631 per student, this was $91,000 more than originally budgeted.

Other differences between the two budgets comes from changes between original and final grant allocations and funding from state, federal and our local ISD funds. We always project conservatively as we do not have the allocations at the time the original budgets are due. Fortunately, the final state and federal grants and special education reimbursements from the Lenawee ISD were larger than originally projected. This is great news but does make a difference between the original and final budgets.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	$ 7,908,026
Total Expenditures Final Budget	8,606,061
Increase in Budgeted Expenditures	$ 698,035

The final expenditure budget was more than originally projected by $698,035. As previously stated above in the revenue section, the district did not originally budget for the effect of the MPSERS 147 funding on either revenue or expense. As directed by the Michigan Department of Education, the district amended its revenue and expenditure budget to account for this state aid line item. The effect on the expenditure budget was an increase of $599,650. Another major expenditure change was the district's repayment of the Section 61b(1) CTE Program Funding grant we had received during the prior year through the Jackson ISD. Due to an error in the calculation of that grant, the district was informed during the 2017/2018 year that we had received that grant in error. We had to pay back to the Jackson ISD $86,659, which they had to turn back into the state.

The district takes a conservative approach to preparing a budget based on what we know at that time. Often the first amendment to the budget includes many changes and the net effect is usually a gain to fund balance based on the conservative approach to the original budget.

The School District's final, actual expenditures were $8,465,901, less than final budget by $140,160, or 1.65%. A big portion of this difference is the amount of grant carry-over the district had this year. The district had $86,000 of grant expenditures (Title 1, Title II and At Risk) that was not spent this year and will be carried over to the 2018/19 school year. Because the district must budget both the revenue and expense side of these grant allocations, this accounts for a difference when comparing actual to budget for both revenue and expenditures. Another difference was the bus lifts the board budgeted to purchase in 2017/2018. The shipping on this $30,000 bus garage equipment was delayed and we did not receive this equipment until August 2018.

With the decreasing enrollment across the state and uncertain state aid revenue, the district has been very conservative with its spending. The district will continue this careful watch of spending through the upcoming fiscal year. A final budget revision was done in June. The philosophy of the district is to be conservative with the budgeting while being as accurate as possible, but also allowing room in the budget for the unknowns. We strive to budget very close to actual in the final budget amendments, but sometimes-unexpected changes happen that affect the final numbers.

The district will continue to revise budgets in June in order to budget as close to actual as possible. By doing budget revisions in June, the fiscal year will be closer to completion and there will be fewer unknowns.

The General Fund had total revenues of $8,492,991 and total expenditures of $8,465,901 with an ending fund balance of $1,590,504, with an unassigned fund balance of $1,574,631. The unassigned ending fund balance was 18.6%.

NEXT YEAR'S BUDGETS
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

For the 2018/2019 school year, the non-homestead millage remained at 18.00 mills. Levying the full amount on these properties is crucial in order for the district to receive the full Foundation Allowance per pupil. The District's voters renewed the non-homestead millage in November 2013 for seven years. The district did received a Headlee rollback for the winter 2018 tax levy. Because the authorized millage of 18.337 is larger than the allowed 18 mills, this will not have an effect on our levied tax revenue.

Two of the most important factors impacting the budget are the student count and the uncertainty in the state school aid foundation allowance, Unfortunately, it is difficult for School District's to know exactly how many students will attend and be counted on those two critical pupil count days (October and February) of each school year. In addition, Sec 25 is now in effect, which allows the foundation allowance to follow the movement of the student from district to district between the two annual count dates.

Under state law, the District cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the State's ability to fund local school operations and on its total student enrollment. Since over 80% of the total General Fund revenues are from the foundation allowance, school districts are in a position to compete for its share of a dwindling enrollment base. Since Sand Creek Community Schools has an enrollment that has been declining or at the best just maintaining, this is a matter of concern for the District.

In summary, the district was able to maintain its healthy fund balance and even increase it slightly during the 2017/2018 school year by $27,090. Unfortunately, the fall 2018 enrollment had a substantial drop of 34 students. While the state's per student increase of $240 per student will help offset the effect of this decrease, this will still cause a drop in revenue and is a matter of concern to the administration.

Management will continue to exercise caution with all decisions having an impact on the financial position of the District. Management will focus their attention on maintaining and improving the quality of the educational programs and atmosphere of the district to retrain and attract families and students to the district. At the same time, careful evaluation of all expenditures over the next year will be a priority by management while seeking to reduce expenditures where possible. New revenues from local sources such as the formation of endowments, grants and other sources ill continue to be a goal of Management going forward. In spite of these challenging obstacles, Management remains committed to excellence in serving our students and community.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office at Sand Creek Community Schools:

Ms. Sharon Smith
Chief Financial Officer
Sand Creek Community Schools
6518 Sand Creek Hwy
Sand Creek, MI 49279
Phone (517) 436-3108, Fax (517) 436-3143

Sand Creek Community Schools
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Current Assets:	
Cash and equivalents	$ 1,695,507
Receivables:	
Accounts receivable	7,242
Due from other governmental units	1,411,719
Prepaid expenditures	15,873
Inventory	6,442
Total Current Assets	3,136,783
Noncurrent Assets:	
Capital assets	12,573,470
Less accumulated depreciation	(6,635,771)
Total Noncurrent Assets	5,937,699
Total Assets	9,074,482
Deferred outflows of resources	
Deferred outflows related to pension	2,688,420
Deferred outflows related to OPEB	251,609
Total Deferred Outflows of Resources	2,940,029
Total assets and deferred outflows of resources	12,014,511
Liabilities	
Current Liabilities:	
Accounts payable	86,361
Accrued expenditures	350,067
Accrued interest	4,248
Accrued salary	406,511
State Aid Note Payable	100,000
Unearned revenue	131,261
Current portion of compensated absences	40,073
Current portion of long term obligations	380,000
Total Current Liabilities	1,498,521
Noncurrent Liabilities:	
Noncurrent portion of long term obligations	230,000
Noncurrent portion of compensated absences	130,367
Net Pension Liability	12,674,378
Net OPEB Liability	4,350,348
Total Noncurrent Liabilities	17,385,093
Total Liabilities	18,883,614
Deferred inflows of resources	
Deferred inflows related to pension	1,783,438
Deferred inflows related to OPEB	147,073
Total Deferred Intflows of Resources	1,930,511
Total liabilities and deferred inflows of resources	20,814,125
Net Position (Deficit):	
Net investment in capital assets	5,621,965
Restricted for school lunch program	81,447
Restricted for debt service	40,309
Unrestricted	(14,543,335)
Total Net Position (Deficit)	$ (8,799,614)

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

Sand Creek Community Schools
Statement of Activities
Year Ended June 30, 2018

		Program Revenues		Governmental Activities
Functions/programs	Expenses	Charges for Services	Operating Grants & Contributions	Net (expense) Revenue and Changes in Net Position
Governmental activities:				
Instruction	$ 4,807,744	$ 52,780	$ 1,247,344	$ (3,507,620)
Support services	2,950,208	10,359	219,750	(2,720,099)
Community services	1,502	-	-	(1,502)
Food services	479,114	171,258	334,621	26,765
Athletics	326,767	74,197	6,014	(246,556)
Interest expense	35,017	-	-	(35,017)
Capital outlay	4,398	-	-	(4,398)
Other	100	-	-	(100)
Unallocated depreciation	393,722	-	-	(393,722)
Total governmental activities	$ 8,998,572	$ 308,594	$ 1,807,729	(6,882,249)
General revenues:				
Property taxes, levied for general purposes				255,097
Property taxes, levied for debt service				409,149
Property taxes, levied for capital projects				225,101
Investment earnings				7,233
State of Michigan school aid unrestricted				6,378,989
Intermediate sources, unrestricted				15,387
Contributions, unrestricted				12,000
Miscellaneous				5,397
Special items:				
Gain on disposal of assets				2,650
Total general revenues				7,311,003
Change in net position				428,754
Net position, beginning of year, previously reported				(4,971,699)
Prior period adjustment (see Note 1)				(4,256,669)
Net position, beginning of year, as restated				(9,228,368)
Net position, end of year (deficit)				$ (8,799,614)

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

Sand Creek Community Schools
Balance Sheet
Governmental Funds
June 30, 2018

	General Fund		Other Nonmajor Governmental Fund		Total Governmental Funds
Assets					
Assets:					
Cash and equivalents	$	1,162,874		532,633	$ 1,695,507
Receivables					
Accounts		7,028		-	7,028
Other governmental units		1,408,406		3,313	1,411,719
Due from other fund		134,722		17,584	152,306
Inventory		-		6,442	6,442
Prepaid expenditures		15,873		-	15,873
Total Assets	$	2,728,903	$	559,972	$ 3,288,875
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$	86,361	$	-	$ 86,361
Accrued expenditures		350,067		-	350,067
Salaries payable		406,511		-	406,511
Interest payable		106		-	106
Due to other funds		17,584		134,508	152,092
Unearned revenue		126,067		5,194	131,261
State aid loan payable		100,000		-	100,000
Total Liabilities		1,086,696		139,702	1,226,398
Deferred Inflows of Resources:					
Unavailable revenue		51,703		-	51,703
Total Deferred Inflows of Resources		51,703		-	51,703
Fund Balances:					
Nonspendable inventory		-		6,442	6,442
Nonspendable prepaid expenditures		15,873		-	15,873
Restricted for:					
School lunch program		-		75,005	75,005
Debt service		-		44,557	44,557
Capital outlay		-		294,266	294,266
Committed		-		-	-
Assigned for community service		-		-	-
Unassigned reported in general fund		1,574,631		-	1,574,631
Total Fund Balances		1,590,504		420,270	2,010,774
Total Liabilities and Fund Balances	$	2,728,903	$	559,972	$ 3,288,875

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

Sand Creek Community Schools
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2018

Total governmental fund balances		$ 2,010,774
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of capital assets is:	$ 12,573,470	
Accumulated depreciation is:	(6,635,771)	5,937,699
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Long term obligations		
Bonds payable		(610,000)
Compensated absences		(170,440)
Interest payable on long term debt		(4,142)
Net pension liability		(12,674,378)
Net OPEB liability		(4,350,348)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflow of resources related to pension (see Note 7)		2,688,420
Deferred inflow of resources related to pension (see Note 7)		251,609
Deferred outflow of resources related to OPEB (see Note 8)		(1,783,438)
Deferred inflow of resources related to OPEB (see Note 8)		(147,073)
Receivables collected after 60 days are considered unavailable in the governmental funds.		51,703
Net position of governmental activities (deficit)		$ (8,799,614)

Sand Creek Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2018

	General Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
Revenues:			
Local sources			
Property taxes	$ 255,097	$ 634,250	$ 889,347
Investment earnings	4,628	2,605	7,233
Food service	-	171,258	171,258
Athletics	74,197	-	74,197
Contributions	8,000	4,000	12,000
Other	67,041	1,495	68,536
Total local sources	408,963	813,608	1,222,571
Intermediate sources	463,149	-	463,149
State sources	7,481,907	16,209	7,498,116
Federal sources	136,322	312,345	448,667
Total revenues	8,490,341	1,142,162	9,632,503
Expenditures:			
Current:			
Instruction	5,146,868	-	5,146,868
Support	2,995,527	-	2,995,527
Food service activities	-	471,294	471,294
Athletic activities	323,506	-	323,506
Capital Outlay:	-	181,477	181,477
Debt service:			
Interest & fiscal charges	-	37,150	37,150
Total expenditures	8,465,901	689,921	9,155,822
Excess (deficiency) of revenues over expenditures:	24,440	452,241	476,681
Other financing sources (uses):			
Redemption of principal	-	(370,000)	(370,000)
Proceeds from sale of assets	2,650	-	2,650
Total other financing sources (uses):	2,650	(370,000)	(367,350)
Net change in fund balance	27,090	82,241	109,331
Fund balances:			
Beginning of year	1,563,414	338,029	1,901,443
End of year	$ 1,590,504	$ 420,270	$ 2,010,774

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

Sand Creek Community Schools
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of Governmental Fund
To the Statement of Activities
Year Ended June 30, 2018

Net change in fund balance total governmental fund (increase)	$ 109,331
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Capital outlay	434,899
Depreciation expense	(393,722)
Governmental funds report the proceeds from the disposition of assets as an other financing source. In the statement of activities, a gain or loss is recognized based on the net book value of the asset.	
Proceeds from disposition of asset	(2,650)
Gain on disposal of capital assets	2,650
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).	
Principal repayment on long-term obligations from bonds payable	370,000
Accrued interest on long-term debt is recorded in the statement of activities when incurred, it is not recorded in the governmental funds until it is paid.	
Accrued interest payable beginning of the year	6,175
Accrued interest payable end of the year	(4,142)
Compensated absences are reported on the accrual method in the statement of activities, and recorded as expenditures when financial resources are used in the governmental funds:	
Compensated payable beginning of the year	172,730
Compensated payable end of the year	(170,440)
Revenue in support of pension contributions made subsequent to measurement date	(599,651)
Change in deferred outflows of pension resources	1,025,556
Change in deferred inflows of pension resources	(540,779)
Change in net proportionate share of net pension liability	3,476
Change in deferred outflows of OPEB resources	(80,376)
Change in deferred inflows of OPEB resources	(147,073)
Change in net proportionate share of net OPEB liability	238,306
Governmental funds report revenues when they are collected within 60 days after the year end. Revenues are recorded in the statement of activities when earned.	4,464
Change in net position of governmental activities (increase)	$ 428,754

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

Sand Creek Community Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust Fund	Agency Fund	Total
Assets:			
Cash and cash equivalents	$ 164,241	$ 194,432	$ 358,673
Investments	27,738	-	27,738
Total Assets	$ 191,979	$ 194,432	$ 386,411
Liabilities and Net Position			
Liabilities:			
Due to student groups	$ -	$ 194,218	$ 194,218
Due to other governmental funds	-	214	214
Total Liabilities	-	194,432	194,432
Net Position			
Unrestricted	(292)	-	(292)
Restricted for			
Scholarships - expendable	4,410	-	4,410
Scholarships - nonexpendable	187,861	-	187,861
Total Net Position	$ 191,979	$ -	$ 191,979

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The School District is governed by the Board of Education (the "Board") of Sand Creek Community Schools, which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the School District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the School District's activities are classified as governmental activities.

Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net position. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net position as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services 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. State Foundation Aid, property taxes, certain revenue from the intermediate district, and other unrestricted items are not included as program revenues but instead as *general revenues.*

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position are reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position.

The School District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate School District sources, interest income, and other revenues).

The School District does not allocate indirect costs.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds. Effective July 1, 2010, the School District has implemented their Fund Balance Policy in Accordance with GASB Statement No. 54 as follows:

Purpose - The following policy has been adopted by the Board of Education in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the School District and jeopardize the continuation of necessary public services. This policy will ensure that the School District maintains adequate fund balances and reserves in order to:

a. Provide sufficient cash flow for daily financial needs,

b. Secure and maintain investment grade bond ratings,

c. Offset significant economic downturns or revenues shortfalls and,

d. Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the School District's fund balance and reserve policies.

Fund type definitions - The following definitions will be used in reporting activity in governmental funds across the School District. The School District may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

- General fund is used to account for all financial resources not accounted for and reported in another fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

- Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

- Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

- Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

- Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's purposes.

Fund balance reporting in governmental funds - Fund balance will be reported in governmental funds under the following categories:

Nonspendable fund balance

Definition – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Classification – Nonspendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The School District will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the government).

- The School District will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance).

- The School District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained intact.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

- The School District will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

<u>Restricted fund balance</u>

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers; or through enabling legislation.

<u>Committed fund balance</u>

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the School District's highest level of decision-making authority (i.e., the Board of Education).

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the Board of Education. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

<u>Assigned fund balance</u>

Definition – includes amounts intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign – The Board of Education delegates to the Superintendent or his/her/their designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

<u>Unassigned fund balance</u>

Definition – includes the residual classification for the School District's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Operational Guideline – The following guidelines address in the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate.

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the School District to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the School District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

The School District reports the following major governmental fund:

The G*eneral Fund*

Other Non-major Funds

The *Capital Project Funds*

The S*pecial Revenue Funds*

The *Debt Service Funds*

Fiduciary Funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Expendable Trust and Agency Fund

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

The *Expendable Trust Fund* is used to account for assets held by the School District in a trustee capacity for scholarships. The principal earnings may be spent.

Nonexpendable Trust Fund

The *Nonexpendable Trust Fund* is used to account for assets held by the School District in a trustee capacity for scholarships. Only the earnings may be spent.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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

Modified Accrual Method

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. Revenue not meeting this definition is classified as deferred inflow of resources. 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

However, debt service expenditures, as well as expenditures related to compensated absences, pensions and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan.

The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School Districts. For the year ended June 30, 2018, the foundation allowance was based on pupil membership counts taken in February and October of 2017.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2017 to August 2018. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

   GASB 40, *Deposit and Investment Risk Disclosures* and GAS*B* 72 *Fair Value Measurements.* Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

   State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.

   The School District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property Taxes

   Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 28, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

For the year ended June 30, 2018, the School District levied the following amounts per $1,000 of assessed valuation.

General Fund -Non-homestead	18.0000
Capital Projects - Homestead and Non-homes	1.8424
Debt fund - Both Non-homestead	
and Homestead	
2009 Debt Retirement	1.9500
2012 Debt Retirement	1.4000

3. Inventories and Prepaid Expenditures

Inventories are valued at cost (first-in, first-out). Inventories in the Special Revenue Fund consisting of expendable supplies held for consumption, are recorded as expenditures when consumed or used rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital Assets

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

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

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

Buildings and additions	50 years
Furniture and equipment	5 – 20 years
Transportation equipment	5-7 years

The School District’s capitalization policy is to capitalize individual amounts exceeding $3,500.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

5. Deferred Outflows/Inflows

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2018, the School District's statement of net position had deferred outflows of resources related to deferred pension plan expenses and deferred OPEB expenses totaling $2,682,420 and $251,609, respectively.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. At June 30, 2018, the School District's statement of net position had deferred inflows of resources related to its pension plan, revenue in support of pension payments made subsequent to the measurement date and deferred inflows of resources related to OPEB totaling $1,183,787, $599,651 and $147,073, respectively. Furthermore, at June 30, 2018, the School District's balance sheet had deferred inflows of resources related to unavailable revenue totaling $51,703.

6. Compensated absences

The liability for compensated absences reported in the government wide statement consists of earned and unused sick days. A liability for this amount is reported in the governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

7. Long term obligations

In the government-wide financial statements, long-term debt obligations are reported as liabilities on the statement of net position. Bond premiums and discounts, as well as deferred charges on refunding, are deferred and amortized over the life of the debt using the straight-line method over the term of related debt. The difference between the reacquisition price and the net carrying amount of the old debt are reported as a deferred outflow of resources or deferred inflow of resources. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance cost is reported as debt expenditures at the time they are incurred.

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

8. Pensions

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. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contribution as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

9. Fair Value Measurements

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

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

   Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

   Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the Academy's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

   The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

   The School District Scholarship Fund's certificate of deposit is valued as Level 2 inputs.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

10. Use of Estimates

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

11. Adoption of New Accounting Standards

As of June 30, 2018, the School District adopted Governmental Accounting Standards Board (GASB) Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* Statement No. 75 requires governments providing postemployment benefits to recognize their unfunded OPEB benefit obligation as a liability for the first time. Statement No. 75 requires a government to recognize a beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The statements also enhance accountability and transparency through revised note disclosures and required supplementary information. In accordance with this new pronouncement, the School District has reported a net OPEB liability of $4,588,654 and a beginning deferred outflow of resources for OPEB contributions of $331,985 made subsequent to the September 30, 2016 measurement date, as the effects of these changes in accounting principles to unrestricted net position (deficit) as of July 1, 2017. The effects of these changes are summarized below.

Net position at June 30, 2017 - As previously reported	$	(4,971,699)
Net OPEB liabilities		(4,588,654)
Deferred outflows of resources for OPEB contributions		331,985
Net position (deficit) at June 30, 2017 - As restated	$	(9,228,368)

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY
(Continued)

The School District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.

4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund.

6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2018. The School District does not consider these amendments to be significant.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Expenditures Over Appropriations in Budgeted Fund

The School District had the following general fund budget overdrafts for the year ended June 30, 2018 as follows.

Function	Amounts by which expenditures exceeded appropriations
Athletics	$ 34,276

Sinking Fund Compliance

Sinking Fund – The .5 mill Building & Site Fund and the 2017 Building & Site Sinking Funds record capital project activities funded with Sinking Fund millage. For these funds, the School District has complied with the applicable provisions of Section 1212 of the Revised School Code.

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the School District. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2018, $2,227,539 of the School District's bank balance of $1,949,592 (savings and checking accounts, certificate of deposits) that were uninsured and uncollateralized. The School District believes due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Due from governmental units June 30, 2018 consist of the following:

	General Fund	Food Service Fund	Total
State Aid	$ 1,351,947	$ 3,313	$ 1,355,260
Federal	3,360	-	3,360
Other Governmental Entity	53,099	-	53,099
Net Total Due from Governmental Units	$ 1,408,406	$ 3,313	$ 1,411,719

No allowance for doubtful accounts is considered necessary.

NOTE 5 - CAPITAL ASSETS

A summary of changes in the School District's capital assets follows:

Governmental Activities	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 50,000	$ -	$ -	$ 50,000
Subtotal	50,000	-	-	50,000
Capital assets being depreciated				
Land Improvements	757,645	30,448	-	788,093
Building and Improvements	9,250,541	146,631	-	9,397,172
Machinery and equipment	851,114	49,124	21,000	879,238
Transportation Equipment	1,305,895	208,696	55,624	1,458,967
Total Depreciable Assets	12,165,195	434,899	76,624	12,523,470
Less: Accumulated depreciation for:				
Land Improvements	194,401	43,863	-	238,264
Building and Improvements	4,448,307	220,364	-	4,668,671
Machineryand equipment	653,406	40,268	21,000	672,674
Transportation Equipment	1,022,559	89,227	55,624	1,056,162
Subtotal	6,318,673	393,722	76,624	6,635,771
Net Depreciable Capital Assets	5,846,522	41,177	-	5,887,699
Governmental Activities Capital Assets, net	$ 5,896,522	$ 41,177	$ -	$ 5,937,699

Depreciation is computed by the straight line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2018 amounted to $393,722. The School District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

NOTE 6 - LONG-TERM DEBT

In 2009, the School District issued Sand Creek Community Schools, County of Lenawee, State of Michigan Refunding Bonds in the amount of $1,865,000 (General Obligation-Unlimited Tax) to be used to refund the 2000 School and Building and Site Bonds outstanding of $1,925,000. The net interest savings was estimated at $87,660 over the life of the Refunding Bonds. As a result, the refunding the 2000 School and Building and Site Bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. As of June 30, 2018, the amount of defeased debt outstanding amounted to $465,000. A schedule of the bonds and the representative interest payments due from 2018 through 2020 is as follows:

NOTE 6 - LONG-TERM DEBT (Conntinued)

Year Ending June 30	Interest Rate	Principal	Interest	Total Due
2019	4.25	$ 220,000	$ 20,850	$ 240,850
2020	5.00	230,000	11,500	241,500
		$ 450,000	$ 32,350	$ 482,350

The School District has issued a general obligation bond issue, dated July 17, 2012, for the purpose of renovating existing school facilities for technology, purchase of computers and purchase of new buses. The bond issue for $970,000 has an interest rate of 2.375% to 2.5%. A schedule of the bonds and the representative interest payments due from 2018 through 2019 is as follows:

Year Ending June 30	Interest Rate	Principal	Interest	Total Due
2019	2.500	$ 160,000	$ 4,000	$ 164,000

The following is a schedule of the governmental long term obligations for the School District for the year ended June 30, 2018:

	2009 Refunding Bond	2012 Bond	Compensated Absences	Total
Balance July 1, 2017	$ 660,000	$ 320,000	$ 172,730	$ 1,152,730
Additions	-	-	-	-
Deletions	210,000	160,000	2,290	372,290
Balance June 30, 2017	450,000	160,000	170,440	780,440
Less: Current Portion	220,000	160,000	40,073	420,073
Total due after one year	$ 230,000	$ -	$ 130,367	$ 360,367

NOTE 6 - LONG-TERM DEBT (Continued)

The debt service requirements of governmental activities at June 30, 2018 were as follows:

	Governmental Activities		
Fiscal Year Ending,	Principal	Interest	Total
2019	$ 380,000	$ 24,850	$ 404,850
2020	230,000	11,500	241,500
Total	$ 610,000	$ 36,350	$ 646,350

Interest expense for the year amounted to $35,017.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. 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 (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Benefits Provided

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

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

Contribution

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

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

The School District’s required and actual contributions to the plan for the year ended June 30, 2018 were $1,345,125, which includes the School District’s contribution required for their members with a defined contribution benefit. The School District’s required and actual contributions include an allocation of $599,651 in revenue received from the State of Michigan, and remitted to MPSERS to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2018.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

The schedule below summarizes pension contribution rates in effect for fiscal year 2017.

Pension Contribution Rates

Benefit Structure	**Member**	**Employer**
Basic	0.0 - 4.0 %	19.03 %
Member Investment Plan	3.0 - 7.0 %	19.03 %
Pension Plan	3.0 - 6/4 %	18.40 %
Defined Contribution	0.0 %	15.27 %

Required contributions from School District were $1,147,174 for the year ended September 30, 2017.

<u>Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

At June 30, 2018, the School District's reported a liability of $12,674,378 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2016. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2017, School District's proportion was .04891 percent, which was a decrease of .0019 percent from its proportion measured as of September 30, 2016.

For the year ended June 30, 2018 the School District recognized total pension expense of $1,152,954. At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

	Deferred Outflows of Resources	Deferered Inflows of Resources
Difference between actual and expected experience	$ 110,149	$ (62,191)
Changes of assumptions	1,388,579	-
Net difference between projected and actual earnings on pension plan investments	-	(605,919)
Changes in proportion and differences between School District contributions and proportionate share of contributions	21,094	(515,677)
School District contributions subsequent to the measurement date	1,168,598	-
Total	$ 2,688,420	$ (1,183,787)

Contributions subsequent to measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ending September 30	
2018	$ 70,138
2019	$ 284,668
2020	$ 59,925
2021	$ (78,696)

In addition, the School District had deferred inflows of resources related to revenues in support of pension payments made subsequent to their measurement date totaling $599,651 at June 30, 2018.

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid):	7.50%
Pension Plus Plan (Hybrid)	7.00%
Projected Salary Increases:	3.5% to 12.3% Including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of MPSERS. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN
(Continued)

Notes

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by MPSERS for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.5188 for non-university employers 1.1222 for university employers)
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual financial Report found on the ORS website at www.michigan.gov/orsschools.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0%	8.7%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	-0.1%
Real Estate and Infrastructure Pools	10.0%	4.2%
Absolute Return Pools	15.5%	5.0%
Short Term Investment Pools	2.0%	-0.9%
Total	100.0%	

*Long term rate of return are net of administrative expenses and 2.3% inflation.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 13.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 7.5% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability, calculated using the discount rate of 7.5% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 6.5% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 7.5% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 8.5% / 8.0%
$16,510,499	$12,674,378	$9,444,608

*Basic Plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan with a defined benefit (pension) component and a deferred contribution (DC) component.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available on the ORS website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2018, the School District reported a payable of approximately $90,755 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

Plan Description

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

The System's health plan provides all eligible retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act (1980 PA 300 as amended).

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

The System's financial statements are available on the ORS website at www.michigan.gov/orsschools.

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Benefits Provided

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, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, 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 healthcare 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 insurance as of that date. Dependents are eligible for healthcare coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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 were deposited into their 401(k) account.

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Contributions

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

Employer OPEB contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability.

Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2017 fiscal year.

The School District's required and actual contributions for the plan for the year ended June 30, 2018 were $326,582.

The schedule below summarized OPEB contribution rates in effect for fiscal year 2017.

OPEB Contribution Rates

Benefit Structure	Member	Employer
Premium Subsidy	3.00 %	5.91 %
Personal Healthcare Fund (PHF)	0.00 %	5.69 %

Required contributions to the OPEB plan from the School District were $382,467 for the year ended September 30, 2017.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the School District reported liability of $4,350,348 for its proportionate share of all MPSERS net OPEB liability. The net OPEB liability was measured as of September 30, 2017, and the total OPEB liability used to calculate the

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

net OPEB liability was determined by an actuarial valuation rolled forward from September 2016. The School District's proportion of the net OPEB liability was determined by dividing each employer's statutorily required OPEB contributions to the system during the measurement period by the percent of OPEB contributions required from all applicable employers during the measurement period. At September 30, 2017, the School District's proportion was .04913 percent, which was a decrease of .05478 percent from its proportion measured as of October 1, 2016.

For the year ending June 30, 2018, the School District recognized OPEB expense of $291,299. At June 30, 2018 the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferered Inflows of Resources
Difference between actual and expected experience	$ -	$ (46,318)
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	(100,755)
Changes in proportion and differences between School District contributions and proportionate share of contributions	1,409	-
School District contributions subsequent to the measurement date	250,200	-
Total	$ 251,609	$ (147,073)

Contributions subsequent to the measurement date reported as deferred outflows of resources related to OPEB resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)
(Continued)

Deferred (Inflow) and Deferred Outflow
of Resources by Year
(To Be Recognized in Future OPEB Expenses)

2018	$	(35,226)
2019	$	(35,226)
2020	$	(35,226)
2021	$	(35,226)
2022	$	(4,760)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return	7.50%
Projected Salary Increases:	3.50% to 12.30% Including wage inflation at 3.50%
Healthcare Cost Trent Rate:	7.50% Year 1 graded to 3.5% Year 12

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.
Other Assumptions:	
Opt Out Assumptions	21% of eligible participants hired before July 1, 2008 and 30% of those hired after June 30, 2008 are assumed to opt out of the retiree health plan.
Survivor Coverage	80% of male retirees and 67% of female retirees are assumed to have coverages continuing after the retiree's death.
Coverage Election at Retirement	75% of male and 60% of female future retirees are assumed to elect coverage for 1 or more dependents.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total OPEB liability as of September 30, 2017, is based on the results of an actuarial valuation date of September 30, 2016, and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (5.4744 for non-university employers or 1.4186 for university employers).

- Recognition period for assets in years is 5.000.

- Full actuarial assumptions are available in the 2017 MPSERS Comprehensive Annual Financial Report found on the ORS website at www.michigan.gov/orsschools.

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the OPEB plan's target asset allocation as of September 30, 2017, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Reat Rate of Return*
Domestic Equity Pools	28.0%	5.6%
% Alternative Investment Pools	18.0	8.7
International Equity	16.0	7.2
Fixed Income Pools	10.5	(0.1)
Real Estate and Infrastructure Pools	10.0	4.2
Absolute Return Pools	15.5	5.0
Short term Investment Pools	2.0	(0.9)
Total	**100.0%**	

*Long-term rates of return are net of administrative expenses and 2.3% inflation.

Rate of Return

For the fiscal year ended September 30, 2017, the annual money-weighted rate of return on OPEB plan investment, net of OPEB plan investment expense, was 11.82%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A discount rate of 7.5% was used to measure the total OPEB liability. This discount rate was based on the long-term expected rate of return on OPEB plan investments of 7.5%. The projection of cash flows used to determine this discount rate assumed that

NOTE 8 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (Continued)

plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB lability.

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

The following presents the School District's proportionate share of the net OPEB liability calculated using the discount rate of 7.5%, as well as what the School District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage higher:

1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
$5,095,515	$4,350,348	$3,717,935

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Healthcare Cost Trend Rate

The following presents the School District's proportionate share of the net OEB liability calculated using assumed trend rates, as well as what the School District's proportionate share of net OPEB liability would be if it were calculated using a trend rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease 6.50%	Current Healthcare Cost Trend Rate 7.50%	1% Increase 8.50%
$3,684,160	$4,350,348	$5,106,759

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued 2017 MPSERS CAFR, available on the ors website at www.michigan.gov/orsschools.

NOTE 9 - INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances at June 30, 2018 are expected to be repaid within the next fiscal year.
A schedule of interfund balances follows:

Fund	Receivable	Fund	Payable
General Fund	$ 134,722	General Fund	$ 17,584
Nonmajor	17,584	Nonmajor	134,508
	$ 152,306	Agency Fund	214
			$ 152,306

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. There were no interfund transfers at June 30, 2018.

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The School District cannot estimate losses from reported and unreported claims at June 30, 2018. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

NOTE 10 - RISK MANAGEMENT (Continued)

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2018 or any of the prior three years.

NOTE 11 - CONTINGENCIES

The School District had no contingencies at June 30, 2018.

NOTE 12 - SHORT-TERM DEBT - STATE AID NOTES

State School aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The School District has pledged its state aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the School District. The interest rate was 1.270% and the maturity date is August 20, 2018. The interest expense related to this note at June 30, 2018 is $5,912.

Short-term debt activity for the fiscal year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018
2016-2017	$ 285,714	$ -	$ 285,714	$ -
2017-2018	-	700,000	600,000	100,000
Totals	$ 285,714	$ 700,000	$ 885,714	$ 100,000

NOTE 13 - NET POSITION RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net position reports $416,022 of restricted net position at June 30, 2018, all of which is restricted by enabling legislation.

NOTE 14 - SUBSEQUENT EVENTS

In August 2018, the School District issued a Revenue Anticipation Note in the amount of $650,000 to assist in the operation cash flows prior to the receipt of state aid payments for the 2018-2019 school year. The note is secured by the future receipt of state aid payments.

REQUIRED SUPPLEMENTARY INFORMATION

Sand Creek Community Schools
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
Revenues:				
Local sources	$ 385,380	$ 389,487	$ 408,963	$ 19,476
Intermediate sources	399,975	450,299	463,149	12,850
State sources	6,733,309	7,543,239	7,481,907	(61,332)
Federal sources	104,000	166,009	136,322	(29,687)
Total revenues	7,622,664	8,549,034	8,490,341	(58,693)
Expenditures:				
Current:				
Instruction:				
Basic programs	4,068,152	4,188,082	4,182,856	5,226
Added needs	977,966	1,054,137	964,012	90,125
Total instruction	5,046,118	5,242,219	5,146,868	95,351
Support services:				
Pupil	212,520	229,528	225,185	4,343
Instructional staff	150,348	250,198	242,513	7,685
General administration	295,662	303,543	298,496	5,047
School administration	522,226	513,145	512,558	587
Business and fiscal services	109,199	148,339	140,191	8,148
Operation & maintenance	767,107	830,836	815,871	14,965
Transportation	528,026	680,192	642,307	37,885
Central	500	2,832	2,487	345
Other	17,000	115,999	115,919	80
Athletics	259,320	289,230	323,506	(34,276)
Total support services	2,861,908	3,363,842	3,319,033	44,809
Total expenditures	7,908,026	8,606,061	8,465,901	140,160
Excess (deficiency) of revenues over expenditures	(285,362)	(57,027)	24,440	81,467
Other financing sources (uses):				
Proceeds from sale of assets	-	2,650	2,650	-
Total other financing sources (uses)	-	2,650	2,650	-
Net change in fund balance	(285,362)	(54,377)	27,090	81,467
Fund balance:				
Beginning of year	1,563,414	1,563,414	1,563,414	-
End of year	$ 1,278,052	$ 1,509,037	$ 1,590,504	$ 81,467

Sand Creek Community Schools

Required Supplemental Information

Schedule of Sand Creek Community Schools' Pension Contribution to

Michigan Public Schools Employees Retirement Plan

Determined as of the Year Ended June 30

	2018	2017	2016	2015
Statutorily required contributions	$ 1,328,616	$ 1,184,237	$ 1,239,765	$ 1,253,480
Contribution in relation to statutorily required contribution	1,328,616	1,184,237	1,239,765	1,253,480
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
School District's covered-employee payroll	$ 4,125,337	$ 4,247,322	$ 4,391,545	$ 4,477,369
Contribution as a percentage of covered-employee payroll	32.21%	27.88%	28.23%	28.00%

Sand Creek Community Schools

Required Supplemental Information

Schedule of Sand Creek Community Schools' Proportionate Share of the Net Pension Liability

Michigan Public Schools Employees Retirement Plan

Determined as of the Plan Year Ended September 30

	2017	2016	2015	2014
School District's proportion of the net pension liability	0.04891%	0.05081%	0.05189%	0.05207%
School District's proportionate share of the net pension liability	$12,674,378	$ 12,677,854	$ 12,674,557	$ 11,470,024
School District's covered-employee payroll	$4,053,612	$ 4,247,840	$ 4,391,545	$ 4,477,369
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	312.67%	298.45%	288.61%	256.18%
Plan fiduciary net position as a percentage of total pension liability	64.21%	63.27%	63.17%	66.20%

Sand Creek Community Schools

Required Supplemental Information

Schedule of Sand Creek Community Schools' OPEB Contribution to

Michigan Public Schools Employees Retirement Plan

Determined as of the Year Ended June 30

	2018
Statutorily required contributions	$ 300,362
Contribution in relation to statutorily required contribution	300,362
Contribution deficiency (excess)	$ -
School District's covered-employee payroll	$ 4,125,377
Contribution as a percentage of covered-employee payroll	7.28%

Sand Creek Community Schools

Required Supplemental Information

Schedule of Sand Creek Community Schools' Proportionate Share of the Net OPEB Liability

Michigan Public Schools Employees Retirement Plan

Determined as of the Plan Year Ended September 30

	2017
School District's proportion of the net OPEB liability	0.04913%
School District's proportionate share of the net OPEB liability	$ 4,350,348
School District's covered-employee payroll	$ 4,053,612
School District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	107.32%
Plan fiduciary net position as a percentage of total OPEB liability	36.39%

SAND CREEK COMMUNITY SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

NOTE 1: CHANGES OF BENEFIT TERMS

There were no changes of benefit terms in 2017 for pension and OPEB.

NOTE 2: CHANGES OF ASSUMPTIONS

There were no changes of benefit assumptions in 2017 for pension and OPEB.

OTHER SUPPLEMENTAL INFORMATION

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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
Sand Creek Community Schools
Sand Creek, 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 Sand Creek Community Schools (the School District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 15, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph 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 School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Darnell & Meyering, P.C.

DARNELL & MEYERING, P.C.

Taylor, MI
October 15, 2018

Sand Creek Community Schools
Combining Balance Sheet
Nonmajor Governmental Fund
June 30, 2018

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
Assets				
Assets:				
Cash and equivalents	$ 193,810	$ 44,557	$ 294,266	$ 532,633
Receivables				
Other governmental units	3,313	-	-	3,313
Due from other fund	17,584	-	-	17,584
Inventory	6,442	-	-	6,442
Total Assets	$ 221,149	$ 44,557	$ 294,266	$ 559,972
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	$ 134,508	$ -	$ -	$ 134,508
Unearned revenue	5,194	-	-	5,194
Total Liabilities	139,702	-	-	139,702
Fund Balances:				
Nonspendable - inventory	6,442	-	-	6,442
Restricted for school lunch program	75,005	-	-	75,005
Restricted for debt service	-	44,557	-	44,557
Restricted for capital projects	-	-	294,266	294,266
Total Fund Balances	81,447	44,557	294,266	420,270
Total Liabilities and Fund Balances	$ 221,149	$ 44,557	$ 294,266	$ 559,972

Sand Creek Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended June 30, 2018

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds 2018
Revenues:				
Local sources:				
Property taxes	$ -	$ 409,149	$ 225,101	$ 634,250
Investment earnings	368	826	1,411	2,605
Contribution	-		4,000	4,000
Food sales	171,258	-	-	171,258
Other	1,495	-	-	1,495
Total local sources	173,121	409,975	230,512	813,608
State sources	16,209	-	-	16,209
Federal sources	312,345	-	-	312,345
Total revenues	501,675	409,975	230,512	1,142,162
Expenditures:				
Food service/activities	471,294	-	-	471,294
Capital outlay			181,477	181,477
Debt service				
Interest and fiscal charges	-	37,150	-	37,150
Total expenditures	471,294	37,150	181,477	689,921
Excess (deficiency) of revenues over expenditures	30,381	372,825	49,035	452,241
Other Financing Sources (Uses):				
Redemption of principal	-	(370,000)	-	(370,000)
Total other financing sources (uses)	-	(370,000)	-	(370,000)
Net change in fund balance	30,381	2,825	49,035	82,241
Fund balance:				
Beginning of year	51,066	41,732	245,231	338,029
End of year	$ 81,447	$ 44,557	$ 294,266	$ 420,270

Sand Creek Community Schools
Combining Balance Sheet
Special Revenue Funds
June 30, 2018

	School Lunch	Community Service	Total
Assets			
Assets:			
Cash and equivalents	$ 193,810	$ -	$ 193,810
Receivables			
Other governmental units	3,313	-	3,313
Due from other fund	17,584	-	17,584
Inventory	6,442	-	6,442
Total Assets	$ 221,149	$ -	$ 221,149
Liabilities and Fund Balances			
Liabilities:			
Due to other funds	$ 134,508	$ -	$ 134,508
Unearned revenue	5,194	-	5,194
Total Liabilities	139,702	-	139,702
Fund Balances:			
Nonspendable - inventory	6,442	-	6,442
Restricted for school lunch program	75,005	-	75,005
Total Fund Balances	81,447	-	81,447
Total Liabilities and Fund Balances	$ 221,149	$ -	$ 221,149

Sand Creek Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Special Revenue Funds
Year Ended June 30, 2018

	School Lunch	Community Service	Total
Revenues:			
Local sources:			
Food sales	$ 171,258	$ -	$ 171,258
Investment earnings	368	-	368
Other	-	1,495	1,495
Total local sources	171,626	1,495	173,121
State sources	16,209	-	16,209
Federal sources	312,345	-	312,345
Total revenues	500,180	1,495	501,675
Expenditures:			
Cost of goods sold - net	232,610	-	232,610
Salaries and wages	139,462	-	139,462
Employee benefits	65,473	-	65,473
Contracted services	7,157	-	7,157
Travel, workshops and conferences	454	-	454
Materials and supplies	17,126	-	17,126
Capital outlay	7,510	-	7,510
Miscellaneous	-	1,502	1,502
Total expenditures	469,792	1,502	471,294
Excess (deficiency) of revenues over expenditures	30,388	(7)	30,381
Other Financing Sources (Uses):			
Transfer in	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	30,388	(7)	30,381
Fund balance:			
Beginning of year	51,059	7	51,066
End of year	$ 81,447	$ -	$ 81,447

Sand Creek Community Schools
Combining Balance Sheet
Debt Funds
June 30, 2018

	2000 Debt Service	2012 Debt Service	Total Debt Funds
Assets			
Assets:			
Cash and equivalents	$ 40,073	4,484	$ 44,557
Total Assets	40,073	4,484	44,557
Fund Balances:			
Restricted for debt service	40,073	4,484	44,557
Total Fund Balances	40,073	4,484	44,557
Total Fund Balances	$ 40,073	$ 4,484	$ 44,557

Sand Creek Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Debt Funds
Year Ended June 30, 2018

	2000 Debt Service	2012 Debt Service	Total 2018
Revenues:			
Local sources:			
Property taxes	$ 238,207	$ 170,942	$ 409,149
Investment earnings	565	261	826
Total revenues	238,772	171,203	409,975
Expenditures:			
Interest	29,250	7,800	37,050
Fees	-	100	100
Total expenditures	29,250	7,900	37,150
Excess (deficiency) of revenues over expenditures	209,522	163,303	372,825
Other Financing Sources (Uses):			
Redemption of principal	(210,000)	(160,000)	(370,000)
Total other financing sources (uses)	(210,000)	(160,000)	(370,000)
Net change in fund balance	(478)	3,303	2,825
Fund balance:			
Beginning of year	40,551	1,181	41,732
End of year	$ 40,073	$ 4,484	$ 44,557

Sand Creek Community Schools
Combining Balance Sheet
Capital Project Funds
June 30, 2018

	.5 Mill Capital Project Fund	Other Capital Project Fund	2017 Bldg & Site Sinking Fund	Total Capital Project Funds
Assets:				
Cash and equivalents	$ 59,218	$ 9,792	225,256	$ 294,266
Total Assets	59,218	9,792	225,256	294,266
Fund Balances:				
Restricted for capital outlay	59,218	9,792	225,256	294,266
Total Fund Balances	59,218	9,792	225,256	294,266
Total Fund Balances	$ 59,218	$ 9,792	$ 225,256	$ 294,266

Sand Creek Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Capital Project Funds
Year Ended June 30, 2018

	.5 Mill Capital Project Fund	Other Capital Project Fund	2017 Bldg & Site Sinking Fund	Total 2018
Revenues:				
Local sources:				
Property taxes	$ -	$ -	225,101	$ 225,101
Investment earnings	1,256	-	155	1,411
Contribution	-	4,000	-	4,000
Total revenues	1,256	4,000	225,256	230,512
Expenditures:				
Capital outlay	181,477	-	-	181,477
Total expenditures	181,477	-	-	181,477
Excess (deficiency) of revenues over expenditures	(180,221)	4,000	225,256	49,035
Net change in fund balance	(180,221)	4,000	225,256	49,035
Fund balance:				
Beginning of year	239,439	5,792	-	245,231
End of year	$ 59,218	$ 9,792	$ 225,256	$ 294,266

Sand Creek Community Schools
Combining Balance Sheet
Nonexpendable Trust Funds
June 30, 2018

	Bailey/Ries Scholarship	Keenan Scholarship	Sand Creek Communications Scholarship	Margaret Poucher Scholarship	Total
Assets:					
Cash and cash equivalents	$ -	$ 641	$ 125,694	$ 33,496	$ 159,831
Investments	-	-	27,738	-	27,738
Due from other scholarship fund	-	-	292	-	292
Total Assets	$ -	$ 641	$ 153,724	$ 33,496	$ 187,861
Liabilities and Net Position:					
Liabilities:					
Due to other scholarship fund	$ 292	$ -	$ -	$ -	$ 292
Net Position:					
Unrestricted	(292)	-	-	-	(292)
Restricted for:					
Scholarships-nonexpendable	-	641	153,724	33,496	187,861
Total Net Position	(292)	641	153,724	33,496	187,569
Total Liabilities and Net Position	$ -	$ 641	$ 153,724	$ 33,496	$ 187,861

Sand Creek Community Schools
Combining Statement of Revenues, Expenses and Change in Net Position
Nonexpendable Trust Funds
For the Year Ended June 30, 2018

	Bailey/Ries Scholarship	Keenan Scholarship	Sand Creek Communications Scholarship	Margaret Poucher Scholarship	Totals
Revenues:					
Investment earnings	$ -	$ 91	$ 783	$ 87	$ 961
Total revenues	-	91	783	87	961
Expenses:					
Scholarships paid	-	-	-	250	250
Total expenses	-	-	-	250	250
Change in net position	-	91	783	(163)	711
Net Position:					
Beginning of year	(292)	550	152,941	33,659	186,858
End of year	$ (292)	$ 641	$ 153,724	$ 33,496	$ 187,569

Sand Creek Community Schools
Combining Balance Sheet
Expendable Trust and Agency Funds
June 30, 2018

	Expendable Trust	Agency	Totals
Assets:			
Cash and cash equivalents	$ 4,410	$ 194,432	$ 198,842
Total assets	$ 4,410	$ 194,432	$ 198,842
Liabilities and Net Position:			
Liabilities:			
Due to other funds	$ -	$ 214	$ 214
Due to student groups	-	194,218	194,218
Total liabilities	-	194,432	194,432
Net Position:			
Reserved for:			
Scholarships-expendable	4,410	-	4,410
Total liabilities and net position	$ 4,410	$ 194,432	$ 198,842

Sand Creek Community Schools
Combining Statement of Revenues, Expenses and Changes in Net Position
Expendable Trust Funds
For the Year Ended June 30, 2018

	Sand Creek Communication Scholarship	Wilt/ Horner/Isley Scholarship	Barnes Scholarship	Kelly Scholarship	Richards Family	Craft Show	Ondrovick Scholarship	Morenci Sportsman Club	Totals
Revenues:									
Contributions	$ 2,750		$ 1,780	$ 520	$ 250	$ 788	$ -	$ 1,000	$ 7,088
Investment earnings	107		46	46	12	36	97	2	346
Total revenues	2,857	-	1,826	566	262	824	97	1,002	7,434
Expenses:									
Scholarships paid	2,750		1,125	750	500	-	-	1,000	6,125
Total expenses	2,750	-	1,125	750	500	-	-	1,000	6,125
Change in net position	107	-	701	(184)	(238)	824	97	2	1,309
Net Position:									
Beginning of year	407	(226)	(302)	(992)	503	2,532	319	860	3,101
End of year	$ 514	$ (226)	$ 399	$ (1,176)	$ 265	$ 3,356	$ 416	$ 862	$ 4,410

Sand Creek Community Schools
Schedule of Cash Receipts, Disbursements and Liabilities
Agency Funds
Year Ended June 30, 2018

	Liability Balance July 1, 2017	Receipts	Disbursements	Liability Balance June 30, 2018
Assets				
Cash and cash equivalents	$ 154,795	$ 321,194	$ 281,557	$ 194,432
Total assets	$ 154,795	$ 321,194	$ 281,557	$ 194,432
Liabilities				
Due to governmental funds	$ -	$ 214	$ -	$ 214
Due to student groups	154,795	339,698	300,275	194,218
Total liabilities	$ 154,795	$ 339,912	$ 300,275	$ 194,432

DARNELL & MEYERING, P.C.

Certified Public Accountants

CLINTON MEYERING, C.P.A.
RANDALL H. DARNELL, C.P.A.
DALE A. VESTRAND, C.P.A.
ANTHONY S. PANSON, C.P.A.

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October 15, 2018

Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sand Creek Community Schools (the School District) for the year ended June 30, 2018. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 27, 2018, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to management discussion analysis, budgetary comparison schedule of major fund, schedule of pension contributions, schedule of the School District's proportionate share of the net pension liability, schedule of other postemployment benefit (OPEB) contributions, and schedule of the School District's proportionate of the net OPEB liability, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we did not express an opinion or provide any assurance on the RSI.

We have been engaged to report on other supplementary information, as listed in the table of contents of the accompanying financial statements but are not RSI. Our responsibility for this supplementary information, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Planned Scope, Timing of the Audit, and Other

We performed our audit according to the planned scope and timing previously communicated in our discussion with the Board of Education President and in our engagement letter about the audit scope and timing.

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 School District are described in Note 1 to the financial statements. As discussed in Note 1 to the basic financial statements, effective July 1, 2017, the School District adopted the provisions of the Governmental Accounting Standards Board Statement No. 75. Accordingly, the accounting change has been retrospectively applied to July 1, 2017 as required by the Standard.

We noted no transactions entered into by 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 relate to the School District's share of the MPSERS pension plan net pension liability and net OPEB liability recorded on the government-wide statements for the implementation of GASB 68 and GASB 75, respectively.

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

The disclosure of net pension liability and net OPEB liability.

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 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 15, 2018.

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 governmental unit'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.

<u>Other Matters</u>

We applied certain limited procedures to Management's Discussion & Analysis, Budgetary Comparison Schedule (General Fund), Schedule of Sand Creek Community Schools' Pension Contributions, Schedule of Sand Creek Community Schools' Proportionate Share of Net Pension Liability, Schedule of Sand Creek Community Schools OPEB contributions, Schedule of Sand Creek Community Schools' Proportionate Share of Net OPEB Liability and notes to required supplementary information 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.

With respect to the other supplemental information accompanying the financial statements that are not RSI, as shown in the table of contents, 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.

<u>Restriction on Use</u>

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

Very truly yours,

Darnell & Meyering, P.C.

Darnell & Meyering PC