

UBLY COMMUNITY SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional
supplementary information)

JUNE 30, 2017

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October 31, 2017

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Ugly Community Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress and employer contributions for the pension plan, and budgetary comparison information, 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 Ubly Community Schools basic financial statements. The combining and individual non-major fund and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such combining and individual non-major fund and other schedules are is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund and other schedules 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 31, 2017, on our consideration of the Ubly Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Ubly 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 Ubly Community Schools' internal control over financial reporting and compliance.



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis
& Knopf
CPAs, PC

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

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

Financial Highlights

- * The liabilities of the District exceeded its assets at the close of the most recent fiscal year by \$5,614,525 (net position).
- * The District's total net position increased by \$608,678. The increase was primarily due sale of assets and depreciation.
- * The general fund had an increase in fund balance of \$208,910. At the end of the year, unassigned fund balance for the general fund was \$1,670,709, or 24%, of total general fund expenditures. Total fund balance for the general fund was \$2,529,404, or 37%, of total general fund expenditures.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District financially as a whole. The District-Wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The financial statements then proceed to provide an increasingly detailed look at specific financial activities included in the fund financial statements. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements provide information about the School District's most significant fund - the General Fund. All other funds are presented in one column as non-major funds.

Reporting the District as a Whole

The Statement of Net Position 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 statement of net position and the statement of activities, which appear first in the School District's financial statements, 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, which is similar to the accounting used by private-sector corporations. However, the School District's goal is to provide services to our students, not to generate profits as private-sector corporations do. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The statement of net position and the statement of activities present information about the following:

Governmental Activities - All of the District's basic services are considered to be governmental activities, including instruction, support services, community services, food services, and transfers to other local districts. Property taxes, intergovernmental revenues (unrestricted and restricted State Aid), and charges for services finance most of these activities. These two statements report the District's net position and changes therein. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

The government-wide financial statements can be found on pages 1 - 2 of this report.

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

Reporting the District's Most Significant Funds

Fund Financial Statements - The fund financial statements provide detailed information about the most significant funds - not the District as a whole. The fund financial statements begin on page 3 and provide detailed information about the most significant funds. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The District's two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements. In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Governmental Funds - Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 3 and 4 of this report.

Fiduciary Funds - The District is the fiduciary for various student group activities. We exclude these activities from the District's other financial statements because the assets cannot be utilized by the District to finance its operations. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets.

The basic fiduciary fund financial statement can be found on page 5 of this report.

Additional Information - The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 6 - 26 of this report.

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

SUMMARY OF NET POSITION:

	<u>2017</u>	<u>2016</u>
<u>NET POSITION SUMMARY</u>		
<u>ASSETS</u>		
Other Assets	\$3,516,642	\$3,518,712
Capital Assets	<u>3,218,139</u>	<u>4,596,856</u>
<u>TOTAL ASSETS</u>	\$6,734,781	\$8,115,568
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>1,459,529</u>	<u>1,183,246</u>
<u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	\$8,194,310	\$9,298,814
<u>LIABILITIES</u>		
Other Liabilities	11,576,930	11,676,113
Long-Term Liabilities	<u>2,064,735</u>	<u>2,318,944</u>
Total Liabilities	\$13,641,665	\$13,995,057
<u>DEFERRED INFLOWS OF RESOURCES</u>	<u>167,170</u>	<u>405,785</u>
<u>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>	\$13,808,835	\$14,400,842
<u>NET POSITION</u>		
Net Investment in Capital Assets	1,364,544	2,489,631
Restricted	64,023	108,783
Unrestricted	<u>(7,043,092)</u>	<u>(7,700,442)</u>
<u>TOTAL NET POSITION</u>	<u>(\$5,614,525)</u>	<u>(\$5,102,028)</u>

The above analysis focuses on the net position. The change in net position of the School District's governmental activities is discussed below. The net position differs from fund balances and a reconciliation appears on page 3.

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

An additional portion of the District's net position, \$64,023, represents resources that are subject to external restrictions on how they may be used. In the case of the School District, these amounts are restricted for debt service, food service, and capital projects. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see table above), which shows the changes in net position for fiscal year 2017.

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2017 and 2016, the District wide results of operations were:

	<u>2017</u>	<u>2016</u>
<u>REVENUES</u>		
<u>Program Revenues</u>		
Charges for Services	\$208,289	\$196,091
Operating Grants	<u>1,436,603</u>	<u>1,145,701</u>
Total Program Revenues	\$1,644,892	\$1,341,792
<u>General Revenues:</u>		
Property Taxes	1,118,202	990,440
State Sources - Unrestricted	4,490,795	4,623,710
Interdistrict Sources	440,273	407,155
Other General Revenues	<u>113,381</u>	<u>122,216</u>
Total General Revenues	<u>\$6,162,651</u>	<u>\$6,143,521</u>
Total Revenues	\$7,807,543	\$7,485,313
<u>EXPENSES</u>		
Instruction & Instructional Support	4,334,883	4,767,195
Support Services	2,051,214	2,141,994
Food Service	339,544	343,396
Interest on Long-Term Debt	87,792	88,276
Loss on Sale of Assets	84,505	0
Depreciation	<u>300,927</u>	<u>176,948</u>
Total Expenses	<u>\$7,198,865</u>	<u>\$7,517,809</u>
<u>CHANGE IN NET POSITION</u>	\$608,678	(\$32,496)
<u>BEGINNING NET POSITION - AS RESTATED</u>	<u>(6,223,203)</u>	<u>(5,069,532)</u>
<u>ENDING NET POSITION</u>	<u><u>(\$5,614,525)</u></u>	<u><u>(\$5,102,028)</u></u>

The District's net position increased by \$608,678 during the current fiscal year. The increase in net position differs from the change in fund balances and a reconciliation appears on page 4.

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

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

General Fund Budgeting and Operating Highlights

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended June 30, 2017, the School District amended the budget of the General Fund three times. State law requires that the budget be amended to ensure that expenditures do not exceed appropriation. A schedule showing the School District's general fund original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The general fund actual revenue and other financing sources was \$7,104,675. That amount is less than the final budget estimate of \$7,169,350. The variance was \$64,675, or less than 1%.

The actual expenditures and other financing uses of the general fund were \$6,895,765, which is below the final budget estimate of \$7,096,641. The variance was \$200,876, or 3%. The variance was due to unspent Special Ed dollars, unbudgeted insurance refunds and supplies not incurred at the end of the year.

The general fund had total revenues of \$7,104,675 and total expenditures of \$6,895,765 with a net increase in fund balance of \$208,910 and an ending fund balance of \$2,529,404.

Capital Asset and Debt Administration

A. Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2017 amounted to \$3,218,139 (net of accumulated depreciation). This investment in capital assets included land, land improvements, machinery and equipment, and licensed vehicles. Capital assets at fiscal year-end included the following:

	Capital Assets (Net of Depreciation)	
	<u>2017</u>	<u>2016</u>
Buildings and Improvements	\$2,343,599	\$2,458,318
Land Improvements	408,462	429,739
Equipment and Furniture	297,424	411,739
Vehicles	<u>168,654</u>	<u>175,885</u>
<u>Total capital assets, net</u>	<u>\$3,218,139</u>	<u>\$3,475,681</u>

Additional information on the District's capital assets can be found in Note 5.

UBLY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration (Continued)

B. Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$2,064,735. Long-term debt at fiscal year-end included the following:

	Long-Term Debt	
	2017	2016
General Obligation Bonds	\$2,040,000	\$2,290,000
Bond Discount	0	(2,020)
Bond Premium	16,741	19,132
Installment Contract	7,994	11,832
 Total Long-Term Debt	 \$2,064,735	 \$2,318,944

The District's total bonded debt decreased by \$250,000 during the current fiscal year due to the District making scheduled debt payments. Additional information on the District's long-term debt can be found in Note 7.

Economic Factors and Next Year's Budget

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

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,631 per pupil for the 2017-18 fiscal year, a \$120 per pupil increase from 2016-17, based on information received from various educational organizations such as Michigan School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions with local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan will all affect this estimate before the final foundation allowance is known.

* Retirement Rate

The continuing cost of health insurance to current and potential retirees continues to drive the rate increase the Michigan School Employees Retirement System recommends to the legislature for approval. In 2017-18, the rate is anticipated to increase to 25.56%. However, the District will be required to pay an additional 11.32%, for all wages earned October 1, 2017 and later, for the Unfunded Actuarial Accrued Liability (UAAL).

* The Ubyly Community Schools' 2017/2018 adopted budget is as follows:

<u>REVENUE</u>	\$6,838,510
 <u>EXPENDITURES</u>	 6,935,707
 <u>NET (UNDER) BUDGET</u>	 (\$97,197)

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 Business Office, Ubyly Community Schools.

BASIC FINANCIAL STATEMENTS

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
<u>ASSETS</u>	
Cash and Cash Equivalents	\$2,018,828
Investments	254,288
Accounts Receivable	2,768
Due from Other Governmental Units	1,225,110
Inventory	12,248
Prepaid Expenditures	3,400
Capital Assets, Net of Accumulated Depreciation	3,218,139
<u>TOTAL ASSETS</u>	\$6,734,781
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Related to Pensions	1,459,529
<u>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	\$8,194,310
<u>LIABILITIES</u>	
Accounts Payable	16,689
Due to Other Governmental Units	83,974
Accrued Expenditures	216,167
Salaries Payable	330,452
Unearned Revenue	5,023
Non-Current Liabilities - Due in One Year	266,229
Non-Current Liabilities - Due in More than One Year	1,798,506
Net Pension Liability	10,924,625
<u>TOTAL LIABILITIES</u>	\$13,641,665
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Related to Pensions	167,170
<u>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u>	\$13,808,835
<u>NET POSITION</u>	
Net Investment in Capital Assets	1,364,544
Restricted	64,023
Unrestricted	(7,043,092)
<u>TOTAL NET POSITION</u>	(\$5,614,525)

See notes to the financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Program Revenues Program Specific Operating Grants and Contributions</u>	<u>Governmental Activities Net (Expense) Revenue & Change in Net Position</u>
Governmental Activities:				
Instruction	\$4,334,883	\$0	\$1,188,978	(\$3,145,905)
Support Services	2,051,214	58,897	0	(1,992,317)
Food Service	339,544	149,392	247,625	57,473
Interest	87,792	0	0	(87,792)
Loss on Sale of Assets	84,505	0	0	(84,505)
Depreciation - Unallocated	300,927	0	0	(300,927)
<u>Total Governmental Activities</u>	<u>\$7,198,865</u>	<u>\$208,289</u>	<u>\$1,436,603</u>	<u>(\$5,553,973)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				793,147
Property Taxes, Levied for Debt Retirement				325,055
State Sources - Unrestricted				4,490,795
Interdistrict Sources				440,273
Investment Earnings				9,627
Other				103,754
Total General Revenues				<u>\$6,162,651</u>
Change in Net Position				\$608,678
Net Position - Beginning of Year - As Restated				<u>(6,223,203)</u>
<u>Net Position - End of Year</u>				<u>(\$5,614,525)</u>

See notes to the financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$1,676,363	\$342,465	\$2,018,828
Investments	254,288	0	254,288
Receivables:			
Accounts Receivable	2,710	58	2,768
Due from Other Governmental Units	1,214,357	10,753	1,225,110
Due from Other Funds	849	0	849
Inventory	8,537	3,711	12,248
Prepaid Expenditures	3,400	0	3,400
<u>TOTAL ASSETS</u>	<u>\$3,160,504</u>	<u>\$356,987</u>	<u>\$3,517,491</u>
<u>LIABILITIES</u>			
Accounts Payable	\$16,689	\$0	\$16,689
Due to Other Governmental Units	83,442	532	83,974
Due to Other Funds	0	849	849
Accrued Expenditures	200,044	4,004	204,048
Salaries Payable	325,902	4,550	330,452
Unearned Revenue	5,023	0	5,023
Total Liabilities	<u>\$631,100</u>	<u>\$9,935</u>	<u>\$641,035</u>
<u>FUND BALANCES</u>			
Non-Spendable			
Inventory	8,537	3,711	12,248
Prepaid Expenditures	3,400	0	3,400
Restricted			
Debt Retirement	0	76,142	76,142
Capital Projects	0	211,140	211,140
Food Service	0	56,059	56,059
Assigned - Subsequent Year Expenditures	97,197	0	97,197
Committed	749,561	0	749,561
Unassigned	1,670,709	0	1,670,709
Total Fund Balances	<u>\$2,529,404</u>	<u>\$347,052</u>	<u>\$2,876,456</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$3,160,504</u>	<u>\$356,987</u>	<u>\$3,517,491</u>

See notes to the financial statements.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total Governmental Fund Balances:		\$2,876,456
Amounts reported for governmental activities in the statement of net assets are different because:		
Deferred Outflows of Resources - Related to Pensions		1,459,529
Deferred Inflows of Resources - Related to Pensions		(167,170)
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Capital Assets	\$9,342,224	
Less: Accumulated Depreciation	(6,124,085)	
Capital Assets, Net of Accumulated Depreciation	<u>3,218,139</u>	3,218,139
Accrued Interest on Long-Term Debt		(12,119)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$2,040,000	
Bond Premium	16,741	
Installment Contract	7,994	
Total	<u>(2,064,735)</u>	(2,064,735)
Net Pension Liability		<u>(10,924,625)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u><u>(\$5,614,525)</u></u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$964,629	\$475,243	\$1,439,872
State Sources	5,472,014	18,366	5,490,380
Federal Sources	207,759	229,259	437,018
Interdistrict Sources	440,273	0	440,273
Total Revenues	<u>\$7,084,675</u>	<u>\$722,868</u>	<u>\$7,807,543</u>
<u>EXPENDITURES</u>			
Instruction	4,604,772	0	4,604,772
Student Services	254,450	0	254,450
Instructional Support	142,523	0	142,523
General Administration	235,201	0	235,201
School Administration	415,316	0	415,316
Business Administration	147,499	0	147,499
Operation & Maintenance	422,522	0	422,522
Transportation	343,979	0	343,979
Other Support Services	329,503	0	329,503
Food Service	0	349,537	349,537
Debt Retirement			
Principal	0	250,000	250,000
Interest	0	81,038	81,038
Other	0	8,141	8,141
Capital Outlay	0	1,108	1,108
Total Expenditures	<u>\$6,895,765</u>	<u>\$689,824</u>	<u>\$7,585,589</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$188,910	\$33,044	\$221,954
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	20,000	0	20,000
Transfers Out	0	(20,000)	(20,000)
Total Other Financing Sources (Uses)	<u>\$20,000</u>	<u>(\$20,000)</u>	<u>\$0</u>
Net Change in Fund Balance	\$208,910	\$13,044	\$221,954
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>2,320,494</u>	<u>334,008</u>	<u>2,654,502</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$2,529,404</u>	<u>\$347,052</u>	<u>\$2,876,456</u>

See notes to the financial statements.

UBLY COMMUNITY SCHOOLS - UBLV, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

Total net change in fund balances - governmental funds \$221,954

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	\$127,890	
Depreciation Expense	(300,927)	
Loss on the Sale of Assets	(84,505)	
Total		(\$257,542)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount of repayments reported as expenditures in the governmental funds.

250,000

Amortization of:

Bond Discount		(2,020)
Bond Premium		2,391

Payment on Installment Contract

3,838

Change in accrued interest on long-term liabilities

1,387

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental Funds.

Pension Related Items		388,670
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$608,678

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2017

	<u>Trust & Agency</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$118,201</u>
<u>TOTAL ASSETS</u>	<u>\$118,201</u>
<u>LIABILITIES</u>	
Due to Student Groups	<u>\$118,201</u>

See notes to the financial statements.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) DESCRIPTION OF GOVERNMENT-WIDE 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 nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B) REPORTING ENTITY

The District is governed by an elected seven-member Board of Education. The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are part of the District's reporting entity and which organizations are legally separate component units of the District. Based on application of the criteria, the District does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

C) GOVERNMENT-WIDE 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

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

D) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION
(Continued)

The process of preparing 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 expenses. Such estimates are primarily related to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

When an expense is incurred for the purpose for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D) MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION
(Continued)

The School District reports the following major governmental funds:

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

The School District reports the following fund types:

Special Revenue Funds - Special revenue funds are used to segregate, for administrative purposes, the transactions of the School District's food service operations from General Fund revenue and expenditure accounts. The School District maintains full control of these funds. Any deficits generated by these activities are the responsibility of the General Fund. The main sources of revenue for these funds are food sales to pupils, free/reduced breakfast and lunch reimbursement from federal funds and funds received from the State.

Debt Retirement Funds - The Debt Retirement Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Technology Capital Projects Fund - The Bonds were authorized for the purpose of acquiring and installing educational technology for school facilities; remodeling, equipping and re-equipping school facilities for technology. The District has complied with the applicable provision of §1351a of the Revised School Code.

Student Activities Agency Fund - The School District maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In the fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E) CASH AND CASH EQUIVALENTS/INVESTMENTS

Cash and cash equivalents include amounts in demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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 district intends to hold the investment until maturity.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E) CASH AND CASH EQUIVALENTS/INVESTMENTS (Continued)

State statutes authorize the 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 no less than two standard rating services and which matures not more than 270 days after the date of purchase. The 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.

F) INVENTORIES AND PREPAID COSTS

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds, including commodities received from the United States Department of Agriculture, are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$1,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net position.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I) UNEARNED REVENUE

The District reports unearned revenue on its governmental funds balance sheet. Unearned revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

J) COMPENSATED ABSENCES

The liability for compensated absences reported in the general fund and consists of earned but unused accumulated vacation, sick leave, and severance benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts are included both for employees who are currently eligible to receive termination payments and for other employees who are expected to become eligible in the future to receive such payments upon termination. It is the policy of the District to accrue this liability in the general fund.

K) LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

L) DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

Deferred Outflows

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the pension contributions reported in the government-wide statement of net position. A deferred outflow is recognized for pension contributions made after the plans measurement date, but before the fiscal year end. The amount is amortized in the plan year in which it applies.

Deferred Inflows

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. It is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M) DEFINED BENEFIT PLAN

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

N) FUND BALANCE

Fund balances for each of the District's governmental funds are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- * Nonspendable fund balance - amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- * Restricted fund balance - amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation. The District's Capital Projects Fund, Debt Retirement Fund and Food Service balances are considered restricted.
- * Committed fund balance – amounts that have been formally set aside by specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- * Assigned fund balance - amounts the District intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed. The intent is expressed by the Board of Education.
- * Unassigned fund balance - amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserve the right to selectively spend unassigned resources first to defer the use of these classified funds.

N) NET POSITION

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O) BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

The 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 (1968 PA 2). 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, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for 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. The budget was amended during the year with supplemental appropriations, the last one approved prior to year end June 30, 2017. The District does not consider these amendments to be significant.

2) DEPOSITS AND INVESTMENTS

As of June 30, 2017, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF External Investment Pool - MICMS	\$10	N/A	AAAm	0.00%
MILAF External Investment Pool - MIMAX	254,278	N/A	AAAm	100.00%
Total fair value	<u>\$ 254,288</u>			<u>100.00%</u>

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS (Continued)

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

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. More than 5% of the District's investments are in pooled investment accounts which represents 100% of the District's total investments.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2017, \$1,108,537 of the District's bank balance of \$2,340,377 was exposed to custodial credit risk.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

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

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that 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 District'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 measurement level with 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.

MILAF-MIMAX investments fair value measurement is level 2.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

2) DEPOSITS AND INVESTMENTS (Continued)

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

Cash – Agency Fund	\$ 118,201
Cash – District Wide	2,018,828
Investments – District Wide	<u>254,288</u>
 <u>TOTAL</u>	 <u>\$ 2,391,317</u>

The Districts deposits and investments consisted of the following:

Petty Cash	\$ 1,410
Checking/Savings Accounts – Including Fiduciary Funds of \$118,201	2,135,619
Investments	<u>254,288</u>
 <u>TOTAL</u>	 <u>\$ 2,391,317</u>

3) PROPERTY TAXES

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

4) RECEIVABLES

Receivables at June 30, 2017, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 982,566
Federal	94,727
Other	<u>147,817</u>
 <u>TOTAL</u>	 <u>\$ 1,225,110</u>

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

5) CAPITAL ASSETS

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

	<u>Balance</u> <u>Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>Ending</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$6,419,354	\$60,000	\$0	\$6,479,354
Land Improvements	968,690	0	0	968,690
Equipment and Furniture	1,253,064	27,890	(182,363)	1,098,591
Vehicles	840,373	40,000	(84,784)	795,589
Totals at Historical Cost	<u>\$9,481,481</u>	<u>\$127,890</u>	<u>(\$267,147)</u>	<u>\$9,342,224</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(3,961,036)	(174,719)	0	(4,135,755)
Land Improvements	(538,951)	(21,277)	0	(560,228)
Equipment and Furniture	(841,217)	(57,808)	97,858	(801,167)
Vehicles	(664,596)	(47,123)	84,784	(626,935)
Total Accumulated Depreciation	<u>(\$6,005,800)</u>	<u>(\$300,927)</u>	<u>\$182,642</u>	<u>(\$6,124,085)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$3,475,681</u>	<u>(\$173,037)</u>	<u>(\$84,505)</u>	<u>\$3,218,139</u>

Depreciation expense was unallocated on the Statement of Activities as the District considers all fixed assets to have mixed use.

6) SHORT-TERM DEBT

The District has various options for short-term financing including tax anticipation notes, state aid anticipation notes and lines of credit. The District entered into no short-term financing arrangements during the fiscal year ended June 30, 2017.

7) GENERAL LONG-TERM DEBT

A) 2008 Building And Site Bonds

Uby Community Schools issued general obligation - limited tax bonds for the purpose of remodeling and equipping school facilities. The bonds are dated October 9, 2008 in the aggregate amount of \$2,020,000 and require annual payments of principal and interest. The interest rates range from 3.75% to 4.5% per annum. The principal balance at June 30, 2017 was \$1,025,000. Payments on this debt are recorded in the District's 2008 Debt Retirement Fund.

B) 2014 Technology Bonds

On August 27, 2014, Uby Community Schools issued \$1,300,000 in Technology Bonds. The Bonds were authorized for the purpose of acquiring and installing educational technology for school facilities; remodeling, equipping and re-equipping school facilities for technology. The balance of the 2014 Technology Bonds at June 30, 2017 is \$1,015,000. Payments for this debt are recorded in the District's 2014 Technology Debt Retirement Fund.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

7) GENERAL LONG-TERM DEBT (Continued)

C) Installment Contract

In July 2014, the District executed an installment purchase agreement with John Deere to finance the purchase of a tractor. The installment purchase agreement for \$19,187 calls for monthly principal payments of \$320 plus interest at 0% per annum on the outstanding principal balance. The outstanding principal balance at June 30, 2017 is \$7,994. Payments on this obligation are recorded in the District's General Fund.

D) Annual Principal Requirements

The annual principal requirements for all debt outstanding as of June 30, 2017 are as follows:

	Bonds Payable	Installment Contract	Interest	Total
June 30, 2018	\$260,000	\$3,837	\$72,712	\$336,549
June 30, 2019	270,000	3,837	63,950	337,787
June 30, 2020	280,000	320	54,710	335,030
June 30, 2021	290,000	0	45,150	335,150
June 30, 2022	300,000	0	33,825	333,825
June 30, 2023 - 2024	640,000	0	31,800	671,800
<u>TOTAL</u>	<u>\$2,040,000</u>	<u>\$7,994</u>	<u>\$302,147</u>	<u>\$2,350,141</u>

The interest expenditures on long-term obligations for the year were \$81,038.

E) Changes in General Long-Term Debt

	Balance Beginning	Additions	Deductions	Balance Ending	Amount Due in One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$2,290,000	\$0	\$250,000	\$2,040,000	\$260,000
Bond Discount	(2,020)		(2,020)	0	0
Bond Premium	19,132	0	2,391	16,741	2,391
Installment Contract	11,832	0	3,838	7,994	3,838
<u>TOTAL</u>	<u>\$2,318,944</u>	<u>\$0</u>	<u>\$254,209</u>	<u>\$2,064,735</u>	<u>\$266,229</u>

8) OPERATING LEASES

In September 2013, the District entered into an operating lease with US Bank for copiers. The lease is for 63 months, requires monthly payments of \$741 and expires in December, 2018. Lease expense was \$8,892 for the year ended June 30, 2017.

Future minimum payments are as follows:

<u>JUNE 30</u>	<u>AMOUNT</u>
2018	\$ 8,892
2019	4,446
<u>TOTAL</u>	<u>\$ 13,338</u>

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

9) INTERFUND ACTIVITY

Interfund balances at June 30, 2017 consisted of the following:

DUE FROM	
DUE TO	General Fund
	<u> </u>
Food Service	<u> \$849</u>

These 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 systems, and (3) payments between funds are made.

10) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2017, consisted of the following:

TRANSFERS FROM	
TRANSFERS TO	Food Service
	<u> </u>
General Fund	<u> \$20,000</u>

Transfers are made to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

11) TAX ABATEMENTS

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

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by cities and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The property taxes abated for all funds by municipality under these programs are as follows:

<u>Municipality</u>	<u>Taxes Abated</u>
Bingham	\$ 35,155
Sherman	<u>5,003</u>
<u>TOTAL</u>	<u>\$ 40,158</u>

The taxes abated for the general fund operating millage is considered by the State of Michigan when determining the District's section 22 funding of the State School Aid Act.

There are no significant abatements made by the District.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

12) COMMITTED FUND BALANCE

Portions of fund equity are committed for future specific uses as follows:

Eliminate Asbestos Throughout Building	\$30,000
Roof Repair	100,000
Partial Copier Replacements	43,405
Reserve for New Gym Floor	120,000
Reserve for Track	40,000
Partial Reserve for Parking Lot	75,000
Partial Reserve for Non-Bus Transportation Vehicle	2,000
Partial Reserve for Riding Lawn Mower	5,200
Partial Reserve for Technology	130,100
Partial Reserve for Textbooks and Software	90,000
Replacement of 91 Air Conditioning Unit	80,000
E-911 Cost	27,856
Partial Reserve for Band Uniforms	<u>6,000</u>
 <u>TOTAL</u>	 <u><u>\$749,561</u></u>

13) RESTRICTED NET POSITION

Restricted net position consists of the following:

Debt Retirement	<u><u>\$64,023</u></u>
-----------------	------------------------

14) RESTATEMENT OF NET POSITION

The restatement of the beginning of the year net position is as follows:

Net Position as previously stated June 30, 2016	(\$5,102,028)
Adjustment to Construction in Progress for the Technology Bonds being under capitalization threshold	<u>(1,121,175)</u>
 <u>NET POSITION AS RESTATED JUNE 30, 2016</u>	 <u><u>(\$6,223,203)</u></u>

15) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpsers-cafr>.

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

15) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefits Provided

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

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

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

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

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

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

Regular Retirement (no reduction factor for age)

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

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation (FAC).

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

15) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Pension Plus

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

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

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

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

Option 4 – None (Member will receive benefit through a Defined Contribution plan).

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

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

Member Contributions

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

Employer Contributions

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

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

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

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

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. The District's recognized pension expense of approximately \$1,039,000 with \$1,012,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

15) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences Between Expected and Actual Experience	\$136,150	(\$25,892)
Changes of Assumptions	170,798	0
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	181,567	0
Changes in Proportion and Differences between Employer Contributions and Proportionate Share of Contributions	15,572	(141,278)
Employer Contributions Subsequent to the Measurement Date	<u>955,442</u>	<u>0</u>
<u>TOTAL</u>	<u>\$1,459,529</u>	<u>(\$167,170)</u>

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

Pension Liabilities

At June 30, 2017, the District reported a liability of \$10,924,625 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the District's proportion was 0.04378751 percent and 0.04421038 percent.

Measurement of the MPSERS Net Pension Liability

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

MPSERS (Plan) Net Pension Liability - Non-University

Employers

	<u>9-30-16</u>	<u>9-30-15</u>
Total Pension Liability	\$ 67,917,445,078	\$ 66,312,041,902
Plan Fiduciary Net Position	<u>(42,968,263,308)</u>	<u>(41,887,015,147)</u>
Net Pension Liability	\$ 24,949,181,770	\$ 24,425,026,755
Proportionate Share	0.04378751%	0.04421038%
Net Pension Liability for the District	10,924,625	10,798,397

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

15) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

Pension Liabilities (Continued)

For the year ended June 30, 2017, the District recognized pension expense of approximately \$923,000. This excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2017.

\$955,442, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

<u>Year Ending Sept. 30,</u>	<u>Amount</u>
2017	\$47,760
2018	33,482
2019	228,596
2020	<u>27,079</u>
 <u>TOTAL</u>	 <u><u>\$336,917</u></u>

Actuarial Assumptions

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

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

Inflation - 3.5%

Mortality assumptions - The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Male and Female Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB.

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

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

15) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (Continued)

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

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

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

Discount rate - The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher than the current rate:

	1% Decrease Non-Hybrid/ Hybrid)* 6.0% - 7.0%	Current Single Discount Rate Assumption Non-Hybrid/ Hybrid)* 7.0% - 8.0%	1% Increase Non-Hybrid/ Hybrid)* 8.0% - 9.0%
Reporting Unit's proportionate share of the net pension liability	\$14,068,168	\$10,924,625	\$8,274,317

Pension Plan Fiduciary Net Position

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

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

15) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Payables to the Pension Plan

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

Other Information

Discount Rate – Assumed Rate of Return

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

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

Pension Reform 2017

Senate Bill 401, to amend the Public School Employees Retirement Act (PA 300 of 1980, as amended), was presented to the Governor on June 29, 2017, and is awaiting his signature as of the date of this report.

The bill would close the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and create a new optional revised hybrid plan with similar benefit plan calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would equal 6%. Further, the bill provides, under certain conditions, that the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Benefit Provisions - Other Postemployment

Introduction

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

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

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

15) DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Retiree Healthcare Reform of 2012

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

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

Employer Contributions

The District postemployment healthcare contributions to MPERS for the year ended June 30, 2017, 2016 and 2015 were approximately \$346,000, \$348,000 and \$129,000.

The employer contribution rate ranged from 5.52% to 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015; 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015 and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016; and 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employees date of hire and plan election.

16) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and worker's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

17) UPCOMING ACCOUNTING PRONOUNCEMENT

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

UBLY COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS

17) UPCOMING ACCOUNTING PRONOUNCEMENT (Continued)

Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, was issued by the GASB in January 2017 and will be effective for the District's 2020 year end. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities for all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Districts with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position.

REQUIRED SUPPLEMENTARY
INFORMATION

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$930,342	\$969,869	\$964,629	(\$5,240)
State Sources	5,384,176	5,474,764	5,472,014	(2,750)
Federal Sources	107,035	209,417	207,759	(1,658)
Total Revenues	<u>\$6,421,553</u>	<u>\$6,654,050</u>	<u>\$6,644,402</u>	<u>(\$9,648)</u>
<u>EXPENDITURES</u>				
Instruction	4,569,751	4,665,831	4,604,772	61,059
Student Services	237,789	257,689	254,450	3,239
Instructional Support	119,302	134,996	142,523	(7,527)
General Administration	233,983	261,484	235,201	26,283
School Administration	431,544	427,920	415,316	12,604
Business Administration	147,473	161,180	147,499	13,681
Operation & Maintenance of Plant	436,893	452,973	422,522	30,451
Transportation	344,476	379,104	343,979	35,125
Other Support Services	349,239	355,464	329,503	25,961
Total Expenditures	<u>\$6,870,450</u>	<u>\$7,096,641</u>	<u>\$6,895,765</u>	<u>\$200,876</u>
Excess of Revenues Over Expenditures	(\$448,897)	(\$442,591)	(\$251,363)	\$191,228
<u>OTHER FINANCING SOURCES (USES)</u>				
Net Change in Fund Balance	<u>(\$2,078)</u>	<u>\$72,709</u>	<u>\$208,910</u>	<u>\$136,201</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>			<u>2,320,494</u>	
<u>FUND BALANCE - END OF YEAR</u>			<u>\$2,529,404</u>	

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Reporting unit's proportion of net pension liability (%)							0.04379%	0.04421%	0.04461%
Reporting unit's proportionate share of net pension liability							\$10,924,625	\$10,798,397	\$9,826,580
Reporting unit's covered-employee payroll							\$3,689,542	\$3,694,370	\$3,804,426
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll							296.10%	292.29%	258.29%
Plan fiduciary net position as a percentage of total pension liability							63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions							\$1,011,522	\$852,876	\$692,859
Contributions in relation to statutorily required contributions							<u>1,011,522</u>	<u>852,876</u>	<u>692,859</u>
Contribution deficiency (excess)							<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Reporting unit's covered-employee payroll							\$3,745,340	3,681,391	3,740,519
Contributions as a percentage of covered-employee payroll							27.01%	23.17%	18.52%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, reporting units should present information for those years for which information is available.

UBLY COMMUNITY SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and Special Revenue Fund (Food Service). All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District increased/decreased budgeted amounts during the year in response to changes in funding and related expenditures.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

During the year, Ubyly Community Schools has the following expenditure budget variances.

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Instructional Support	\$134,996	\$142,523	(\$7,527)

PENSION RELATED

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

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

ADDITIONAL SUPPLEMENTARY
INFORMATION

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>Food Service</u>	<u>2008 Debt</u>	<u>2014 Technology Debt</u>	<u>Technology Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
<u>ASSETS</u>					
Cash and Cash Equivalents	\$56,818	\$48,085	\$26,466	\$211,096	\$342,465
Receivables:					
Accounts Receivable	0	10	4	44	58
Due from Other Governmental Units	9,176	901	676	0	10,753
Inventory	3,711	0	0	0	3,711
<u>TOTAL ASSETS</u>	<u>\$69,705</u>	<u>\$48,996</u>	<u>\$27,146</u>	<u>\$211,140</u>	<u>\$356,987</u>
<u>LIABILITIES</u>					
Due to Other Governmental Units	\$532	\$0	\$0	\$0	\$532
Due to Other Funds	849	0	0	0	849
Accrued Expenditures	4,004	0	0	0	4,004
Salaries Payable	4,550	0	0	0	4,550
Total Liabilities	\$9,935	\$0	\$0	\$0	\$9,935
<u>FUND BALANCE</u>					
Non-Spendable					
Inventory	3,711	0	0	0	3,711
Restricted					
Debt Retirement	0	48,996	27,146	0	76,142
Capital Projects	0	0	0	211,140	211,140
Food Service	56,059	0	0	0	56,059
Total Fund Balance	\$59,770	\$48,996	\$27,146	\$211,140	\$347,052
<u>TOTAL LIABILITIES AND FUND BALANCE</u>	<u>\$69,705</u>	<u>\$48,996</u>	<u>\$27,146</u>	<u>\$211,140</u>	<u>\$356,987</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	<u>Food Service</u>	<u>2008 Debt</u>	<u>2014 Technology Debt</u>	<u>Technology Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
<u>REVENUES</u>					
Local Sources	\$149,392	\$193,235	\$132,087	\$529	\$475,243
State Sources	18,366	0	0	0	18,366
Federal Sources	229,259	0	0	0	229,259
Total Revenues	<u>\$397,017</u>	<u>\$193,235</u>	<u>\$132,087</u>	<u>\$529</u>	<u>\$722,868</u>
<u>EXPENDITURES</u>					
Food Service					
Salaries - Non-Professional	96,814	0	0	0	96,814
Insurances	29,801	0	0	0	29,801
Fica, Retirement, Etc.	44,061	0	0	0	44,061
Other Benefits	2,255	0	0	0	2,255
Purchased Services	3,823	0	0	0	3,823
Supplies and Materials	170,350	0	0	0	170,350
Other	2,433	0	0	0	2,433
Debt Retirement					
Principal	0	140,000	110,000	0	250,000
Interest	0	51,738	29,300	0	81,038
Other	0	6,929	1,212	0	8,141
Capital Outlay	0	0	0	1,108	1,108
Total Expenditures	<u>\$349,537</u>	<u>\$198,667</u>	<u>\$140,512</u>	<u>\$1,108</u>	<u>\$689,824</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$47,480	(\$5,432)	(\$8,425)	(\$579)	\$33,044
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers to Other Funds	(20,000)	0	0	0	(20,000)
Net Change in Fund Balance	<u>\$27,480</u>	<u>(\$5,432)</u>	<u>(\$8,425)</u>	<u>(\$579)</u>	<u>\$13,044</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>					
	<u>32,290</u>	<u>54,428</u>	<u>35,571</u>	<u>211,719</u>	<u>334,008</u>
<u>FUND BALANCE - END OF YEAR</u>					
	<u>\$59,770</u>	<u>\$48,996</u>	<u>\$27,146</u>	<u>\$211,140</u>	<u>\$347,052</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
YEAR ENDED JUNE 30, 2017

REVENUES FROMLocal Sources

Property Tax Levy	\$793,147
Earnings on Investments and Deposits	8,831
Athletics	36,242
Transportation Fees	20,475
Rentals	2,180
Other Local Revenues	103,754
Total Revenues from Local Sources	<u>\$964,629</u>

State Sources

State Aid	4,490,795
At Risk	233,484
Special Education	146,524
Vocational Education	12,962
Other State Grants	588,249
Total Revenues from State Sources	<u>\$5,472,014</u>

Federal Sources

Title I	169,129
Improving Teacher Quality	37,385
Grants from ISD	1,245
Total Revenues from Federal Sources	<u>\$207,759</u>

Interdistrict Sources

Total Revenues	<u>440,273</u>
	\$7,084,675

OTHER FINANCING SOURCES

Transfers From Other Funds	<u>20,000</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES

	<u>\$7,104,675</u>
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INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING SOURCES AND USES

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2017

INSTRUCTION

BASIC PROGRAMS

Elementary

Salaries - Professional	\$1,158,708
Salaries - Non-Professional	16,323
Insurances	284,797
Fica, Retirement, Etc.	520,490
Other Benefits	18,426
Purchased Services	5,285
Supplies and Materials	15,534
Capital Outlay	1,749
Total Elementary	\$2,021,312

Junior High

Salaries - Professional	268,850
Salaries - Non-Professional	2,085
Insurance	69,308
Fica, Retirement, Etc.	119,723
Other Benefits	1,024
Purchased Services	1,773
Supplies and Materials	482
Total Junior High	\$463,245

High School

Salaries - Professional	654,734
Salaries - Non-Professional	28,792
Insurances	146,703
Fica, Retirement, Etc.	324,740
Other Benefits	5,928
Purchased Services	70,619
Supplies and Materials	24,356
Capital Outlay	2,375
Other	11,349
Total High School	\$1,269,596

Total Basic Programs

\$3,754,153

ADDED NEEDS

Special Education

Salaries - Professional	229,012
Salaries - Non-Professional	45,624
Insurances	40,884
Fica, Retirement, Etc.	122,560
Other Benefits	12,726
Purchased Services	1,661
Supplies and Materials	9,592
Total Special Education	\$462,059

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2017

INSTRUCTION (Continued)ADDED NEEDS (Continued)Compensatory Education

Salaries - Professional	\$119,187
Salaries - Non-Professional	91,539
Insurances	31,461
Fica, Retirement, Etc.	94,208
Purchased Services	2,825
Supplies and Materials	49,340
Total Compensatory Education	<u>\$388,560</u>

Total Added Needs	<u>\$850,619</u>
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<u>Total Instruction</u>	\$4,604,772
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SUPPORT SERVICESSTUDENT SERVICES

Salaries - Professional	101,684
Salaries - Non-Professional	51,370
Insurances	24,826
Fica, Retirement, Etc.	66,227
Other Benefits	878
Purchased Services	6,168
Supplies and Materials	3,297
Total Student Services	<u>\$254,450</u>

INSTRUCTIONAL STAFF

Salaries - Professional	57,928
Salaries - Non-Professional	958
Insurances	5,201
Fica, Retirement, Etc.	41,216
Other Benefits	4,859
Purchased Services	26,316
Supplies and Materials	6,045
Total Instructional Staff	<u>\$142,523</u>

GENERAL ADMINISTRATION

Salaries - Professional	114,574
Salaries - Non-Professional	15,751
Insurances	13,298
Fica, Retirement, Etc.	42,876
Other Benefits	3,182
Purchased Services	31,245
Supplies and Materials	10,605
Other	3,670
Total General Administration	<u>\$235,201</u>

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2017

SUPPORT SERVICES (Continued)SCHOOL ADMINISTRATION

Salaries - Professional	\$166,611
Salaries - Non-Professional	67,842
Insurances	21,425
Fica, Retirement, Etc.	102,609
Other Benefits	11,000
Purchased Services	2,668
Supplies and Materials	40,704
Capital Outlay	1,552
Other	905
Total School Administration	\$415,316

BUSINESS OFFICE

Salaries - Professional	63,773
Salaries - Non-Professional	31,413
Insurances	2,616
Fica, Retirement, Etc.	30,304
Other Benefits	6,691
Purchased Services	12,179
Supplies and Materials	438
Other	85
Total Business Office	\$147,499

OPERATION AND MAINTENANCE

Salaries - Professional	40,602
Salaries - Non-Professional	81,350
Insurances	30,558
Fica, Retirement, Etc.	56,483
Purchased Services	89,622
Supplies and Materials	107,880
Capital Outlay	16,027
Total Operation and Maintenance	\$422,522

TRANSPORTATION

Salaries - Professional	4,511
Salaries - Non-Professional	114,654
Insurances	16,490
Fica, Retirement, Etc.	55,622
Other Benefits	17,734
Purchased Services	54,877
Supplies and Materials	50,091
Capital Outlay	30,000
Total Transportation	\$343,979

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED JUNE 30, 2017

SUPPORT SERVICES (Continued)

OTHER SUPPORT SERVICES

Salaries - Professional	\$42,000
Salaries - Non-Professional	98,986
Insurances	7,705
Fica, Retirement, Etc.	60,113
Other Benefits	5,500
Purchased Services	57,675
Supplies	52,189
Other	5,335
Total Other Support Services	<u>\$329,503</u>

Total Support Services \$2,290,993

TOTAL EXPENDITURES \$6,895,765

UBLY COMMUNITY SCHOOLS - UBLY, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
JUNE 30, 2017

2008 SCHOOL BUILDING & SITE BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2017-2018	\$150,000	4.375%	\$22,806	\$22,806	\$195,612
2018-2019	160,000	4.400%	19,525	19,525	199,050
2019-2020	165,000	4.400%	16,005	16,005	197,010
2020-2021	175,000	4.500%	12,375	12,375	199,750
2021-2022	185,000	4.500%	8,437	8,438	201,875
2022-2023	190,000	4.500%	4,275	4,275	198,550
<u>TOTAL</u>	<u>\$1,025,000</u>		<u>\$83,423</u>	<u>\$83,424</u>	<u>\$1,191,847</u>

2014 TECHNOLOGY BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2017-2018	\$110,000	2.000%	\$13,550	\$13,550	\$137,100
2018-2019	110,000	2.000%	12,450	12,450	134,900
2019-2020	115,000	2.000%	11,350	11,350	137,700
2020-2021	115,000	3.000%	10,200	10,200	135,400
2021-2022	115,000	3.000%	8,475	8,475	131,950
2022-2023	125,000	3.000%	6,750	6,750	138,500
2023-2024	325,000	3.000%	4,875	4,875	334,750
<u>TOTAL</u>	<u>\$1,015,000</u>		<u>\$67,650</u>	<u>\$67,650</u>	<u>\$1,150,300</u>



October 31, 2017

**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***

Independent Auditor's Report

To the Board of Education of
Ubly Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ubly Community Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Ubly Community Schools' basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 Ubly Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

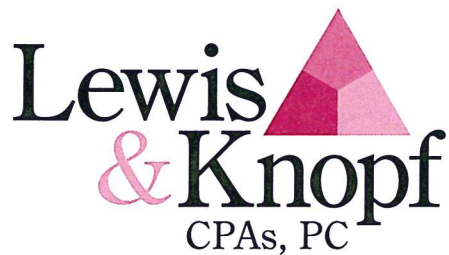
Ubyly Community Schools
Page 2
October 31, 2017

Purpose of this Report

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



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



October 31, 2017

To the Board of Education of
Ubly Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ubly Community Schools for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 5, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Ubly Community Schools are described in Note 1 to the financial statements. As described in Note 11, the Ubly Community Schools adopted Statement of Governmental Accounting Standards (GASB Statement) No. 77, *Tax Abatement Disclosures* in 2017. The adoption of this accounting pronouncement had no impact on the financial statements of the District, but did require a footnote to be added to the financial statements. We noted no transactions entered into by the 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 District's financial statements were:

Estimates have been used to calculate the net pension liability.

Estimates have been used in calculating the liability for employee compensated absences.

The useful lives of its depreciable capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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 District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to required supplementary information (RSI) which are required and supplement 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.

Ubly Community Schools
Page 3
October 31, 2017

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

Restriction on Use

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

Very truly yours,



LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS