

**ELKTON PIGEON BAY PORT
LAKER SCHOOLS
PIGEON, MICHIGAN**

**FINANCIAL STATEMENTS
JUNE 30, 2017**

ELKTON PIGEON BAY PORT LAKER SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Elkton Pigeon Bay Port Laker Schools
Pigeon, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elkton Pigeon Bay Port Laker 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 Elkton Pigeon Bay Port Laker Schools, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary 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 Elkton Pigeon Bay Port Laker School's basic financial statements. The additional information, as identified in the table of contents, including the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The additional supplementary 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 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 additional supplementary information is fairly stated in all material respects in relation to the 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 4, 2017, on our consideration of Elkton Pigeon Bay Port Laker School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Elkton Pigeon Bay Port Laker 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 Elkton Pigeon Bay Port Laker School's internal control over financial reporting and compliance.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 4, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the annual financial report presents our discussion and analysis of the District’s financial performance during the school year ended June 30, 2017. The intent of this discussion and analysis is to provide, in layman’s terms, a look at the District’s performance and past and current position. Readers should also review the transmittal letter, notes to the financial statements and financial statements to enhance their understanding of the District’s financial performance.

FINANCIAL HIGHLIGHTS

The General fund showed revenues exceeded expenditures by \$55,115. This is \$26,345 more than the final budget had anticipated.

The Combined Debt Service funds showed expenditures exceeded revenues by \$12,879.

The Combined Capital Projects funds showed expenditures exceeded revenues by \$217,484.

The Food Service fund showed revenues exceeded expenditures by \$2,204.

OVERVIEW OF THE FINANCIAL STATEMENTS

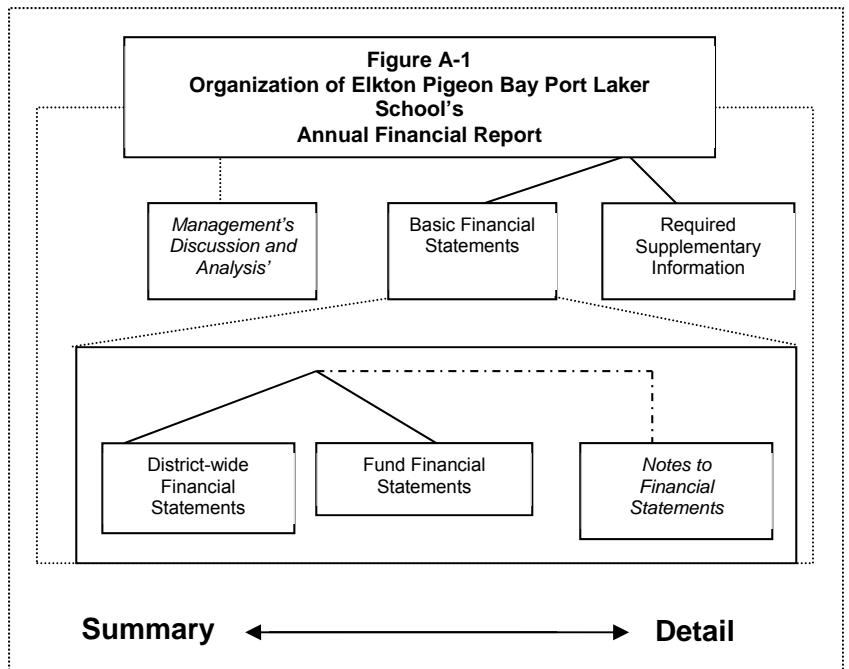
This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.

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

The *governmental fund* statements tell how *basic* services like instruction and support services were financed in the *short term* as well as what remains for future spending.

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



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Elkton Pigeon Bay Port Laker Schools funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include *all* of the District's assets, deferred outflows, deferred inflows and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets, deferred outflows, deferred inflows and liabilities – is one way to measure the District's financial health or *position*.

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

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

Governmental activities – Most of the District's basic services are included here, such as instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

FUND FINANCIAL STATEMENTS

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

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying its debt and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

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

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position increased by \$386,174 during the fiscal year 2017. The increase was due primarily to replacement of capital assets and adjustments related to pensions. Capital asset additions and improvements amounted to \$421,824.

The statement of net position provides the perspective of the District as a whole. Table A-3 provides a summary of the District's net position as of June 30, 2017 and 2016.

Table A-3
Elkton Pigeon Bay Port Laker Schools
Net Position

	<u>2017</u>	<u>2016</u>
Current assets	\$ 4,206,119	\$ 4,466,403
Capital assets	<u>12,586,707</u>	<u>12,910,326</u>
Total assets	<u>16,792,826</u>	<u>17,376,729</u>
Deferred outflows of resources	<u>2,560,799</u>	<u>2,161,620</u>
Current liabilities	3,092,766	3,169,210
Long-term debt	4,941,546	6,319,134
Net pension liability	<u>12,850,213</u>	<u>12,042,183</u>
Total liabilities	<u>20,884,525</u>	<u>21,530,527</u>
Deferred inflows of resources	<u>443,654</u>	<u>368,550</u>
Net position:		
Net investment in capital assets	6,655,268	5,631,700
Restricted for debt service	124,680	133,355
Restricted for capital projects	750,250	967,734
Restricted for food service	131,660	132,617
Unrestricted	<u>(9,636,412)</u>	<u>(9,226,134)</u>
Total net position	<u>\$ (1,974,554)</u>	<u>\$ (2,360,728)</u>

The statement of activities shows the results of this year's operations for Elkton Pigeon Bay Port Laker Schools as a whole. Table A-4 shows the changes in net position of the District as of June 30, 2017 and 2016.

Table A-4
Changes in Elkton Pigeon Bay Port Laker School's Net Position

	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues:		
Charges for services	\$ 839,604	\$ 814,163
Federal and State categorical grants	991,745	985,722
Capital grants and contributions	15,900	108,571
General revenues:		
Property taxes	4,652,401	4,606,101
State sources	4,769,178	4,654,827
Other	<u>261,627</u>	<u>103,160</u>
Total revenues	<u>11,530,455</u>	<u>11,272,544</u>
Expenses		
Instruction	6,270,132	5,884,720
Support services	3,429,638	3,189,175
Community service	6,540	7,481
Food services	452,447	363,823
Interest on long-term debt	241,698	267,353
Unallocated depreciation	<u>743,826</u>	<u>646,769</u>
Total expenses	11,144,281	10,359,321
Change in net position	<u>\$ 386,174</u>	<u>\$ 913,223</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District uses funds to help it control and manage money for particular purposes. The reader can look at these funds to help determine whether the Elkton Pigeon Bay Port Laker School District is being held accountable for the resources taxpayers and others provide to it, and it may give them insight into the District's overall financial health.

Table A-5 shows the breakdown of the sources of revenue for the District. A substantial portion (41%) of the District's revenues is received from State sources, which means that the financial stability of the District rests primarily with the economic health of the State of Michigan. In addition, local sources increased and represent 50% of the District's revenue.

Table A-5
Sources for Revenue for Fiscal Year
2016/2017

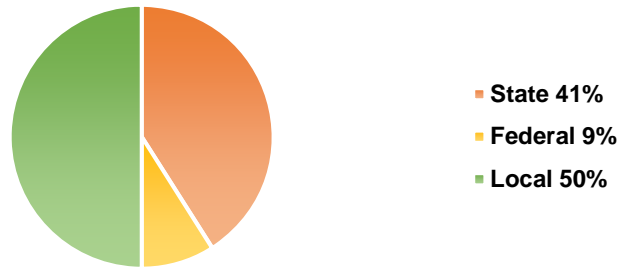
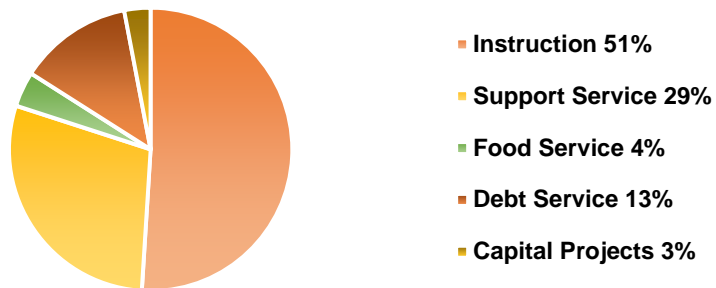


Table A-6 shows that 51% of the District's resources are spent on instruction services and 29% on support services. These two functions make up 80% of the District's expenditures.

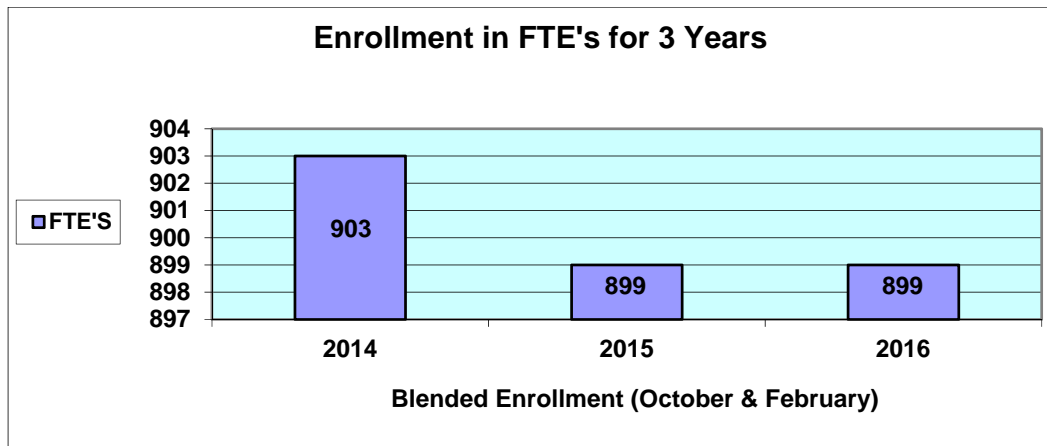
Table A-6



The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the 2016/2017 school year, the governmental funds reported a combined fund balance of \$2,532,158. The fiduciary funds had a cash balance of \$158,587.

Factors Affecting Fund Equity

- *General Fund Equity* – Increased \$55,115.
- *Grants* – The District received grants for behavioral programs, professional development, parent programs, at risk, and literacy programs. These help to offset the cost of instructional budget items normally paid from fund equity.
- *Combined Debt Service Fund Equity* – Decreased \$12,879.
- *Combined Capital Projects Fund Equity* – Decreased \$217,484.
- *Food Service Fund Equity* – Increased \$2,204.
- *Student Enrollment*
The chart below shows no change in enrollment for the last year.



General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted just before the year-end, along with the new adopted budget for the upcoming school year.

Initial budget amendments were made to reflect the impact of changes to increases in grant funds, the impact of actual student counts and finalizing the amount to be received in state aid. Also, budget amendments were required to reflect staffing changes and contract settlements.

Original revenues and other financing sources were budgeted at \$9,285,630 and the actual revenue amount was \$9,525,701. The original budget amount for expenditures and transfers was \$9,285,630 and the actual figure was \$9,470,586.

The final amended budget was set to complete the fiscal year with a surplus of \$28,770. Final results showed that revenues came in \$10,816 greater than anticipated, and expenditures were less than anticipated by \$26,341. The net result was a change in fund balance of \$55,115 increasing fund balance to \$1,489,126.

Capital Asset and Debt Administration

Capital Assets

The District disposed of \$8,092 in capital assets with a residual value of \$1,618. The District's capital additions for the year are as follows:

Building improvements	\$ 168,064
Machinery and equipment	194,719
Construction in progress	<u>59,041</u>
Total additions	<u>\$ 421,824</u>

The District's capital assets at cost at year-end are outlined in Table A-7.

Table A-7
Elkton Pigeon Bay Port Laker Schools Capital Assets

	<u>2017</u>	<u>2016</u>
Buildings	\$ 16,864,440	\$ 16,697,375
Site improvements	3,154,674	3,153,674
Machinery and equipment	1,727,539	1,540,912
School buses	954,364	954,364
Construction in progress	<u>59,041</u>	<u>-</u>
Totals	<u>\$ 22,760,058</u>	<u>\$ 22,346,325</u>

Debt Administration

As of June 30, 2017, the District had general obligation bonds on the financial statements in the amount of \$6,063,954. The final payments are due in 2025.

As of June 30, 2017, the District had compensated absences payable, which include accumulated sick and vacation pay, totaling \$216,716.

As of June 30, 2017, the District had a capital lease payable for new copiers totaling \$46,400.

We present more detailed information about our long-term liabilities in the notes to financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several areas that could have a major impact on the 2017-2018 fiscal year and the near future.

While the State of Michigan has approved the student foundation allowance for 2017-2018 with an increase and marginal increases over the past several years, there are still expenditures to the District that are beyond the control of the board of education and administration. Pension costs continue to increase, which causes significant financial resources to be unavailable for educational services. The cost of the State pension system continues to absorb more State resources in the form of categorical MPERS rate reimbursements.

Health insurance costs continue to rise. The District plans to continue to explore alternative insurance packages to give the District the most cost effective plan. School employees reimburse the school district for amounts exceeding the Health Care Cap as set by the state.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Chief Financial Officer, EPBP Laker Schools, 6136 Pigeon Road, Pigeon, Michigan, 48755, and telephone number (989) 453-4602.

BASIC FINANCIAL STATEMENTS

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**STATEMENT OF NET POSITION
JUNE 30, 2017**

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and deposits	\$ 1,516,137
Investments	708,660
Receivables:	
Accounts receivable	17,169
Due from other governments	1,057,537
Prepaid expenses	156,366
Restricted cash - Capital projects	750,250
Depreciated capital assets	22,760,058
Less: Accumulated depreciation	(10,173,351)
TOTAL ASSETS	<u>16,792,826</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on bond refunding	178,915
Related to pensions	2,381,884
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>2,560,799</u>
LIABILITIES:	
Accounts payable	22,353
Due to other governments	17,812
Accrued salaries and wages	450,220
Accrued employee benefits	365,005
Accrued interest payable	39,581
Prepaid meals	9,677
Unearned revenue	102,594
State aid note payable	700,000
Noncurrent liabilities:	
Due within one year	1,385,524
Due in more than one year	4,941,546
Net pension liability	12,850,213
TOTAL LIABILITIES	<u>20,884,525</u>
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	38,496
Related to state aid funding for pensions	405,158
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>443,654</u>
NET POSITION:	
Net investment in capital assets	6,655,268
Restricted for:	
Debt service	124,680
Capital projects	750,250
Food service	131,660
Unrestricted	(9,636,412)
TOTAL NET POSITION	<u>\$ (1,974,554)</u>

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

FUNCTIONS/PROGRAMS	EXPENSES	CHARGES FOR SERVICES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES
			OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION
Governmental activities:					
Instruction	\$ 6,270,132	\$ 608,187	\$ 651,309	\$ -	\$ (5,010,636)
Support services	3,429,638	103,773	9,246	15,900	(3,300,719)
Community services	6,540	-	-	-	(6,540)
Food service	452,447	127,644	331,190	-	6,387
Interest on long-term obligations	241,698	-	-	-	(241,698)
Depreciation - Unallocated	743,826	-	-	-	(743,826)
Total governmental activities:	<u>\$ 11,144,281</u>	<u>\$ 839,604</u>	<u>\$ 991,745</u>	<u>\$ 15,900</u>	<u>(9,297,032)</u>
General revenues:					
Property taxes, levied for general purposes					3,102,509
Property taxes, levied for debt service					869,249
Property taxes, levied for capital projects					680,643
State sources					4,769,178
Investment earnings					6,782
Sale of assets					6,461
Miscellaneous					248,384
Total general revenue					<u>9,683,206</u>
CHANGE IN NET POSITION					<u>386,174</u>
NET POSITION - Beginning of year					(2,360,728)
NET POSITION - End of year					<u>\$ (1,974,554)</u>

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017**

	<u>GENERAL</u>	<u>COMBINED DEBT SERVICE</u>	<u>COMBINED CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>					
Cash and deposits	\$ 1,213,914	\$ 157,961	\$ -	\$ 144,262	\$ 1,516,137
Investments	708,660	-	-	-	708,660
Accounts receivable	17,169	-	-	-	17,169
Due from other governments	1,055,142	-	-	2,395	1,057,537
Prepaid expenditures	153,205	-	-	3,161	156,366
Restricted cash - Capital projects	-	-	750,250	-	750,250
TOTAL ASSETS	<u>\$ 3,148,090</u>	<u>\$ 157,961</u>	<u>\$ 750,250</u>	<u>\$ 149,818</u>	<u>\$ 4,206,119</u>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>LIABILITIES</u>					
Accounts payable	\$ 22,210	\$ -	\$ -	\$ 143	\$ 22,353
Due to other governments	17,812	-	-	-	17,812
Accrued salaries and wages	450,063	-	-	157	450,220
Accrued employee benefits	363,732	-	-	1,273	365,005
Accrued interest payable	6,300	-	-	-	6,300
Prepaid meals	-	-	-	9,677	9,677
Unearned revenue	98,847	-	-	3,747	102,594
State aid note payable	700,000	-	-	-	700,000
TOTAL LIABILITIES	<u>1,658,964</u>	<u>-</u>	<u>-</u>	<u>14,997</u>	<u>1,673,961</u>
<u>FUND BALANCE:</u>					
Nonspendable:					
Prepaid expenditures	153,205	-	-	3,161	156,366
Restricted for:					
Debt service	-	157,961	-	-	157,961
Capital projects	-	-	750,250	-	750,250
Food service	-	-	-	131,660	131,660
Unassigned	1,335,921	-	-	-	1,335,921
TOTAL FUND BALANCE	<u>1,489,126</u>	<u>157,961</u>	<u>750,250</u>	<u>134,821</u>	<u>2,532,158</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,148,090</u>	<u>\$ 157,961</u>	<u>\$ 750,250</u>	<u>\$ 149,818</u>	<u>\$ 4,206,119</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL ACTIVITIES NET POSITION
JUNE 30, 2017**

TOTAL GOVERNMENTAL FUND BALANCES \$ 2,532,158

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

Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds.

	The cost of capital assets is	22,760,058	
	Accumulated depreciation is	<u>(10,173,351)</u>	12,586,707

Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.

Long-term liabilities at year-end consist of:

	Note and capital lease payable	46,400	
	Bonds payable	5,580,000	
	Compensated absences	216,716	
	Accrued interest payable on long-term obligations	<u>33,281</u>	(5,876,397)

Certain transactions related to the advance refunding of the 2005 bonds and 2015 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.

The transactions include the following:

	Book value of deferred loss of 2005 Refunding Bond to call date	233,368	
	Less: Amortization of deferred loss	<u>(54,453)</u>	178,915
	2015 Refunding Bonds issued at a premium	(631,245)	
	Less: Amortization of bond premium	<u>147,291</u>	(483,954)

Deferred outflows of resources - related to pensions 2,381,884

Deferred inflows of resources - related to pensions (443,654)

Net pension liability (12,850,213)

NET POSITION - GOVERNMENTAL ACTIVITIES \$ (1,974,554)

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>GENERAL</u>	<u>COMBINED DEBT SERVICE</u>	<u>COMBINED CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:					
Local sources:					
Taxes	\$ 3,102,509	\$ 869,249	\$ 680,643	\$ -	\$ 4,652,401
Food service	-	-	-	138,461	138,461
Other local revenue	966,249	468	1,391	-	968,108
State sources	4,769,178	-	-	14,345	4,783,523
Federal sources	664,686	-	-	316,845	981,531
TOTAL REVENUE	<u>9,502,622</u>	<u>869,717</u>	<u>682,034</u>	<u>469,651</u>	<u>11,524,024</u>
EXPENDITURES:					
Instruction	5,898,220	-	-	-	5,898,220
Supporting services	3,438,777	-	-	-	3,438,777
Community services	6,540	-	-	-	6,540
Facilities improvements	106,355	-	-	-	106,355
Food service	-	-	-	452,447	452,447
Capital projects	-	-	271,134	-	271,134
Debt service:					
Miscellaneous	-	32	-	-	32
Principal repayment	20,694	680,000	610,000	-	1,310,694
Interest and fiscal charges	-	202,564	18,384	-	220,948
TOTAL EXPENDITURES	<u>9,470,586</u>	<u>882,596</u>	<u>899,518</u>	<u>452,447</u>	<u>11,705,147</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>32,036</u>	<u>(12,879)</u>	<u>(217,484)</u>	<u>17,204</u>	<u>(181,123)</u>
OTHER FINANCING SOURCES (USES):					
Sale of assets	8,079	-	-	-	8,079
Transfers (to) from other funds	15,000	-	-	(15,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>23,079</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>	<u>8,079</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>55,115</u>	<u>(12,879)</u>	<u>(217,484)</u>	<u>2,204</u>	<u>(173,044)</u>
FUND BALANCE - JULY 1	1,434,011	170,840	967,734	132,617	2,705,202
FUND BALANCE - JUNE 30	<u>\$ 1,489,126</u>	<u>\$ 157,961</u>	<u>\$ 750,250</u>	<u>\$ 134,821</u>	<u>\$ 2,532,158</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (173,044)

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

Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

	Depreciation expense	\$ (743,826)	
	Capital outlays	<u>421,824</u>	(322,002)

Long-term debt repayments and proceeds affect long-term liabilities in the statement of net position and do not affect the statement of activities.

	Proceeds from long-term debt	-	
	Repayment of long-term debt	<u>1,307,400</u>	1,307,400

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

	Accrued interest payable - beginning of year	37,485	
	Accrued interest payable - end of year	<u>(33,281)</u>	4,204

Residual value of capital assets disposed of in the current year is recorded in the statement of activities, but is not recorded in the governmental funds.

(1,618)

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

	Accrued compensated absences - beginning of year	208,779	
	Accrued compensated absences - end of year	<u>(216,716)</u>	(7,936)

Certain transactions related to the advance refunding of the 2005 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.

The transactions include the following:

	Deferred loss beginning of year	(202,252)	
	Deferred loss end of year	178,915	
	Bond premium beginning of year	547,079	
	Bond premium end of year	<u>(483,954)</u>	39,788

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

Pension related items (384,122)

Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:

State aid funding for pension (76,496)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 386,174

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and deposits	\$ 158,587
TOTAL ASSETS	<u>\$ 158,587</u>
LIABILITIES:	
Due to student organizations	\$ 158,587
TOTAL LIABILITIES	<u>\$ 158,587</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Elkton Pigeon Bay Port Laker School District is a consolidated school system located in Huron County, Michigan. The School has approximately 899 students in grades kindergarten through twelve. The school operates under a seven person elected Board of Education.

The basic financial statements of Elkton Pigeon Bay Port Laker School District have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

The Reporting Entity:

The Elkton Pigeon Bay Port Laker Schools (the "District") is governed by the Elkton Pigeon Bay Port Laker Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by U.S. GAAP. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements (GASB).

Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment. State Foundation Aid, property taxes, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED) **Government-Wide and Fund Financial Statements: (Continued)**

The District first utilizes restricted resources to finance qualifying activities.

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

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

The District does not allocate indirect costs.

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

Separate financial statements are provided for governmental 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.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the District's expendable financial resources and the related current liabilities are reported through governmental funds.

The District reports the following major governmental funds:

General Fund - This fund type is used to account for all financial transactions except those required to be accounted for in another fund. Revenue is derived primarily from property taxes and State and Federal distributions, grants and other intergovernmental revenue.

Debt Service Funds - The Debt Service Funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Project Funds - The Capital Project Sinking Fund accounts for the receipt of property taxes levied for the sinking fund and subsequent expenditures of those funds. The School District has complied with the applicable provisions of section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

The Technology Bond Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of section 1351(a) of the Revised School Code.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Project Funds (Continued)

The following is a summary of the revenue and expenditures for the 2012 capital project bond activity since inception of the fund through the current fiscal year:

Revenue and other financing sources	<u>\$545,556</u>
Expenditures	<u>\$545,556</u>

The above revenue amount includes net bond proceeds of \$545,000.

The following is a summary of the revenue and expenditures for the 2015 capital project bond activity since the inception of the fund through the current fiscal year:

Revenue and other financing sources	<u>\$780,756</u>
Expenditures	<u>\$730,354</u>

The above revenue amount includes net bond proceeds of \$780,000.

Other Non-major Funds:

Special Revenue Funds - This fund type is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Special Revenue Fund financial statement includes the Food Service Fund.

Fiduciary Fund – This fund accounts for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide financial statements.

Agency Fund - This fund accounts for assets held in trust or as an agent for others. The District's Agency Fund is the Student Activity Fund.

Measurement Focus, Basis of Accounting, and Basis of Presentation

Accrual Method:

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Basis of Presentation: (Continued)

Modified Accrual Method:

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. 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, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue:

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

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and funded through payments from October 2016 to August 2017. Thus, the unpaid portion at June 30th is reported as accounts receivable.

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies:

Cash and Equivalents:

The District's cash and equivalents include cash on hand, demand deposits and certificates of deposit.

Investments:

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.

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 not 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. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Inventory and Prepaid Items:

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consisting of expendable supplies held for consumption, is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Capital Assets:

Capital assets, which include buildings, furniture and equipment, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Improvements, buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and additions	50
Furniture and other equipment	5-20

Defined Benefit Plan:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, 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.

Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the deferred charge on refunding of bonds and pension related items reported in the government-wide statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows are also recognized for pension related items. These amounts are expensed in the plan year in which they apply.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Deferred Outflows/Inflows of Resources: (Continued)

In addition to liabilities, the statement of net 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 two items that qualify for reporting in this category. The first is the future resources yet to be recognized in relation to the pension actuarial calculation of the net pension liability. 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. The second item is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

Compensated Absences:

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in the governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

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 straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance:

The District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects, Debt Service, and Food Service fund balances are considered restricted.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Fund Balance: (Continued)

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

Property Taxes:

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

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

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Resident Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	1.280
Sinking fund:	
PRE, Non-PRE, Commercial Personal Property	1.000

Use of Estimates:

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Annual budgets are adopted on a basis consistent with U.S. GAAP for the general fund and special revenue fund. The capital project funds are 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 comment.
3. Prior to July 1, the budget is legally enacted by a 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, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2017.

During the year ended June 30, 2017, there were no expenditures in excess of the amounts appropriated for the year.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – DEPOSITS AND INVESTMENTS:

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

Statement of Net Position

Government-wide Financial Statement Captions:

Cash and deposits	\$ 1,516,137
Restricted cash - Capital projects	750,250
Investments	708,660

Statement of Fiduciary Net Position

Cash and deposits	<u>158,587</u>
Total	<u><u>\$ 3,133,634</u></u>

Notes to Financial Statements:

Deposits	\$ 2,424,974
Investments	<u>708,660</u>
Total	<u><u>\$ 3,133,634</u></u>

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

<u>Investment type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's rating</u>	<u>%</u>
MILAF External Investment pool - MAX	\$ 708,660	0.0027	AA+	100%
Total fair value	<u>\$ 708,660</u>			<u>100%</u>

Portfolio weighted average maturity 0.0027

1 day maturity equals approximately .0027 years

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 3 – 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.

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

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.

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, \$2,206,102 of the District's bank balance of \$2,503,424 was exposed to custodial credit risk because it was uninsured and uncollateralized. Included in bank balance are certificates of deposit of \$47,322 and other interest bearing deposits. The carrying amount is \$2,424,974.

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.

NOTE 4 – RECEIVABLES:

Receivables at June 30, 2017 consist of the following:

Local sources	\$ 181,351
State sources	862,699
Federal sources	<u>30,656</u>
Total	<u>\$ 1,074,706</u>

No allowance for uncollectible accounts is considered necessary for the governmental funds reporting.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 – CAPITAL ASSETS:

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

	<u>2016</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>2017</u>
Capital Assets:				
Buildings	\$ 16,697,375	\$ 167,064	\$ -	\$ 16,864,440
Site improvements	3,153,674	1,000	-	3,154,674
Machinery and equipment	1,540,912	194,719	8,092	1,727,539
School buses	954,364	-	-	954,364
Construction in progress	-	59,041	-	59,041
Total Capital Assets	<u>22,346,325</u>	<u>421,824</u>	<u>8,092</u>	<u>22,760,058</u>
Accumulated Depreciation:				
Buildings	5,793,314	406,592	-	6,199,906
Site improvements	2,300,275	112,415	-	2,412,690
Machinery and equipment	720,026	167,368	6,474	880,920
School buses	622,384	57,451	-	679,835
Total Accumulated Depreciation	<u>9,435,999</u>	<u>743,826</u>	<u>6,474</u>	<u>10,173,351</u>
Capital Assets-Net	<u>\$ 12,910,326</u>	<u>\$ (322,002)</u>	<u>\$ 1,618</u>	<u>\$ 12,586,707</u>

The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 6 – UNEARNED REVENUE:

Unearned revenue reported in the governmental funds at year end consisted of the following:

General Fund:	
FFA barn project	\$ 87,041
Miscellaneous unearned revenue	15,553
Total	<u>\$ 102,594</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 – NOTE PAYABLE:

At June 30, 2017, the District has outstanding \$700,000 in a state aid note. The state aid note bears interest at .90% and matures on August 21, 2017.

<u>BALANCE</u> <u>JUNE 30, 2016</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>BALANCE</u> <u>JUNE 30, 2017</u>
\$600,000	\$700,000	\$600,000	\$700,000

NOTE 8 – LONG-TERM DEBT :

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2017, \$6,240,000 of the bonds outstanding are considered defeased.

The District issued general obligation bonds to provide funds for the construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2015 general obligation school technology and bus bonds due in annual installments of \$195,000 starting May 1, 2016 through May 1, 2019 with interest at 0.95% to 1.85%. The bond issue is not to exceed \$2,650,000. Bonds issued in 2015-2016 amounted to \$780,000.	\$ 390,000
2015 general obligation school building and site bonds due in annual installments of \$610,000 starting May 1, 2016 through May 1, 2018 with interest at 0.95% to 1.60%.	610,000
2015 general obligation refunding bonds due in annual installments of \$475,000 to \$640,000 starting May 1, 2016 through May 1, 2025 with interest at 2.00% to 4.00%.	4,580,000
Premium on bond refunding	483,954
Total general obligation bonds	<u>6,063,954</u>
Capital lease for copiers due in monthly installments of \$1,450 starting March 2015 through March 2020 with 0% interest.	46,400
Obligation under contract for compensated absences	216,716
Total general long-term debt	<u><u>\$6,327,070</u></u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 – LONG-TERM DEBT: (CONTINUED)

Interest expense (all funds) for the year ended June 30, 2017 was approximately \$226,750. General fund interest expense is included in support services.

The annual requirements to amortize the long-term obligations as of June 30, 2017, including interest are as follows:

	Year ending			
	<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	2018	\$ 1,322,400	\$ 199,688	\$ 1,522,088
	2019	732,400	166,808	899,208
	2020	551,600	142,400	694,000
	2021	560,000	120,800	680,800
	2022	585,000	98,400	683,400
	2023-2025	<u>1,875,000</u>	<u>151,400</u>	<u>2,026,400</u>
Subtotal		5,626,400	879,496	6,505,896
Premium on bond refunding		483,954	-	483,954
Obligation under contract for compensated absences		216,716	-	216,716
Total general long-term debt and interest		<u><u>\$ 6,327,070</u></u>	<u><u>\$ 879,496</u></u>	<u><u>\$ 7,206,566</u></u>

The following is a summary of the changes in the long-term debt during the year ended June 30, 2017:

	<u>2016</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>2017</u>	<u>DUE WITHIN ONE YEAR</u>
2015 sinking fund general obligation bonds	\$ 1,220,000	\$ -	\$ 610,000	\$ 610,000	\$ 610,000
2015 refunding general obligation bonds	5,065,000	-	485,000	4,580,000	500,000
Premium on bond refunding	547,079	-	63,125	483,954	63,124
2015 technology and bus bonds	585,000	-	195,000	390,000	195,000
Capital lease - Copiers	63,800	-	17,400	46,400	17,400
Compensated absences	208,779	7,936	-	216,716	-
Totals	<u><u>\$ 7,689,658</u></u>	<u><u>\$ 7,936</u></u>	<u><u>\$ 1,370,525</u></u>	<u><u>\$ 6,327,070</u></u>	<u><u>\$ 1,385,524</u></u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS:

Plan Description

The Michigan Public School Employee's 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>.

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

Benefits Provided

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

<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 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 plan members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

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 Employee's Retirement System (MPERS) who became a member of the MPERS 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 the member worked through their 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount – total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

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

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

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

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

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Pension Plus (Continued)

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

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

Member Contributions

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

Employer Contributions

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the 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 district's 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 ORS. The range of rates is as follows:

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

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$1,199,552 with \$887,815 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

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 \$12,850,213 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the District's proportion was 0.05152% and 0.04930%.

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Total pension liability	\$ 67,917,445,078	\$ 66,312,041,902
Plan fiduciary net position	\$ 42,968,263,308	\$ 41,887,015,147
Net pension liability	\$ 24,949,181,770	\$ 24,425,026,755
Proportionate share	0.05152%	0.04930%
Net pension liability for the District	\$ 12,850,213	\$ 12,042,183

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

For the year ended June 30, 2017, the District recognized pension expense of \$1,452,951. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2017.

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ 160,148	\$ (30,455)
Changes of assumptions	200,903	-
Net difference between projected and actual earnings on pension plan investments	213,570	-
Changes in proportion and differences between Reporting unit contributions and proportionate share of contributions	728,826	(8,041)
Reporting Unit's contributions subsequent to the measurement date	<u>1,078,437</u>	<u>-</u>
Totals	<u>\$2,381,884</u>	<u>\$ (38,496)</u>

\$1,078,437 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 ended September 30,</u>	<u>Amount</u>
2017	\$329,361
2018	312,565
2019	503,946
2020	119,079

Actuarial Assumptions

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

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

Inflation – 2.5%

Mortality assumptions – RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB for men and women were used.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Actuarial Assumptions: (Continued)

Experience study – The annual actuarial valuation report of the System used for these statements is dated September 30, 2015. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments – The rate of 8% (7% for Pension Plus Plan) net of investment and administrative expenses was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity Pools	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
	<u>100.00%</u>	

*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 the Pension Plus Plan). The discount rate did not change from the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8% (7% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease (6.0% - 7.0%)</u>	<u>Discount rate (7.0% - 8.0%)</u>	<u>1% Increase (8.0% - 9.0%)</u>
Reporting unit's proportionate share of the net pension liability	<u>\$16,547,840</u>	<u>\$12,850,213</u>	<u>\$9,732,758</u>

Pension Plan Fiduciary Net Position

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

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

Other Information

Discount Rate – Assumed Rate of Return

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

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Pension Reform 2017

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended).

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

Benefit Provisions – Other Postemployment

Introduction

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

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

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service 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.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Retiree Healthcare Reform of 2012 (Continued)

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

Employer Contributions

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

The District's postemployment healthcare contributions to MPSERS for the years ended June 30, 2017, 2016 and 2015 were approximately \$243,133, \$312,617 and \$117,737.

NOTE 10 – CONTINGENT LIABILITY:

The District is a reimbursing employer for purposes of unemployment insurance claims against the School District. The District reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. The contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

The surrounding Townships and counties are part of the Michigan Renewable Energy Collaborative (MREC). Certain wind energy companies are contesting the assessed taxable value of wind turbines. If the wind companies are successful in their claim then local governments would have to return tax dollars to these companies. The MREC was formed to fight the legal challenge and share legal costs related to the wind turbine tax value determinations. The wind turbine companies have made tax appeals to the Michigan Tax Tribunal in several townships where they have wind turbines. Due to the inconclusive nature, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the District's potential liability, if any.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 11 – RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2017 or any of the prior three years.

NOTE 12 – SUBSEQUENT EVENTS:

Subsequent to year-end, the District entered into an agreement to borrow \$650,000 from Thumb National Bank & Trust Co. The financing assists the District with cash flow during the months there is no state aid or property taxes received. The note is dated August 1, 2017, and carries interest at 1.34% per annum. The note matures August 20, 2018.

NOTE 13 – 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, villages 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>
Winsor Township	\$18,107
Oliver Township	32,997
Chandler Township	<u>4,283</u>
Total	<u>\$55,387</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.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 14 – UPCOMING ACCOUNTING PRONOUNCEMENTS:

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 No. 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.

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 be present a statement of fiduciary net position and a statement of changes in fiduciary net position.

**REQUIRED SUPPLEMENTARY
INFORMATION**

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	<u>BUDGETED AMOUNTS</u>			<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>FINAL BUDGET</u>
REVENUE:				
Local sources:				
Taxes	\$ 2,990,010	\$ 3,102,505	\$ 3,102,509	\$ 4
Interest	2,005	4,005	4,695	690
Other local revenue	860,160	955,690	961,554	5,864
State sources:				
State school aid-Restricted	1,118,500	1,207,015	1,208,426	1,411
Other state aid revenue	3,673,715	3,559,345	3,560,752	1,407
Federal sources	638,740	663,250	664,686	1,436
TOTAL REVENUE	<u>9,283,130</u>	<u>9,491,810</u>	<u>9,502,622</u>	<u>10,812</u>
EXPENDITURES:				
Instruction:				
Basic programs	4,706,715	4,643,410	4,637,255	6,155
Added needs	<u>1,244,305</u>	<u>1,263,375</u>	<u>1,260,965</u>	<u>2,410</u>
Total instruction	<u>5,951,020</u>	<u>5,906,785</u>	<u>5,898,220</u>	<u>8,565</u>
Supporting services:				
Pupil	563,680	559,180	558,466	714
Instructional staff	156,090	154,990	154,388	602
General administration	339,580	354,245	354,080	165
School administration	447,095	463,970	463,563	407
Business services	198,545	211,395	210,246	1,149
Operations and maintenance	590,745	650,460	649,786	674
Transportation	468,150	506,995	505,110	1,885
Athletics	248,305	256,280	255,439	841
Other central support	<u>297,615</u>	<u>288,190</u>	<u>287,699</u>	<u>491</u>
Total supporting services	<u>3,309,805</u>	<u>3,445,705</u>	<u>3,438,777</u>	<u>6,928</u>
Community services	<u>5,405</u>	<u>6,545</u>	<u>6,540</u>	<u>5</u>
Facilities improvements	<u>-</u>	<u>106,380</u>	<u>106,355</u>	<u>25</u>
Debt service:				
Principal repayment	18,400	20,700	20,694	6
Interest and fiscal charges	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total debt service	<u>19,400</u>	<u>20,700</u>	<u>20,694</u>	<u>6</u>
TOTAL EXPENDITURES	<u>9,285,630</u>	<u>9,486,115</u>	<u>9,470,586</u>	<u>15,529</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(2,500)</u>	<u>5,695</u>	<u>32,036</u>	<u>26,341</u>

(Continued)

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>FINAL BUDGET</u>
OTHER FINANCING SOURCES (USES):				
Sale of assets	2,500	8,075	8,079	4
Transfers from other funds	-	15,000	15,000	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>2,500</u>	<u>23,075</u>	<u>23,079</u>	<u>4</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>-</u>	<u>28,770</u>	<u>55,115</u>	<u>26,345</u>
FUND BALANCE - JULY 1	1,434,011	1,434,011	1,434,011	-
FUND BALANCE - JUNE 30	<u>\$ 1,434,011</u>	<u>\$ 1,462,781</u>	<u>\$ 1,489,126</u>	<u>\$ 26,345</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**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)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.05152%	0.04930%	0.04708%
Reporting unit's proportionate share of net pension liability	\$ 12,850,213	\$ 12,042,183	\$ 10,371,175
Reporting unit's covered-employee payroll	\$ 4,443,018	\$ 4,333,407	\$ 4,184,344
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	289.22%	277.89%	247.86%
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, the District presents information for those years for which information is available.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**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>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 887,815	\$ 1,107,408	\$ 887,429
Contributions in relation to statutorily required contributions	887,815	1,107,408	887,429
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 4,735,626	\$ 4,353,480	\$ 4,344,522
Contributions as a percentage of covered-employee payroll	18.75%	25.44%	20.43%

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017

Changes of benefit terms: There were no changes of benefit terms in 2016.

Changes of assumptions: There were no changes of benefit assumptions in 2016.

**ADDITIONAL SUPPLEMENTARY
INFORMATION**

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>2015 DEBT FUND</u>	<u>2015 TECHNOLOGY DEBT FUND</u>	<u>TOTAL DEBT SERVICE FUNDS</u>
REVENUE:			
Local sources:			
Property taxes	\$ 665,847	\$ 203,402	\$ 869,249
Earnings on investments	394	74	468
TOTAL REVENUE	<u>666,241</u>	<u>203,476</u>	<u>869,717</u>
EXPENDITURES:			
Miscellaneous	23	9	32
Debt service:			
Principal repayment	485,000	195,000	680,000
Interest and fiscal charges	193,400	9,164	202,564
TOTAL EXPENDITURES	<u>678,423</u>	<u>204,173</u>	<u>882,596</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(12,182)</u>	<u>(697)</u>	<u>(12,879)</u>
FUND BALANCE - JULY 1	151,992	18,848	170,840
FUND BALANCE - JUNE 30	<u>\$ 139,810</u>	<u>\$ 18,151</u>	<u>\$ 157,961</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - CAPITAL PROJECTS FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>SINKING FUND</u>	<u>TECHNOLOGY BOND CAPITAL PROJECTS</u>	<u>TOTAL CAPITAL PROJECTS FUNDS</u>
REVENUE:			
Local sources:			
Property taxes	\$ 680,643	\$ -	\$ 680,643
Earnings on investments	1,236	155	1,391
TOTAL REVENUE	<u>681,879</u>	<u>155</u>	<u>682,034</u>
EXPENDITURES:			
Other professional services	25	-	25
Capital outlay	88,959	182,150	271,109
Debt service:			
Principal repayment	610,000	-	610,000
Interest and fiscal charges	17,884	500	18,384
TOTAL EXPENDITURES	<u>716,868</u>	<u>182,650</u>	<u>899,518</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(34,989)</u>	<u>(182,495)</u>	<u>(217,484)</u>
FUND BALANCE - JULY 1	734,837	232,897	967,734
FUND BALANCE - JUNE 30	<u>\$ 699,848</u>	<u>\$ 50,402</u>	<u>\$ 750,250</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**SCHEDULE OF BONDED INDEBTEDNESS
2015 REFUNDING BONDS
JUNE 30, 2017**

Fiscal Year ending June 30,	Interest Rate	Interest due		Principal May - 1	Total due Annually
		Nov - 1	May - 1		
2018	4.000%	\$ 91,600	\$ 91,600	\$ 500,000	\$ 683,200
2019	4.000%	81,600	81,600	520,000	683,200
2020	4.000%	71,200	71,200	540,000	682,400
2021	4.000%	60,400	60,400	560,000	680,800
2022	4.000%	49,200	49,200	585,000	683,400
2023	4.000%	37,500	37,500	605,000	680,000
2024	4.000%	25,400	25,400	630,000	680,800
2025	4.000%	12,800	12,800	640,000	665,600
Total		\$ 429,700	\$ 429,700	\$ 4,580,000	\$ 5,439,400

On February 24, 2015, a portion of the 2005 Refunding Bonds were refunded.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**SCHEDULE OF BONDED INDEBTEDNESS
2015 TECHNOLOGY AND BUS BONDS
JUNE 30, 2017**

Fiscal Year ending <u>June 30,</u>	Interest <u>Rate</u>	Interest due		Principal <u>May - 1</u>	Total due <u>Annually</u>
		<u>Nov - 1</u>	<u>May - 1</u>		
2018	1.600%	\$ 3,364	\$ 3,364	\$ 195,000	\$ 201,728
2019	1.850%	<u>1,804</u>	<u>1,804</u>	<u>195,000</u>	<u>198,608</u>
Total		<u>\$ 5,168</u>	<u>\$ 5,168</u>	<u>\$ 390,000</u>	<u>\$ 400,336</u>

On August 11, 2015, the District issued \$780,000 in technology and bus bonds. Total bonds approved are not to exceed \$2,650,000.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**SCHEDULE OF BONDED INDEBTEDNESS
2015 SINKING FUND BONDS
JUNE 30, 2017**

Fiscal Year ending	Interest	Interest due		Principal	Total due
<u>June 30,</u>	<u>Rate</u>	<u>Nov - 1</u>	<u>May - 1</u>	<u>May - 1</u>	<u>Annually</u>
2018	1.600%	<u>\$ 4,880</u>	<u>\$ 4,880</u>	<u>\$ 610,000</u>	<u>\$ 619,760</u>
Total		<u>\$ 4,880</u>	<u>\$ 4,880</u>	<u>\$ 610,000</u>	<u>\$ 619,760</u>

On July 15, 2015, the District issued 2015 School Building and Site Bonds in the amount of \$1,830,000.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Approved Grant Award Amount	Memo Only Prior Year Expenditures	Accrued or (Unearned) Revenue 7/1/2016	Current Year Receipts (Cash basis)	Current Year Expenditures	Accrued (Unearned) Revenue 6/30/17
U.S. Department of Agriculture								
Passed Through Michigan Dept. of Education								
Child Nutrition Cluster:								
Non-cash assistance (donated foods):								
Entitlement	10.555		\$ 31,401	\$ -	\$ -	\$ 31,401	\$ 31,401	\$ -
Total Non-cash assistance			<u>31,401</u>	<u>-</u>	<u>-</u>	<u>31,401</u>	<u>31,401</u>	<u>-</u>
Cash assistance:								
School Breakfast Program	10.553	161970	6,549	-	-	6,549	6,549	-
School Breakfast Program		171970	51,711	-	-	51,711	51,711	-
			<u>58,260</u>	<u>-</u>	<u>-</u>	<u>58,260</u>	<u>58,260</u>	<u>-</u>
National School Lunch Program	10.555	161960	22,222	-	-	22,222	22,222	-
National School Lunch Program		171960	168,276	-	-	168,276	168,276	-
			<u>190,498</u>	<u>-</u>	<u>-</u>	<u>190,498</u>	<u>190,498</u>	<u>-</u>
Cash assistance subtotal			<u>248,758</u>	<u>-</u>	<u>-</u>	<u>248,758</u>	<u>248,758</u>	<u>-</u>
Total for Child Nutrition Cluster			<u>280,159</u>	<u>-</u>	<u>-</u>	<u>280,159</u>	<u>280,159</u>	<u>-</u>
Farm to School	10.575	201616L320330	43,668	6,982	6	36,692	36,686	-
Community Facilities Grant	10.766		12,000	-	-	12,000	12,000	-
Total U.S. Department of Agriculture			<u>335,827</u>	<u>6,982</u>	<u>6</u>	<u>328,851</u>	<u>328,845</u>	<u>-</u>
U.S. Department of Health & Human Serv.								
Abuse/Mental Health Grant	93.243	D0531P1	841	-	19,784	20,625	841	-
Youth/Mental Health Grant	93.243	1H79SM062	100,000	39,312	-	22,849	22,849	-
Passed through ISD								
Medicaid Outreach	93.778		1,377	-	-	1,377	1,377	-
Total U.S. Department of Health & Human Serv.			<u>102,218</u>	<u>39,312</u>	<u>19,784</u>	<u>44,851</u>	<u>25,067</u>	<u>-</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Grantor's Number	Approved Grant Award Amount	Memo Only Prior Year Expenditures	Accrued or (Unearned) Revenue 7/1/2016	Current Year Receipts (Cash basis)	Current Year Expenditures	Accrued (Unearned) Revenue 6/30/17
U.S. Department of Education								
Passed Through Michigan Dept of Education								
Title I Part A								
	84.010	1715301617	145,336	-	-	126,836	145,076	18,240
	84.010	1615301516	160,168	151,413	889	889	-	-
			<u>305,504</u>	<u>151,413</u>	<u>889</u>	<u>127,725</u>	<u>145,076</u>	<u>18,240</u>
Title II Part A								
140520-1314	84.367	1705201617	69,378	-	-	67,203	67,560	357
150520-1415	84.367	1605201516	70,463	69,248	6,237	6,237	-	-
			<u>139,841</u>	<u>69,248</u>	<u>6,237</u>	<u>73,440</u>	<u>67,560</u>	<u>357</u>
Total Passed Through MDE			445,345	220,661	7,126	201,165	212,636	18,597
Climate Transformation Grant	84.184g	S184G1400192	459,770	-	68,629	471,553	414,983	12,059
Total U.S. Department of Education			<u>905,115</u>	<u>220,661</u>	<u>75,755</u>	<u>672,718</u>	<u>627,619</u>	<u>30,656</u>
Total Federal Financial Assistance			<u>\$ 1,343,160</u>	<u>\$ 266,955</u>	<u>\$ 95,545</u>	<u>\$ 1,046,420</u>	<u>\$ 981,531</u>	<u>\$ 30,656</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Elkton Pigeon Bay Port Laker Schools under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Elkton Pigeon Bay Port Laker Schools, it is not intended to and does not present the financial position or changes in net position of Elkton Pigeon Bay Port Laker Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.
3. The District qualifies for low-risk auditee status. Management has utilized the Cash Management System (CMS) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
4. Reconciliation to the Financial Statements:

General Fund	\$ 664,686
Special Revenue Funds:	
Food Service Fund	<u>316,845</u>
Current Year Exenditures	<u>\$ 981,531</u>

5. Reconciliation of Schedule of Federal Expenditures:

Total Expenditures	<u>\$ 981,531</u>
Total Receipts (Cash Basis)	\$ 1,046,420
Accrued revenue 2015/16	(95,545)
Accrued revenue 2016/17	<u>30,656</u>
Total	<u>\$ 981,531</u>

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

To the Board of Education
Elkton Pigeon Bay Port Laker Schools
Pigeon, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elkton Pigeon Bay Port Laker Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Elkton Pigeon Bay Port Laker School's basic financial statements, and have issued our report thereon dated October 4, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Nietzke & Faupel P.C.
NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 4, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education
Elkton Pigeon Bay Port Laker Schools
Pigeon, Michigan

Report on Compliance for Each Major Federal Program

We have audited Elkton Pigeon Bay Port Laker School's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Elkton Pigeon Bay Port Laker School's major federal programs for the year ended June 30, 2017. Elkton Pigeon Bay Port Laker School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Elkton Pigeon Bay Port Laker School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Elkton Pigeon Bay Port Laker School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Elkton Pigeon Bay Port Laker School's compliance.

Opinion on Each Major Federal Program

In our opinion, Elkton Pigeon Bay Port Laker Schools, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Elkton Pigeon Bay Port Laker Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Elkton Pigeon Bay Port Laker School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Elkton Pigeon Bay Port Laker School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 4, 2017

ELKTON PIGEON BAY PORT LAKER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- ▶ Material weakness (es) identified? Yes No
- ▶ Significant deficiency (ies) identified that are not required to be material weakness (es)? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- ▶ Material weakness (es) identified? Yes No
- ▶ Significant deficiency (ies) identified that are not required to be material weakness (es)? Yes None reported

Type of auditors' report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported with Title 2 CFR Section 200.516(a)? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.184g	Climate Transformation Grant

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as a low risk auditee? Yes No

ELKTON PIGEON BAY PORT LAKER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017

B. FINDINGS-FINANCIAL STATEMENTS

1. None.

C. FINDINGS AND QUESTIONED COSTS – FEDERAL AWARDS

1. None.

ELKTON PIGEON BAY PORT LAKER SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2017

There were no findings or questioned costs for the year ended June 30, 2016.