

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

Year Ended June 30, 2017

**Sand Creek Community Schools
Financial Report
For the Fiscal Year Ended
June 30, 2017**

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DARNELL & MEYERING, P.C.

Certified Public Accountants

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

20500 EUREKA ROAD • SUITE 300
TAYLOR, MICHIGAN 48180
(734) 246-9240
FAX (734) 246-8635

MEMBERS
AMERICAN INSTITUTE OF
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MICHIGAN ASSOCIATION OF
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Independent Auditor's Report

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedure selected depends 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, the combining and individual nonmajor fund, and the aggregate remaining fund information of the Sand Creek Community Schools, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison on pages 4 through 22 and page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to

the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2017, on our consideration of Sand Creek Community Schools internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sand Creek Community Schools internal control over financial reporting and compliance.

DARNELL & MEYERING, P.C.

A handwritten signature in cursive script that reads "Darnell & Meyering, P.C.".

Taylor, Michigan
October 12, 2017

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

Sand Creek Community Schools is a K-12 school district located in Lenawee County, Michigan. The Management's Discussion and Analysis, a requirement of the Governmental Accounting Standards Board Statement 34 (GASB 34), is intended to be an overview of the financial activities for the fiscal year ended June 30, 2017. This reporting model provides detailed explanation of specific items included in the financial statements. A comparative analysis of fiscal year ended June 30, 2017 to the prior year has been included in this discussion.

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

Reporting the District as a Whole

The Statement of Net Position and Statement of Activities

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

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

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

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

Fund Financial Statements

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

For the period ended June 30, 2017, the District is reporting on only one major fund, the District's General Fund. The General Fund reports the District's operational expenditures and activities. The District has several non-major funds. Non-major funds consisted of the District's Special Revenue, Debt Service and Capital Project Funds.

The District has two Special Revenue Funds - the School Lunch Fund and the Community Service Fund. The School Lunch Fund reports the food service activities and the Community Service Fund reports the District's internal pop sales. The District's Capital Project Funds include the Building and Site Sinking Fund, the 2012 Bus and Technology Bond and the FFA Capital Project Fund. These Capital Project Funds report various capital improvements in the District.

The District's Debt Service Funds were used to report the Districts two debt retirement funds for the 2009 Bond and the 2012 Bus and Technology Bond. Principal and interest payments for both of these bonds are being made with tax levy dollars and will be paid off in 2020 and 2019, respectively.

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

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

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

As discussed above, the statement of net position provides the perspective of the District as a Whole. Table 1 provides a summary of the District's Net Position as of June 30, 2017. The School District's net position was \$6,686,299 at June 30, 2017, excluding the GASB 68 net position liability effect. Capital assets, net of related debt totaling \$5,161,753 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of some of these assets. Most of this long-term debt will be repaid with voter approved bond millage revenue by May 2020.

The District had an unrestricted net position of \$1,440,384 (excluding GASB 68), which represents the accumulated results of all past year's operations. Restricted funds are reported separately because the School District is limited in their ability to use these net positions for day-to-day operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

GASB 68 – Net Pension Liability

GASB Statement No. 68 requires all Michigan school Districts to record their proportionate share of the state's net pension liability on their government-wide statements. The details of the GASB 68 requirement and how this figure was calculated is covered in more detail in the footnotes of this audit report. However, the net pension liability that must be recorded on the government-wide statements for Sand Creek Community Schools is \$12,677,854. This figure drastically changes the statements for the District putting them into a negative net position of (\$4,971,699). This is an estimated liability figure as it is calculated in part based on annual investment earnings. Dependent on market activity, this figure could increase or decrease every year. The GASB 68 effect with the net pension liability figure is included in the statements below.

Table 1

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets		
Current Assets	\$ 3,168,060	\$2,550,611
Noncurrent Assets	<u>5,896,522</u>	<u>6,052,034</u>
Total Assets	<u>\$ 9,064,582</u>	<u>\$8,602,645</u>
Deferred Outflows of Resources		
Deferred outflows of pension resources	\$ 1,662,864	\$ 1,321,052
Liabilities		
Current Liabilities	\$ 1,634,986	\$ 1,562,279
Noncurrent Liabilities	<u>13,421,151*</u>	<u>13,689,287*</u>
Total Liabilities	<u>\$15,056,137</u>	<u>\$15,251,566</u>

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

Deferred Inflows of Resources:

Deferred inflows of pension resources	643,008	75,984
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Net Position

Net investment in capital assets	5,161,753	4,956,893
Restricted for debt service	33,103	68,769
Restricted for Food Service	51,059	19,765
Unrestricted	<u>(10,217,614)</u>	<u>(10,475,093)</u>
Total Net Position	<u>(\$ 4,971,699)</u>	<u>(\$ 5,403,853)</u>

*Noncurrent Liability balance reflects \$12,677,854 (2016/17) and \$12,674,557 (2015/2016) in recorded net pension liability, as required by GASB 68.

Table 2

Statement of Activities:

For the fiscal year ended June 30, 2017, the District wide results of operations as compared to June 30, 2016, were:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Revenues:		
General Revenues:		
Property taxes levied for general operations	\$ 255,459	\$ 242,895
Property taxes levied for debt service	393,876	378,414
Property taxes levied for capital projects	223,291	220,240
Investment earnings	4,226	2,811
Intermediate Sources	70,179	50,957
State of Michigan unrestricted foundation aid	6,274,820	6,184,558
Contributions	4,517	50
Other general revenues	<u>10,943</u>	<u>3,189</u>
Total General Revenues	<u>7,237,311</u>	<u>7,083,114</u>
Program Revenues:		
Operating Grants:		
Federal	416,060	398,846
State of Michigan	740,484	1,058,445
Other operating grants	<u>351,440</u>	<u>376,584</u>
Total Operating Grants	<u>1,507,984</u>	<u>1,833,875</u>

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

Charges for Services:		
Food service	178,123	171,262
Athletics	67,570	53,396
Instruction	74,584	68,966
Other	<u>10,246</u>	<u>13,144</u>
Total Charges for Services	<u>330,523</u>	<u>306,768</u>
Total Revenues	<u>9,075,818</u>	<u>9,223,757</u>
Expenses:		
Instruction	5,069,374	5,448,312
Support services	2,424,943	2,373,533
Food service	447,898	487,210
Athletics	251,650	268,794
Interest Expense	46,853	59,600
Capital Outlay	9,376	37,534
Unallocated Depreciation	396,898	400,736
Other	<u>2,975</u>	<u>7,743</u>
Total Expenses	8,649,967	9,083,462
Change in Net Positions	425,851	140,295
Beginning Net Positions	(5,403,853)	(5,544,148)
Prior Period Adjustment	6,303*	-
Ending Net Positions	<u>(\$4,971,699)</u>	<u>(\$ 5,403,853)</u>

*See Note 7 for further explanation and detail on the Deferred Inflows/Outflows for Pension Cost and the Net Pension Liability. See Note 13 for explanation of Prior Period Adjustment.

As shown in Table 2 above, the cost of all of *the District activities as a whole* this year was \$8,649,967. This figure includes the net cost of the Deferred Inflows and Outflows of Resources which was \$1,019,856, part of the GASB 68 effect. (More about these figures are included in the footnotes.) The total net position for this year was positive \$425,851. Certain activities received partial funding from those who benefited from the programs, or by other grants or categorical. The remaining costs were paid by a combination of the \$872,626 in levied property taxes and \$6,274,820 in unrestricted state aid, along with other additional revenue such as interest and miscellaneous contributions.

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

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

Analysis of Financial Position

During the fiscal year ended June 30, 2017 the District's total governmental activities had a combined fund balance of \$1,901,443, an increase of \$571,074 from the prior year. This combined fund balance consists of the District's one major fund – the General Fund; and the District's non-major funds which include the Capital Project, Debt Service and Special Revenue Funds (School Lunch Fund and Community Service Fund). An analysis of each fund's financial position is included below.

- In the General Fund, the District's principal operating fund, the fund balance increased by \$553,014 and had an ending fund balance of \$1,563,414, or 20.02% of expenditures. Of this balance, \$45,860 are prepaid expenses for the 2017/2018 fiscal year and are therefore considered non-spendable funds and not available for general education operations. Committed funds for the authorized purchase of a bus amounts to \$84,321. If you exclude these nonspendable and committed amounts, the District's unassigned fund balance is \$1,433,233 or 18.35%.
- The District had a total fund balance of \$245,231 at fiscal year end in its Capital Project Funds. The District's Capital Project Sinking Fund makes up the bulk of this fund with an ending balance of \$239,439, an increase of \$6,869 for the fiscal year. This sinking fund levy of 1.8424 mills was approved by voters through the 2018 and is used to pay for capital improvements and major repairs/upgrades to the District's buildings and grounds. These annual projects are discussed and recommended to the board by the District's building committee.
- The District's Debt Service Funds are comprised of two separate debt service funds that correspond to bonds issued in each of these years: the 2000 Debt Service and the 2012 Debt Service funds.
 - The 2000 Debt Service Fund had an ending fund balance of \$40,551. This is a 1.95 mill levy for the District's 20 year High School Renovation Bond that expires in 2020.
 - The 2012 Debt Service Fund had an ending balance of \$1,181. This is a 1.30 mill levy for the District's 7 year Bus and Technology Bond that expires in 2019.
- The Special Revenue Fund balance had an ending balance of \$51,066. This fund is mainly comprised of the School Lunch fund, with a very small amount from the Community Service Fund. The School Lunch Fund had a balance of \$51,059 on 6/30/2017, an increase of \$31,294 for the year. The goal of the Food Service program at the District continues to be to maintain a fund balance and be self-supporting. In the coming few years, the District will need to replace some of the aging appliances in the food service program, including ovens, dishwashers and stoves. This fund balance will help pay for the replacement of these often pricey pieces of commercial equipment.

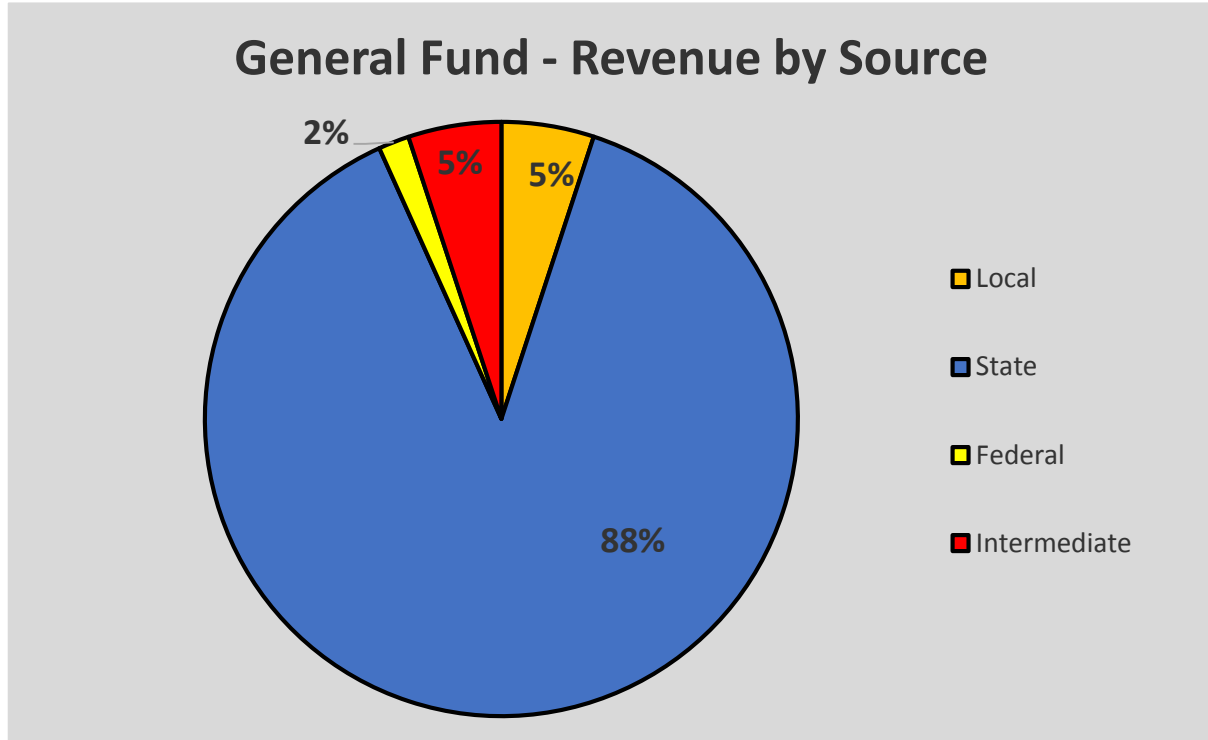
SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

It is the District management's goal to protect the fund balance while providing effective ongoing educational operations. It has been the management's goal to maintain at least an 8% fund balance (minimum). The board and management have done very well at growing this fund balance over the last few years, and the District has a much healthier fund balance with its current 18.35% as of 6/30/2017. The District still continues to fight an overall declining enrollment, which is representative of the state-wide decline in enrollment. In the last 15 years, the District enrollment has declined by close to 85 students. This represents over \$638,000 in lost revenue for just the 2016/2017 fiscal year alone. The cumulative effect of this loss in revenue year after year amounts to millions of dollars in lost revenue. Declining enrollment is just one of the significant financial events that will continue to have an effect on the District's fund balance if this trend does not turn around.

Revenues

As illustrated in the following graph, The State of Michigan is the primary source of funds for the District. The State provides Districts with a per pupil foundation grant, which is used for the overall operation of the District. During the 2016-2017 fiscal year, the District received \$7,511 per pupil. In addition to this per pupil funding, the State also provides other grants and categorical grants that are restricted to specific purposes. Property taxes collected on non-residential homes are received by the District and are included in Local Sources. Federal funds are restricted for specific purposes. Intermediate funds are primarily received from the Intermediate School District.



SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

Foundation Allowance (State Aid)

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

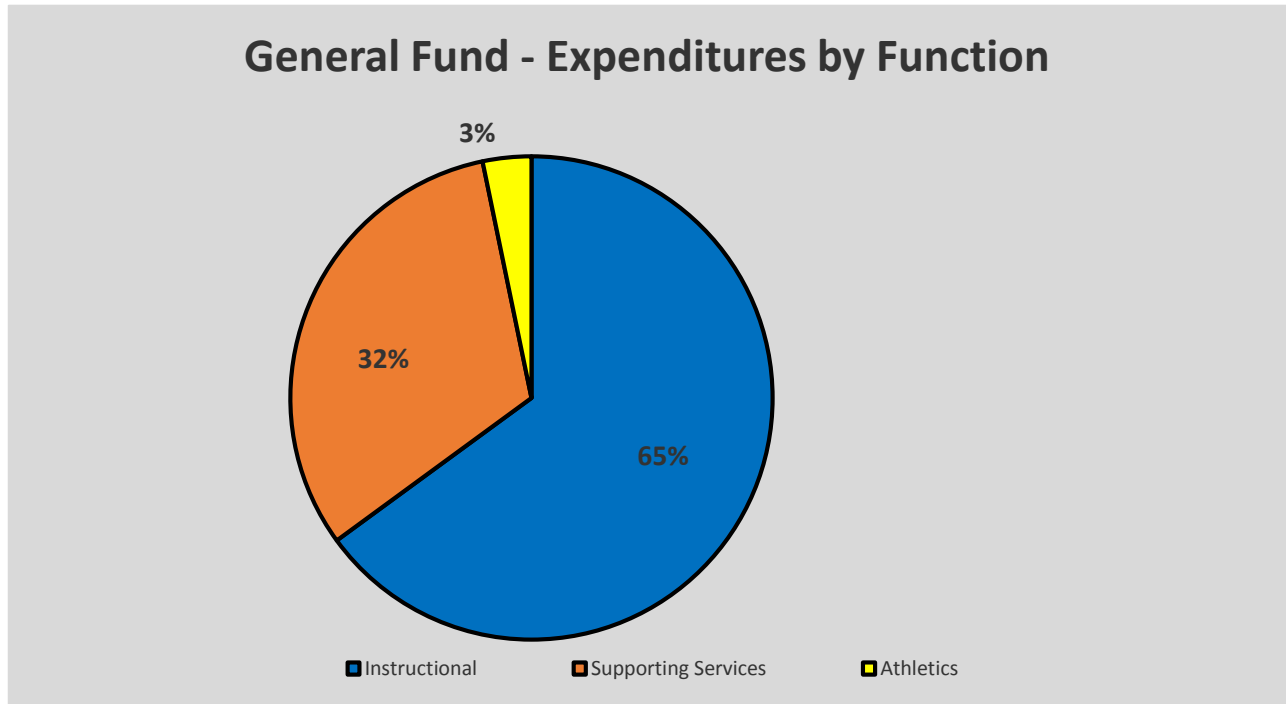
As stated earlier, Sand Creek Community Schools has been experiencing an enrollment decline over the last 15 years. This past fiscal year saw a small decrease in enrollment of 4 students from the 2015/2016 school year. The preliminary enrollment number for the coming 2017/18 year is 888, down just two students. The overall reduction in student count and the state funding that goes with it continues to put a financial strain on the District budget. As shown in the chart above, 88% of the Districts revenue comes from the state, with much of that in the form of per-pupil funding. Therefore, the enrollment decline is a huge concern for the District board and management. The District has been extremely careful and cautious with budget planning, spending and negotiations and this diligence has allowed the fund balance to grow in the most recent years. Additional sources of grant funding, along with caution and conservative budgeting and spending paid off again this past fiscal year as the District had a \$553,014 gain to its general fund balance. The maintenance of a health fund balance is crucial for the District's ability to weather the ups and downs of enrollment/funding and unplanned expenditures.

Expenses

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

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017



The District's current agreement with the Sand Creek Education Association (SCEA) expired August 31, 2017. Both the teacher's salary system and the extracurricular pay schedule have now eliminated the step salary systems and replaced it with a new, leading edge salary agreements. These new salary agreements include performance pay schedules and noncumulative (off-schedule) stipends based on a combination of fund balance level, current salary level and performance evaluations. With this performance pay system, the District's teachers have a performance goal to strive for that is linked to a financial reward. This provides personal satisfaction and accomplishment as well provides a direct benefit to our students in the classroom.

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

As teachers at the end of their career with higher salaries from the previous contract retire, they are replaced with teachers placed into our new salary agreement. This has a cumulative positive effect on the District's budget. The District had four teachers and two support staff employees retire at the end of the 2015/2016 year. While half of these positions were replaced with new hires at lower salary levels, the other half were replaced with part-time positions.

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

These staff changes resulted in a savings in overall expenditures to the District. Health insurance costs continue to rise. The District is a member of the Lenawee County Health Consortium that has helped to contain these cost increases. The District continues to save money by paying only 80% of the total health costs, with the employee paying the other 20%. The Lenawee County Health Consortium continues to bid out health coverage to seek the best options for the country District employees and Districts.

Contributions to the Michigan Public School Employee' Retirement System (MPERS) for fiscal year 2017 was anywhere between 25 - 27%, depending on the employee's retirement plan. The state legislature has taken action to reduce the cost effect of increasing rates by using state funds to stabilize these rates. While this controls our retirement costs, it also uses state funds that could have otherwise been used for revenue increases. Even with these efforts, the fact remains that for each payroll dollar paid, an additional 25 cents or more is paid to the retirement system.

The District had one major capital purchase within the general fund during the 2016/2017 school year – the purchase of a lawn tractor for \$14,315. The District did also budget and purchase a new bus for \$84,000. However, since the District did not take possession of the bus prior to June 30th, this expenditure was deferred to next fiscal year and is recorded as committed funds in this year's audit. In the past few years, the District has fallen behind in the replacement of our aging bus fleet. Sand Creek Community Schools is a rural District with all students being transported by personal vehicles or on one of the District's 12 bus routes. The District management understands the necessity of keeping up the bus fleet and spreading out the cost of purchasing and replacing buses. The District plans to purchase a second bus in 2017/2018 to help catch up with the replacement schedule.

Energy costs (heat and electric) increased from the prior year by \$8,800. Transportation fuel costs, however, stayed level. Fuel costs have decreased overall by 30%, or \$16,000, from what the District was paying two years ago. Other major costs for the year were in the area of technology expenditures with the District annually spending around \$65,000 towards continual technology upgrades and technology support services through the Lenawee Intermediate School District. The District finished its second year of the new Business Services Cooperative Agreement with the Lenawee Intermediate School. This cooperative agreement to share business services saves Sand Creek Schools close to \$70,000 annually. This cooperative agreement involves sharing the District's Chief Financial Officer with another local county District thereby splitting this cost in half.

The District continues to make every effort to contain and reduce costs through attrition, efficiency and cooperative service agreements while maintaining a competitive educational program to draw more students. However, with an overall decrease in the number of students both state-wide and county-wide, the efforts to increase enrollment in the District continues to be a struggle. The net results of the 2016/2017 school year was an increase in the general fund balance of \$553,014.

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

General Fund and Special Revenue Fund Operations

The District's revenues from General Fund operations exceeded expenses by \$553,014 for the fiscal year ended June 30, 2017. The District management was very pleased to end the year with this healthy fund balance increase. At the end of the fiscal year, the fund balance for the School District's General Fund was \$1,563,414, or 20.02%. Of this fund balance, \$84,321 has been committed by the board of education for the purchase of a new bus and \$45,860 are prepaid expenditures considered nonspendable funds. Excluding these committed and nonspendable costs, the District has a final unassigned fund balance of \$1,433,233 or 18.35%.

Revenues and expenses for the District's athletic program are combined with the General Fund at the end of the fiscal year. The School District's General Fund supports the athletic program every year. In 2016/2017, the general fund contributed funds of \$201,562 towards coaching salaries, benefits and other athletic costs.

This year's increase to the general fund balance was much better than had been predicted in the final amended budget, which called for only a \$317,552 increase. The original budget adopted by the board in June 2016 showed a \$71,897 hit to the fund balance. The positive change can be attributed to savings achieved by retirements and staff changes, changes in special education expenses and new grant revenues. District management has always maintained that to operate at its capacity and best efficiency it needs 1,000 students. As the enrollment decreases and gets further away from this goal, the District's struggles to make ends meet will increase. The District is therefore very pleased to end the year with this increase and a healthier fund balance. At the end of the fiscal year, the fund balance for the School District's General Fund was \$1,563,414, or 20.02%.

Revenues and expenses for the District's athletic program are combined with the General Fund at the end of the fiscal year. The School District's General Fund supports the athletic program every year. In 2015/2016, the general fund contributed funds of \$210,487 towards coaching salaries, benefits and other athletic costs. Overall ticket sales have decreased for all athletic events and athletic trainer fees have increased due to a change in provider services.

The Lunch Fund (Food Service program) continues to support itself. The fund had a net increase at the end of the 2016/17 school year of \$31,294. The increase in lunch prices and participation resulted in a good year financially for the Food Service Program. The District's free and reduced eligibility percentage continues to increase and the result is an increase in federal meal reimbursements. Going into next year, our free and reduced percentages District-wide are at an all-time high at near 45%. While sadly this is a sign of the financial struggles of many of the District's families, the District will receive more federal funds for meal reimbursements as well as many state and federal grant allocations that are linked to this number. The Universal Free Breakfast program in our elementary program continues to be very successful, providing a free nutritious breakfast to over 80% of our elementary students.

Our food service management group works hard to use government commodities to provide nutritional and appetizing meals for our students and staff and keep costs down, while now abiding by federal regulations that limit choices and challenge staff to create menu choices that appeal to students. Food and labor costs have both increased since the inception of these new federal nutrition requirements. Healthy food is more expensive (as the saying goes) and more

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

labor intensive to prepare and this has proven true for our food service staff. The District's food and milk sales to students and adults amounted to \$178,123 for the fiscal year, an increase of \$6,600 from the prior year. The state and federal meal funding totaled \$303,284, a decrease of \$9,800 from the prior year. With the increase in free/reduced percentages this coming fiscal year, the state and federal reimbursement amount will show a large increase compared to this fiscal year.

The food service program had an ending fund balance of \$51,059.

Long-Term Bonded Debt and Long-Term Notes

The District had \$980,000 in long-term debt as of June 30, 2017. During the fiscal year ended June 30, 2017, total principal payments on long-term debt were \$355,000. All of the District's long-term debt is covered below and in the following pages of this report in further detail.

	Principal Balance <u>June 30, 2016</u>	Additions <u>June 30, 2017</u>	Principal Payments <u>June 30, 2017</u>	Balance <u>June 30, 2017</u>
2009 Refunding Bonds	\$ 865,000		205,000	\$ 660,000
2012 Bond	<u>470,000</u>	<u> </u>	<u>150,000</u>	<u>320,000</u>
Total long-term bond obligations	<u>\$1,335,000</u>	<u>\$ 0</u>	<u>\$ 330,000</u>	<u>\$ 980,000</u>

VOTED BOND DEBT

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

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2000 Voted Bond for the High School Addition and Renovation, is based on the taxable valuation of all properties: homestead and non-homestead. The School District levied 2.9 mills on a taxable value of almost \$75 million in the 2000 tax roll. Between 2001 and 2008, the rate was reduced to 2.4 mills because of a sufficient increase in the taxable value of the school District. The District's taxable valuation has maintained and even increased slightly over the last few years, which has allowed us to continue to decrease this rate. In 2014, the millage rate was further reduced to 1.95 mills. During the fiscal year ended 2017, this 1.95 mills levied on a taxable valuation of \$119,901,219 generated revenue of \$233,970. Final bond maturity is May 1, 2020.

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

TECHNOLOGY AND BUS BONDS

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

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2012 School Technology and Bus Bonds, is based on the taxable valuation of all properties: homestead and non-homestead. The District is currently levying 1.30 mills on this authorized 1.40 mill bond. Final bond maturity is May 1, 2019.

During the fiscal year ended 2017, this 1.30 mills levied on a taxable valuation of \$119,901,219 generated revenue of \$155,978.

Net Investment in Capital Assets

At the end of fiscal year 2017, the School District had \$12,215,195, invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, 6,318,673 in depreciation and amortization have been taken over the years. Our capital assets currently have a net book value of \$5,896,522.

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets	\$12,246,493	\$235,916	(\$267,214)	\$12,215,195
Less: Accumulated depreciation and amortization	<u>(6,188,156)</u>	<u>(396,898)</u>	<u>266,381</u>	<u>(6,318,673)</u>
Net investment capital outlay	<u>\$ 6,058,337</u>	<u>(\$160,982)</u>	<u>(\$833)</u>	<u>\$5,896,522</u>

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

Economic Factors, Enrollment and Budget Comparisons

The two main factors affecting the School District's revenue picture during the 2016-2017 fiscal year, and any fiscal year, were the State Foundation Allowance and Student Enrollment. Another important revenue factor is the Property Tax levied for General Operations on the District's non-homestead property value. These three revenue areas, and the effect they had on the District's fiscal year ended 2017, are explained in more detail below.

State of Michigan Unrestricted Aid (Net State Foundation Grant)

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

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

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. For the 2016-2017 fiscal year, the Sand Creek Community School's foundation allowance was \$7,511, an increase of \$120 per student from the prior year. This increase was the result of a minimum foundation increase approved as part of the 2016/17 School Aid Package. Sand Creek Schools is at the minimum funding level. The state legislature also continues to fund the MPSERS Cost Offset funding to help with the cost burden of the retirement rates paid by the District. This additional funding amounted to \$59,977 this past year.

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

Student Enrollment:

The District's student enrollment for the fall count of 2016-17 was 890 students. The School District has experienced an overall decline in enrollment. In September 2002 the enrollment was 980 and in September 22016 it had fallen to 890. In total, this is almost a 10% drop in enrollment. The following summarizes fall student enrollments in the past sixteen years:

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

A preliminary enrollment figure of 888 for the 2017-2018 school year shows the District maintaining enrollment, with no further decrease, this coming year. The enrollment decline is a concern for the District, but is reflective of the overall state enrollment decline.

The District continues to be a very popular school of choice District within the county. In the 2016-2017 school year, 417 guest students from other county school Districts were accepted for enrollment at Sand Creek Schools. This amounts to 47% of the District's total enrollment in 2016-2017. Since the "Schools of Choice" option became available at the school District, the number of choice students has continued to grow each year. However, the number of resident students has decreased.

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

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

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

The District's non-homestead property revenue for the 2016-17 fiscal year was \$255,459.

Original vs. Final Budget:

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

As a matter of practice, Sand Creek Community Schools amends its budget periodically during the school year. The June 26, 2017 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

General Fund Revenues:

Total Revenues - Original Budget	\$ 7,488,107
Total Revenues - Final Budget	<u>8,376,788</u>
Increase in Budgeted Revenues	<u>\$ 888,681</u>

The District's final, actual general fund revenue was \$8,361,724; which was less than the final budget by \$15,064, a difference of only .18% percent from final budget. This difference came mainly from state and federal grant revenue that was carried over into the 2017-18 school year and therefore not reflected in this year's actual revenue.

The final revenue budget was more than originally projected by \$888,681. Actual revenues were larger than budgeted due to the recording of the UAAL Rate Stabilization revenue for 2016/2017. The District does not include these MPSERS 147c UAAL funds in the original budget. Because this categorical line item is an "in and out"; meaning it comes in as a revenue line item on our State Aid Status report and then is paid back out to ORS the following month, the District waits to adjust both the revenue and expenditures for this same amount in the final budget amendment of the year. The amount of the 147c UAAL funding for 2016/2017 was \$531,504, making up almost all of the difference between the original and final approved budgets. Another major change was the difference between the originally budgeted enrollment and final enrollment for the fall 2016 count. The District budgeted for 860 and actual fall count was 890, an increase of 30 students to the budget. At \$7,511 per student, this was \$225,330 more than originally budgeted.

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

General Fund Expenditures:

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

Total Expenditures Original Budget	\$ 7,560,004
Total Expenditures Final Budget	<u>8,059,236</u>
Increase in Budgeted Expenditures	<u>\$ 499,232</u>

The final expenditure budget was more than originally projected by \$499,232. As previously stated above in the revenue section, the District did not originally budget for the effect of the UAAL Rate Stabilization 147c on either revenue or expense. As directed by the Michigan Department of Education, the District amended its revenue and expenditure budget to account for this state aid line item. The effect on the expenditure budget was an increase of \$531,504. Due to resignations and new hires late in the summer, there were many other changes to the budgeted expenditures from original projections. The District takes a conservative approach to preparing a budget based on what we know at that time. Often the first amendment to the budget includes many changes and the net effect is usually a gain to fund balance based on the conservative approach to the original budget.

The School District's final, actual expenditures were \$7,807,664, less than final budget by \$251,572, or 3.2%. A big portion of this was the bus purchase \$84,000 that was budgeted and not included in final expenditures when delivery had not taken place by June 30th. Another change was in special education costs, with unexpected decreases in the final invoices for our specialized, contracted programs.

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

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

The General Fund had total revenues of \$8,361,724 and total expenditures of \$7,807,664 with an ending fund balance of \$1,563,414, with an unassigned fund balance of \$1,433,233. The unassigned ending fund balance was 18.35%.

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

NEXT YEAR'S BUDGETS

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

For the 2017/2018 school year the non-homestead millage remained at 18.00 mills. Levying the full amount on these properties is crucial in order for the District to receive the full Foundation Allowance per pupil. The non-homestead millage was renewed by the District's voters in November 2013 for seven years and a Headlee rollback is not expected in the current economic climate.

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

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

In summary, the overall financial strength of the District increased substantially during the 2016/2017 school year by \$553,014. Decreasing enrollment and the unpredictability of state funding are concerns for the District. Management will continue to exercise caution with all decisions having an impact on the financial position of the District. Management will focus their attention on maintaining and improving the quality of the educational programs and atmosphere of the District to retrain and attract families and students to the District. At the same time, careful evaluation of all expenditures over the next year will be a priority by management while seeking to reduce expenditures where possible. New revenues from local sources such as the formation of endowments, grants and other sources will continue to be a goal of Management going forward. In spite of these challenging obstacles, Management remains committed to excellence in serving our students and community.

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2017

Contacting the District's Financial Management

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

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

Sand Creek Community Schools
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Current Assets:	
Cash and equivalents	\$ 1,713,936
Receivables:	
Accounts receivable	3,082
Due from other governmental units	1,401,515
Prepaid expenditures	45,860
Inventory	3,667
Total Current Assets	3,168,060
Noncurrent Assets:	
Capital assets	12,215,195
Less accumulated depreciation	(6,318,673)
Total Noncurrent Assets	5,896,522
Total Assets	9,064,582
Deferred outflows of resources related to pension	1,662,864
Total assets and deferred outflows of resources	10,727,446
Liabilities	
Current Liabilities:	
Accounts payable	58,356
Accrued expenditures	427,585
Accrued interest	8,629
Accrued salary	395,054
State Aid Note Payable	285,714
Unearned revenue	50,215
Current portion of compensated absences	39,433
Current portion of long term obligations	370,000
Total Current Liabilities	1,634,986
Noncurrent Liabilities:	
Noncurrent portion of long term obligations	610,000
Noncurrent portion of compensated absences	133,297
Net Pension Liability	12,677,854
Total Noncurrent Liabilities	13,421,151
Total Liabilities	15,056,137
Deferred inflows of resources related to pension	643,008
Total liabilities and deferred inflows of resources	15,699,145
Net Position (Deficit):	
Net investment in capital assets	5,161,753
Restricted for school lunch program	51,059
Restricted for debt service	33,103
Unrestricted	(10,217,614)
Total Net Position (Deficit)	\$ (4,971,699)

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

**Sand Creek Community Schools
Statement of Activities
Year Ended June 30, 2017**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	<u>Net (expense) Revenue and Changes in Net Position</u>
Governmental activities:				
Instruction	\$ 5,069,374	\$ 74,584	\$ 1,133,397	\$ (3,861,393)
Support services	2,424,943	10,246	71,303	(2,343,394)
Community services	2,875	-	-	(2,875)
Food services	447,898	178,123	303,284	33,509
Athletics	251,650	67,570	-	(184,080)
Interest expense	46,853	-	-	(46,853)
Capital outlay	9,376	-	-	(9,376)
Other	100	-	-	(100)
Unallocated depreciation	396,898	-	-	(396,898)
	<u>\$ 8,649,967</u>	<u>\$ 330,523</u>	<u>\$ 1,507,984</u>	
Total governmental activities				(6,811,460)
General revenues:				
Property taxes, levied for general purposes				255,459
Property taxes, levied for debt service				393,876
Property taxes, levied for capital projects				223,291
Investment earnings				4,226
State of Michigan school aid unrestricted				6,274,820
Intermediate sources, unrestricted				70,179
Contributions, unrestricted				4,517
Miscellaneous				11,776
Special items:				
Gain on disposal of assets				(833)
Total general revenues				<u>7,237,311</u>
Change in net position				425,851
Net position, beginning of year, previously restated				(5,403,853)
Prior period adjustment (see Note 13)				6,303
Net position, beginning of year, as restated				<u>(5,397,550)</u>
Net position, end of year (deficit)				<u>\$ (4,971,699)</u>

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

**Sand Creek Community Schools
Balance Sheet
Governmental Funds
June 30, 2017**

	General Fund	Other Nonmajor Governmental Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Assets:			
Cash and equivalents	\$ 1,388,378	325,558	\$ 1,713,936
Receivables			
Accounts	2,182	-	2,182
Other governmental units	1,397,838	3,677	1,401,515
Due from other fund	3,656	11,793	15,449
Inventory	-	3,667	3,667
Prepaid expenditures	45,860	-	45,860
Total Assets	<u><u>\$ 2,837,914</u></u>	<u><u>\$ 344,695</u></u>	<u><u>\$ 3,182,609</u></u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 58,356	\$ -	\$ 58,356
Accrued expenditures	427,585	-	427,585
Salaries payable	395,054	-	395,054
Interest payable	2,454	-	2,454
Due to other funds	11,793	2,756	14,549
Unearned revenue	46,305	3,910	50,215
State aid loan payable	285,714	-	285,714
Total Liabilities	<u>1,227,261</u>	<u>6,666</u>	<u>1,233,927</u>
Deferred Inflows of Resources:			
Unavailable revenue	47,239	-	47,239
Total Deferred Inflows of Resources	<u>47,239</u>	<u>-</u>	<u>47,239</u>
Fund Balances:			
Nonspendable inventory	-	3,667	3,667
Nonspendable prepaid expenditures	45,860	-	45,860
Restricted for:			
School lunch program	-	47,392	47,392
Debt service	-	41,732	41,732
Capital outlay	-	245,231	245,231
Committed	84,321	-	84,321
Assigned for community service	-	7	7
Unassigned reported in general fund	1,433,233	-	1,433,233
Total Fund Balances	<u>1,563,414</u>	<u>338,029</u>	<u>1,901,443</u>
Total Liabilities and Fund Balances	<u><u>\$ 2,837,914</u></u>	<u><u>\$ 344,695</u></u>	<u><u>\$ 3,182,609</u></u>

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

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

Total governmental fund balances \$ 1,901,443

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds

The cost of capital assets is:	\$ 12,215,195	
Accumulated depreciation is:	<u>(6,318,673)</u>	5,896,522

Long term liabilities are not due and payable in the current period and are not reported in the funds

Long term obligations		
Bonds payable		(980,000)
Compensated absences		(172,730)
Interest payable on long term debt		(6,175)
Net pension liability		(12,677,854)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred outflow of resources related to pension (see Note 7)	1,662,864	
Deferred inflow of resources related to pension (see Note 7)	(643,008)	

Receivables collected after 60 days are considered unavailable in the governmental funds.

Receivables collected after 60 days are considered unavailable in the governmental funds.	47,239	
Net position of governmental activities (deficit)	<u>\$ (4,971,699)</u>	

Sand Creek Community Schools
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2017

	<u>General Fund</u>	<u>Other Nonmajor Governmental Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Local sources			
Property taxes	\$ 255,459	\$ 617,167	\$ 872,626
Investment earnings	1,837	2,389	4,226
Food service	-	178,123	178,123
Athletics	67,570	-	67,570
Contributions	2,517	2,000	4,517
Other	94,405	2,201	96,606
Total local sources	<u>421,788</u>	<u>801,880</u>	<u>1,223,668</u>
Intermediate sources	424,496	-	424,496
State sources	7,375,005	27,659	7,402,664
Federal sources	140,435	275,625	416,060
Total revenues	<u>8,361,724</u>	<u>1,105,164</u>	<u>9,466,888</u>
Expenditures:			
Current:			
Instruction	5,071,883	-	5,071,883
Support	2,481,665	-	2,481,665
Food service activities	-	453,261	453,261
Athletic activities	254,116	-	254,116
Capital Outlay:	-	230,976	230,976
Debt service:			
Interest & fiscal charges	-	48,913	48,913
Total expenditures	<u>7,807,664</u>	<u>733,150</u>	<u>8,540,814</u>
Excess (deficiency) of revenues over expenditures:	<u>554,060</u>	<u>372,014</u>	<u>926,074</u>
Other financing sources (uses):			
Redemption of principal	-	(355,000)	(355,000)
Operating transfers in	-	10,438	10,438
Operating transfers out	(1,046)	(9,392)	(10,438)
Total other financing sources (uses):	<u>(1,046)</u>	<u>(353,954)</u>	<u>(355,000)</u>
Net change in fund balance	553,014	18,060	571,074
Fund balances:			
Beginning of year	1,010,400	319,969	1,330,369
End of year	<u>\$ 1,563,414</u>	<u>\$ 338,029</u>	<u>\$ 1,901,443</u>

**Sand Creek Community Schools
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance of Governmental Fund
To the Statement of Activities
Year Ended June 30, 2017**

Net change in fund balance total governmental fund (increase) \$ 571,074

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

Governmental funds report capital outlays as expenditures.

In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Capital outlay	235,916
Depreciation expense	(396,898)

Governmental funds report the proceeds from the disposition of assets as an other financing source.

In the statement of activities, a gain or loss is recognized based on the net book value of the asset.

Loss on disposal of capital assets	(833)
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Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities).

Principal repayment on long-term obligations from bonds payable	355,000
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Accrued interest on long-term debt is recorded in the statement of activities when incurred, it is not recorded in the governmental funds until it is paid.

Accrued interest payable beginning of the year	8,135
Accrued interest payable end of the year	(6,175)

Compensated absences are reported on the accrual method in the statement of activities, and recorded as expenditures when financial resources are used in the governmental funds:

Compensated payable beginning of the year	63,748
Compensated payable end of the year	(172,730)

Revenue in support of pension contributions made subsequent to measurement date	(387,360)
---	-----------

Change in deferred outflows of pension resources	341,812
--	---------

Change in deferred inflows of pension resources	(179,664)
---	-----------

Change in net proportionate share of net pension liability	(3,297)
--	---------

Governmental funds report revenues when they are collected within 60 days after the year end.

Revenues are recorded in the statement of activities when earned.	(2,877)
---	---------

Change in net position of governmental activities (increase) \$ 425,851

**Sand Creek Community Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017**

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 163,121	\$ 154,795	\$ 317,916
Investments	27,738	-	27,738
Total Assets	<u>\$ 190,859</u>	<u>\$ 154,795</u>	<u>\$ 345,654</u>
 Liabilities and Net Position			
Liabilities:			
Due to student groups	\$ -	\$ 154,795	\$ 154,795
Due to other governmental funds	900	-	900
Total Liabilities	<u>900</u>	<u>154,795</u>	<u>155,695</u>
 Net Position			
Unrestricted	(292)	-	(292)
Restricted for			
Scholarships - expendable	3,101	-	3,101
Scholarships - nonexpendable	187,150	-	187,150
Total Net Position	<u>\$ 189,959</u>	<u>\$ -</u>	<u>\$ 189,959</u>

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-Wide And Fund Financial Statements

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

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

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

The School District does not allocate indirect costs.

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

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

- a. Provide sufficient cash flow for daily financial needs,
- b. Secure and maintain investment grade bond ratings,
- c. Offset significant economic downturns or revenues shortfalls and,
- d. Provide funds for unforeseen expenditures related to emergencies.

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

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

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

- Special revenue funds are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.
- Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's purposes.

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

Nonspendable fund balance

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

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

- The School District will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the government).
- The School District will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance).
- The School District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained intact.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Restricted fund balance

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

Committed fund balance

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

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

Assigned fund balance

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

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

Unassigned fund balance

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The School District reports the following major governmental fund:

The General Fund

Other Non-major Funds

The Capital Project Funds

The Special Revenue Funds

The Debt Service Funds

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expendable Trust and Agency Fund

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

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

Nonexpendable Trust Fund

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

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

Accrual Method

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

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as deferred inflow of resources. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

State Revenue

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

The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the School Districts. For the year ended June 30, 2017, the foundation allowance was based on pupil membership counts taken in February and October of 2016.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2016 to August 2017. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

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

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

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

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

2. Property Taxes

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

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

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

General Fund -Non-homestead	18.0000
Capital Projects - Homestead and Non-homes	1.8424
Debt fund - Both Non-homestead and Homestead	
2009 Debt Retirement	1.9500
2012 Debt Retirement	1.3000

3. Inventories and Prepaid Expenditures

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

4. Capital Assets

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

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

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

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

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

5. Deferred Outflows/Inflows

In addition to assets, the statement of net position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. At June 30, 2017, the School District's statement of net position had deferred outflows of resources related to deferred pension plan expenses totaling \$1,662,864.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. At June 30, 2017, the School District's statement of net position had deferred inflows of resources related to its pension plan and revenue in support of pension payments made subsequent to the measurement date totaling \$255,648 and \$387,360, respectively. Furthermore, at June 30, 2017, the School District's balance sheet had deferred inflows of resources related to unavailable revenue totaling \$47,239.

6. Compensated absences

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

7. Long term obligations

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

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

8. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS), and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. MPSERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contribution as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

9. Fair Value Measurements

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

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

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

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

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

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

10. Use of Estimates

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

11. Adoption of New Accounting Standards

As of June 30, 2017, the School District adopted Governmental Accounting Standards Board (GASB) Statements No. 77, *Tax Abatement Disclosures*. This statement requires School Districts to disclose in their financial statements information related to tax abatement agreements. The adoption of this statement did not have an impact on amounts reported in the basic financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

(Continued)

2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2017. The School District does not consider these amendments to be significant.
7. The School District did not have budget overdrafts for the year ended June 30, 2017.

NOTE 3 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to the School District. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2017, \$2,159,088 of the School District's bank balance of \$1,881,349 (savings and checking accounts, certificate of deposits) that were uninsured and uncollateralized. The School District believes due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Due from governmental units June 30, 2017 consist of the following:

	General Fund	Food Service Fund	Total
State Aid	\$ 1,328,927	\$ 3,677	\$ 1,332,604
Federal	7,799	-	7,799
Other Governmental Entity	61,112	-	61,112
Net Total Due from Governmental Units	<u>\$ 1,397,838</u>	<u>\$ 3,677</u>	<u>\$ 1,401,515</u>

No allowance for doubtful accounts is considered necessary.

NOTE 5 - CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Subtotal	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Capital assets being depreciated				
Land Improvements	536,045	221,600	-	757,645
Building and Improvements	9,250,541	-	-	9,250,541
Machinery and equipment	1,013,279	14,316	176,481	851,114
Transportation equipment	1,396,628	-	90,733	1,305,895
Total Depreciable Assets	<u>12,196,493</u>	<u>235,916</u>	<u>267,214</u>	<u>12,165,195</u>
Less: Accumulated depreciation for:				
Land Improvements	157,661	36,740	-	194,401
Building and Improvements	4,235,464	212,843	-	4,448,307
Machinery and equipment	769,908	59,146	175,648	653,406
Transportation equipment	1,025,123	88,169	90,733	1,022,559
Subtotal	<u>6,188,156</u>	<u>396,898</u>	<u>266,381</u>	<u>6,318,673</u>
Net Depreciable Capital Assets	<u>6,008,337</u>	<u>(160,982)</u>	<u>833</u>	<u>5,846,522</u>
Governmental Activities Capital Assets, net	<u>\$ 6,058,337</u>	<u>\$ (160,982)</u>	<u>\$ 833</u>	<u>\$ 5,896,522</u>

Depreciation is computed by the straight line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2017 amounted to \$396,898. The School District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 - LONG-TERM DEBT

In 2009, the School District issued Sand Creek Community Schools, County of Lenawee, State of Michigan Refunding Bonds in the amount of \$1,865,000 (General Obligation-Unlimited Tax) to be used to refund the 2000 School and Building and Site Bonds outstanding of \$1,925,000. The net interest savings was estimated at \$87,660 over the life of the Refunding Bonds. As a result, the refunding the 2000 School and Building and Site Bonds are considered to be defeased and the liability for those bonds has been removed from the long-term debt. As of June 30, 2017, the amount of defeased debt outstanding amounted to \$695,000. A schedule of the bonds and the representative interest payments due from 2018 through 2020 is as follows:

Year Ending June 30	Interest Rate	Principal	Interest	Total Due
2018	4.00	\$ 210,000	\$ 29,250	\$ 239,250
2019	4.25	220,000	20,850	240,850
2020	5.00	230,000	11,500	241,500
		<u>\$ 660,000</u>	<u>\$ 61,600</u>	<u>\$ 721,600</u>

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

Year Ending June 30	Interest Rate	Principal	Interest	Total Due
2018	2.375	\$ 160,000	\$ 7,800	\$ 167,800
2019	2.500	160,000	4,000	164,000
		<u>\$ 320,000</u>	<u>\$ 11,800</u>	<u>\$ 331,800</u>

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 - LONG-TERM DEBT (Continued)

The following is a schedule of the governmental long term obligations for the School District for the year ended June 30, 2017:

	2009 Refunding Bond	2012 Bond	Compensated Absences	Total
Balance July 1, 2016	\$ 865,000	\$ 470,000	\$ 63,748	\$ 1,398,748
Additions	-	-	108,982	108,982
Deletions	205,000	150,000	-	355,000
Balance June 30, 2017	660,000	320,000	172,730	1,152,730
Less: Current Portion	210,000	160,000	39,433	409,433
Total due after one year	<u>\$ 450,000</u>	<u>\$ 160,000</u>	<u>\$ 133,297</u>	<u>\$ 743,297</u>

The debt service requirements of governmental activities at June 30, 2017 were as follows:

Fiscal Year Ending,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 370,000	\$ 37,050	\$ 407,050
2019	380,000	24,850	404,850
2020	230,000	11,500	241,500
Total	<u>\$ 980,000</u>	<u>\$ 73,400</u>	<u>\$ 1,053,400</u>

Interest expense for the year amounted to \$46,853.

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description

The Michigan Public School Employees' Retirement System (MPERS) 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 MPERS. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

MPSERS is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of MPSERS resides. The State Treasurer serves as the investment officer and custodian for MPSERS. MPSERS' financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.5 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. MPSERS also provides disability and survivor benefits to DB plan members.

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

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when 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. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Basis of Accounting and Presentation

MPSERS financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of MPSERS. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2015, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Contribution and Funded Status

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

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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

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

The School District's required and actual contributions to the plan for the year ended June 30, 2017 were \$1,263,327. The School District's required and actual contributions include an allocation of \$387,360 in revenue received from the State of Michigan, and remitted to MPSERS to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2017.

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	18.95 %
Member Investment Plan	3.0 - 7.0 %	18.95 %
Pension Plan	3.0 - 6.4 %	17.73 %
Defined Contribution	0.0 %	14.56 %

Required contributions from School District were \$1,141,071 for the year ended September 30, 2016.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 7 - EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

(Continued)

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2017, the School District's reported a liability of \$12,677,854 for its proportionate share of the MPSERS 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 rolled forward from September 30, 2015. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, School District's proportion was .05081 percent, which was a decrease of .00108 percent from its proportion measured as of September 30, 2015.

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended June 30, 2017 the School District recognized total pension expense of \$1,153,572. At June 30, 2017 the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferered Inflows of Resources
Difference between actual and expected experience	\$ 158,000	\$ 30,047
Changes of assumptions	198,208	-
Net difference between projected and actual earnings on pension plan investments	210,706	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	30,576	225,601
School District contributions subsequent to the measurement date	<u>1,065,374</u>	<u>-</u>
Total	<u>\$ 1,662,864</u>	<u>\$ 255,648</u>

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

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

Contributions subsequent to measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ending September 30

2017	\$ 45,051
2018	\$ 28,485
2019	\$ 251,328
2020	\$ 16,978

Long-Term Expected Return on Plan Assets

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

Domestic Equity Pools		
% Alternative Investment	28.0%	5.9%
Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
 Total	 100.0%	

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

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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

Discount Rate

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

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

As required by GASB Statement No. 68, the following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)	1% Increase (Non-Hybrid/Hybrid)
7.0% / 6.0%	8.0% / 7.0%	9.0% / 8.0%
<u>\$16,325,885</u>	<u>\$12,677,854</u>	<u>\$9,602,214</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Payable to the Pension Plan

At June 30, 2017, the School District reported a payable of approximately \$150,000 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

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

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Notes

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by MPSERS for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.6273 for non-university employers 1.2456 for university employers).
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual financial Report (www.michigan.gov/mpsers-cafr).

Postemployment Benefits Other Than Pension (OPEB)

Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 6.4% to 6.83% of the covered payroll for the period July 1, 2016 through September 30, 2016 and from 5.69% to 5.91% of the covered payroll for the period October 1, 2016 through June 30, 2017 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2% employee contribution into their 457 account as their transition date and create a 2% employer match into the employee's 403(b) account.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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

The School District's required and actual contributions to the plan for retiree healthcare benefits for the year ended June 30, 2017 were approximately \$427,000. In addition, a portion ranging from 35% to 100% of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

NOTE 8 - INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances at June 30, 2017 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

Fund	Receivable	Fund	Payable
General Fund	\$ 3,656	General Fund	\$ 11,793
Nonmajor	11,793	Nonmajor	2,756
	\$ 15,449	Scholarship Fund	900
			\$ 15,449

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

A schedule of interfund transfers follows:

Fund	Transfers In	Fund	Transfers Out
Nonmajor	\$ 10,438	General	\$ 1,046
		Nonmajor	9,392
			\$ 10,438

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are based on the ultimate cost of the experience to date of the participating members of the risk pool. The School District cannot estimate losses from reported and unreported claims at June 30, 2017. 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 School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2017 or any of the prior three years.

NOTE 10 - CONTINGENCIES

The School District had no contingencies at June 30, 2017.

NOTE 11 - SHORT-TERM DEBT - STATE AID NOTES

State School aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The School District has pledged its state aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the School District. The interest rate ranges from .760% to 1.20% and the maturity date is August 21, 2017. The interest expense related to this note at June 30, 2017 is \$2,454.

Short-term debt activity for the fiscal year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
2015-2016	\$ 114,354	\$ -	\$ 114,354	\$ -
2016-2017	-	800,000	514,286	285,714
Totals	<u>\$ 114,354</u>	<u>\$ 800,000</u>	<u>\$ 628,640</u>	<u>\$ 285,714</u>

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12 - NET POSITION RESTRICTED BY ENABLING LEGISLATION

The government-wide statement of net position reports \$329,393 of restricted net position at June 30, 2017, all of which is restricted by enabling legislation.

NOTE 13 - PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2017, a prior period adjustment was made to report the adjustment to the capital assets related to a bus that was not reported as capital asset. As a result, restatement of the beginning of the year net position is as follows:

Net position (deficit) as previously stated, July 1, 2016	\$ (5,403,853)
Adjustment to capital asset	<u>6,303</u>
Net position (deficit), as restated, July 1, 2016	<u><u>\$ (5,397,550)</u></u>

NOTE 14 - SUBSEQUENT EVENTS

In August 2017, the Academy issued a Revenue Anticipation Note in the amount of \$700,000 to assist in the operation cash flows prior to the receipt of state aid payments for the 2017-2018 school year. The note is secured by the future receipt of state aid payments.

NOTE 15 – UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for government that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

**Sand Creek Community Schools
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2017**

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
Revenues:				
Local sources	\$ 374,700	\$ 402,287	\$ 421,788	\$ 19,501
Intermediate sources	395,975	422,825	424,496	1,671
State sources	6,588,742	7,398,139	7,375,005	(23,134)
Federal sources	128,690	153,537	140,435	(13,102)
Total revenues	<u>7,488,107</u>	<u>8,376,788</u>	<u>8,361,724</u>	<u>(15,064)</u>
Expenditures:				
Current:				
Instruction:				
Basic programs	4,020,685	4,164,060	4,147,595	16,465
Added needs	1,061,139	992,154	924,288	67,866
Total instruction	<u>5,081,824</u>	<u>5,156,214</u>	<u>5,071,883</u>	<u>84,331</u>
Support services:				
Pupil	188,880	226,526	207,637	18,889
Instructional staff	44,614	149,070	148,830	240
General administration	347,013	314,548	308,298	6,250
School administration	479,744	534,751	534,381	370
Business and fiscal services	20,886	113,114	104,631	8,483
Operation & maintenance	728,960	804,141	772,944	31,197
Transportation	391,894	473,130	371,944	101,186
Central	-	940	612	328
Other	21,887	32,500	32,388	112
Athletics	254,302	254,302	254,116	186
Total support services	<u>2,478,180</u>	<u>2,903,022</u>	<u>2,735,781</u>	<u>167,241</u>
Total expenditures	<u>7,560,004</u>	<u>8,059,236</u>	<u>7,807,664</u>	<u>251,572</u>
Excess (deficiency) of revenues over expenditures	<u>(71,897)</u>	<u>317,552</u>	<u>554,060</u>	<u>236,508</u>
Other financing sources (uses):				
Operating transfers out	-	-	(1,046)	(1,046)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,046)</u>	<u>(1,046)</u>
Net change in fund balance	<u>(71,897)</u>	<u>317,552</u>	<u>553,014</u>	<u>235,462</u>
Fund balance:				
Beginning of year	1,010,400	1,010,400	1,010,400	-
End of year	<u>\$ 938,503</u>	<u>\$ 1,327,952</u>	<u>\$ 1,563,414</u>	<u>\$ 235,462</u>

Sand Creek Community Schools
Required Supplemental Information
Schedule of Sand Creek Community Schools' Contribution to
Michigan Public Schools Employees Retirement Plan
Determined as of the Year Ended June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,263,327	\$ 1,239,765	\$ 1,253,480
Contribution in relation to statutorily required contribution	<u>1,263,327</u>	<u>1,239,765</u>	<u>1,253,480</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 4,642,376	\$ 4,391,545	\$ 4,477,369
Contribution as a percentage of covered-employee payroll	27.21%	28.23%	28.00%

Sand Creek Community Schools
Required Supplemental Information
Schedule of Sand Creek Community Schools' Proportionate Share of the Net Pension Liability
Michigan Public Schools Employees Retirement Plan
Determined as of the Plan Year Ended September 30

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

NOTE 1: CHANGES OF BENEFIT TERMS

There were no changes of benefit terms in 2016.

NOTE 2: CHANGES OF ASSUMPTIONS

There were no changes of benefit assumptions in 2016.

ADDITIONAL INFORMATION

DARNELL & MEYERING, P.C.

Certified Public Accountants

SAND CREEK MEYERING, C.P.A.
RANDALL H. DARNELL, C.P.A.
DALE A. VESTRAND, C.P.A.

20500 EUREKA ROAD • SUITE 300
TAYLOR, MICHIGAN 48180
(734) 246-9240
FAX (734) 246-8635

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sand Creek Community Schools (the School District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 12, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

DARNELL & MEYERING, P.C.

A handwritten signature in cursive script that reads "Darnell & Meyering, P.C.".

Taylor, MI
October 12, 2017

**Sand Creek Community Schools
Combining Balance Sheet
Nonmajor Governmental Fund
June 30, 2017**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
Assets				
Assets:				
Cash and equivalents	\$ 38,595	\$ 41,732	\$ 245,231	\$ 325,558
Receivables				
Other governmental units	3,677	-	-	3,677
Due from other fund	11,793	-	-	11,793
Inventory	3,667	-	-	3,667
Total Assets	<u>\$ 57,732</u>	<u>\$ 41,732</u>	<u>\$ 245,231</u>	<u>\$ 344,695</u>
Liabilities and Fund Balances				
Liabilities:				
Due to other funds	\$ 2,756	\$ -	\$ -	\$ 2,756
Unearned revenue	3,910	-	-	3,910
Total Liabilities	<u>6,666</u>	<u>-</u>	<u>-</u>	<u>6,666</u>
Fund Balances:				
Nonspendable - inventory	3,667	-	-	3,667
Restricted for school lunch program	47,392	-	-	47,392
Restricted for debt service	-	41,732	-	41,732
Restricted for capital projects			245,231	245,231
Assigned for community service	7	-	-	7
Total Fund Balances	<u>51,066</u>	<u>41,732</u>	<u>245,231</u>	<u>338,029</u>
Total Liabilities and Fund Balances	<u>\$ 57,732</u>	<u>\$ 41,732</u>	<u>\$ 245,231</u>	<u>\$ 344,695</u>

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

	Special Revenue	Debt Service	Capital Projects	Total Nonmajor Governmental Funds 2017
Revenues:				
Local sources:				
Property taxes	\$ -	\$ 393,876	\$ 223,291	\$ 617,167
Investment earnings	273	827	1,289	2,389
Contribution	-		2,000	2,000
Food sales	178,123	-	-	178,123
Other	2,201	-	-	2,201
Total local sources	180,597	394,703	226,580	801,880
State sources	27,659	-	-	27,659
Federal sources	275,625	-	-	275,625
Total revenues	483,881	394,703	226,580	1,105,164
Expenditures:				
Food service/activities	453,261	-	-	453,261
Capital outlay			230,976	230,976
Debt service				
Interest and fiscal charges	-	48,913	-	48,913
Total expenditures	453,261	48,913	230,976	733,150
Excess (deficiency) of revenues over expenditures	30,620	345,790	(4,396)	372,014
Other Financing Sources (Uses):				
Redemption of principal		(355,000)	-	(355,000)
Transfer in	670	-	9,768	10,438
Transfer out	-	(9,392)	-	(9,392)
Total other financing sources (uses)	670	(364,392)	9,768	(353,954)
Net change in fund balance	31,290	(18,602)	5,372	18,060
Fund balance:				
Beginning of year	19,776	60,334	239,859	319,969
End of year	\$ 51,066	\$ 41,732	\$ 245,231	\$ 338,029

**Sand Creek Community Schools
Combining Balance Sheet
Special Revenue Funds
June 30, 2017**

	<u>School Lunch</u>	<u>Community Service</u>	<u>Total</u>
Assets			
Assets:			
Cash and equivalents	\$ 39,258	\$ (663)	\$ 38,595
Receivables			
Other governmental units	3,677	-	3,677
Due from other fund	11,123	670	11,793
Inventory	3,667	-	3,667
Total Assets	<u>\$ 57,725</u>	<u>\$ 7</u>	<u>\$ 57,732</u>
Liabilities and Fund Balances			
Liabilities:			
Due to other funds	\$ 2,756	\$ -	\$ 2,756
Unearned revenue	3,910	-	3,910
Note payable	-	-	-
Total Liabilities	<u>6,666</u>	<u>-</u>	<u>6,666</u>
Fund Balances:			
Nonspendable - inventory	3,667	-	3,667
Restricted for school lunch program	47,392	-	47,392
Assigned for community service	-	7	7
Total Fund Balances	<u>51,059</u>	<u>7</u>	<u>51,066</u>
Total Liabilities and Fund Balances	<u>\$ 57,725</u>	<u>\$ 7</u>	<u>\$ 57,732</u>

Sand Creek Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Special Revenue Funds
Year Ended June 30, 2017

	School Lunch	Community Service	Total
Revenues:			
Local sources:			
Food sales	\$ 178,123	\$ -	\$ 178,123
Investment earnings	273	-	273
Other	-	2,201	2,201
Total local sources	178,396	2,201	180,597
State sources	27,659	-	27,659
Federal sources	275,625	-	275,625
Total revenues	481,680	2,201	483,881
Expenditures:			
Cost of goods sold - net	227,661	-	227,661
Salaries and wages	134,579	-	134,579
Employee benefits	64,393	-	64,393
Contracted services	5,951	-	5,951
Travel, workshops and conferences	138	-	138
Materials and supplies	16,584	-	16,584
Capital outlay	1,045	-	1,045
Miscellaneous	35	2,875	2,910
Total expenditures	450,386	2,875	453,261
Excess (deficiency) of revenues over expenditures	31,294	(674)	30,620
Other Financing Sources (Uses):			
Transfer in	-	670	670
Total other financing sources (uses)	-	670	670
Net change in fund balance	31,294	(4)	31,290
Fund balance:			
Beginning of year	19,765	11	19,776
End of year	\$ 51,059	\$ 7	\$ 51,066

**Sand Creek Community Schools
Combining Balance Sheet
Debt Funds
June 30, 2017**

	<u>2000 Debt Service</u>	<u>2006 Debt Service</u>	<u>2012 Debt Service</u>	<u>Total Debt Funds</u>
Assets				
Assets:				
Cash and equivalents	\$ 40,551	\$ -	1,181	\$ 41,732
Total Assets	<u>40,551</u>	<u>-</u>	<u>1,181</u>	<u>41,732</u>
Fund Balances:				
Restricted for debt service	40,551	-	1,181	41,732
Total Fund Balances	<u>40,551</u>	<u>-</u>	<u>1,181</u>	<u>41,732</u>
Total Fund Balances	<u>\$ 40,551</u>	<u>\$ -</u>	<u>\$ 1,181</u>	<u>\$ 41,732</u>

Sand Creek Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Debt Funds
Year Ended June 30, 2017

	2000 Debt Service	2006 Debt Service	2012 Debt Service	Total
Revenues:				
Local sources:				
Property taxes	\$ 236,366	\$ -	\$ 157,510	\$ 393,876
Investment earnings	528	47	252	827
Total revenues	<u>236,894</u>	<u>47</u>	<u>157,762</u>	<u>394,703</u>
Expenditures:				
Interest	37,450	-	11,363	48,813
Fees	-	-	100	100
Total expenditures	<u>37,450</u>	<u>-</u>	<u>11,463</u>	<u>48,913</u>
Excess (deficiency) of revenues over expenditures	<u>199,444</u>	<u>47</u>	<u>146,299</u>	<u>345,790</u>
Other Financing Sources (Uses):				
Redemption of principal	(205,000)	-	(150,000)	(355,000)
Transfer out	-	(9,392)	-	(9,392)
Total other financing sources (uses)	<u>(205,000)</u>	<u>(9,392)</u>	<u>(150,000)</u>	<u>(364,392)</u>
Net change in fund balance	(5,556)	(9,345)	(3,701)	(18,602)
Fund balance:				
Beginning of year	46,107	9,345	4,882	60,334
End of year	<u>\$ 40,551</u>	<u>\$ -</u>	<u>\$ 1,181</u>	<u>\$ 41,732</u>

**Sand Creek Community Schools
Combining Balance Sheet
Capital Project Funds
June 30, 2017**

	<u>.5 Mill Capital Project Fund</u>	<u>Other Capital Project Fund</u>	<u>2012 Bus/Tech Capital Project Fund</u>	<u>Total Capital Project Funds</u>
Assets:				
Cash and equivalents	\$ 239,439	\$ 5,792	-	\$ 245,231
Total Assets	<u>239,439</u>	<u>5,792</u>	<u>-</u>	<u>245,231</u>
Fund Balances:				
Restricted for capital outlay	239,439	5,792	-	245,231
Total Fund Balances	<u>239,439</u>	<u>5,792</u>	<u>-</u>	<u>245,231</u>
Total Fund Balances	<u>\$ 239,439</u>	<u>\$ 5,792</u>	<u>\$ -</u>	<u>\$ 245,231</u>

Sand Creek Community Schools
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Capital Project Funds
Year Ended June 30, 2017

	.5 Mill Capital Project Fund	Other Capital Project Fund	2012 Bus/Tech Capital Project Fund	Total 2017
Revenues:				
Local sources:				
Property taxes	\$ 223,291	\$ -	-	\$ 223,291
Investment earnings	1,268	-	21	1,289
Contribution	-	2,000	-	2,000
Total revenues	<u>224,559</u>	<u>2,000</u>	<u>21</u>	<u>226,580</u>
Expenditures:				
Capital outlay	<u>227,082</u>	-	<u>3,894</u>	<u>230,976</u>
Total expenditures	<u>227,082</u>	-	<u>3,894</u>	<u>230,976</u>
Excess (deficiency) of revenues over expenditures	<u>(2,523)</u>	<u>2,000</u>	<u>(3,873)</u>	<u>(4,396)</u>
Other Financing Sources (Uses):				
Transfer in	<u>9,392</u>	-	<u>376</u>	<u>9,768</u>
Total other financing sources (uses)	<u>9,392</u>	-	<u>376</u>	<u>9,768</u>
Net change in fund balance	6,869	2,000	(3,497)	5,372
Fund balance:				
Beginning of year	<u>232,570</u>	<u>3,792</u>	<u>3,497</u>	<u>239,859</u>
End of year	<u>\$ 239,439</u>	<u>\$ 5,792</u>	<u>\$ -</u>	<u>\$ 245,231</u>

**Sand Creek Community Schools
Combining Balance Sheet
Nonexpendable Trust Funds
June 30, 2017**

	<u>Bailey/Ries Scholarship</u>	<u>Keenan Scholarship</u>	<u>Sand Creek Communications Scholarship</u>	<u>Margaret Poucher Scholarship</u>	<u>Total</u>
Assets:					
Cash and cash equivalents	\$ -	\$ 550	\$ 124,911	\$ 33,659	\$ 159,120
Investments	-	-	27,738	-	27,738
Due from other scholarship fund	-	-	292	-	292
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ -</u>	<u>\$ 550</u>	<u>\$ 152,941</u>	<u>\$ 33,659</u>	<u>\$ 187,150</u>
Liabilities and Net Position:					
Liabilities:					
Due to other scholarship fund	\$ 292	\$ -	\$ -	\$ -	\$ 292
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Position:					
Unrestricted	(292)	-	-	-	(292)
Restricted for:					
Scholarships-nonexpendable	-	550	152,941	33,659	187,150
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Net Position	<u>(292)</u>	<u>550</u>	<u>152,941</u>	<u>33,659</u>	<u>186,858</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Position	<u>\$ -</u>	<u>\$ 550</u>	<u>\$ 152,941</u>	<u>\$ 33,659</u>	<u>\$ 187,150</u>

Sand Creek Community Schools
Combining Statement of Revenues, Expenses and Change in Net Position
Nonexpendable Trust Funds
For the Year Ended June 30, 2017

	<u>Bailey/Ries Scholarship</u>	<u>Keenan Scholarship</u>	<u>Sand Creek Communications Scholarship</u>	<u>Margaret Poucher Scholarship</u>	<u>Totals</u>
Revenues:					
Investment earnings	\$ -	\$ 52	\$ 875	\$ 61	\$ 988
Total revenues	-	52	875	61	988
Expenses:					
Scholarships paid	250	850	-	500	1,600
Total expenses	250	850	-	500	1,600
Change in net position	(250)	(798)	875	(439)	(612)
Net Position:					
Beginning of year	(42)	1,348	152,066	34,098	187,470
End of year	<u>\$ (292)</u>	<u>\$ 550</u>	<u>\$ 152,941</u>	<u>\$ 33,659</u>	<u>\$ 186,858</u>

**Sand Creek Community Schools
Combining Balance Sheet
Expendable Trust and Agency Funds
June 30, 2017**

	Expendable Trust	Agency	Totals
Assets:			
Cash and cash equivalents	\$ 4,001	\$ 154,795	\$ 158,796
Total assets	\$ 4,001	\$ 154,795	\$ 158,796
 Liabilities and Net Position:			
Liabilities:			
Due to other funds	\$ 900	\$ -	\$ 900
Due to student groups	-	154,795	154,795
Total liabilities	900	154,795	155,695
 Net Position:			
Reserved for:			
Scholarships-expendable	3,101	-	3,101
Total liabilities and net position	\$ 4,001	\$ 154,795	\$ 158,796

Sand Creek Community Schools
Combining Statement of Revenues, Expenses and Changes in Net Position
Expendable Trust Funds
For the Year Ended June 30, 2017

	<u>Sand Creek Communication Scholarship</u>	<u>Clark Scholarship</u>	<u>Wilt/ Horner/Isley Scholarship</u>	<u>Barnes Scholarship</u>	<u>Kelly Scholarship</u>	<u>Richards Family</u>	<u>Craft Show</u>	<u>Ondrovick Scholarship</u>	<u>Morenci Sportsman Club</u>	<u>Totals</u>
Revenues:										
Contributions	\$ 2,750			\$ 1,100	\$ 600	\$ 500	\$ 912	\$ -	\$ 1,000	\$ 6,862
Investment earnings	90			28	-	-	3	69	-	190
Total revenues	2,840	-	-	1,128	600	500	915	69	1,000	7,052
Expenses:										
Scholarships paid	5,300			1,500	750	500	900	750	640	10,340
Total expenses	5,300	-	-	1,500	750	500	900	750	640	10,340
Change in net position	(2,460)	-	-	(372)	(150)	-	15	(681)	360	(3,288)
Net Position:										
Beginning of year	2,841	26	(226)	70	(842)	503	2,517	1,000	500	6,389
End of year	<u>\$ 381</u>	<u>\$ 26</u>	<u>\$ (226)</u>	<u>\$ (302)</u>	<u>\$ (992)</u>	<u>\$ 503</u>	<u>\$ 2,532</u>	<u>\$ 319</u>	<u>\$ 860</u>	<u>\$ 3,101</u>

Sand Creek Community Schools
Schedule of Cash Receipts, Disbursements and Liabilities
Agency Funds
Year Ended June 30, 2017

	Liability Balance <u>July 1, 2016</u>	<u>Receipts</u>	<u>Disbursements</u>	Liability Balance <u>June 30, 2017</u>
Assets				
Cash and cash equivalents	\$ 146,852	\$ 299,087	\$ 291,144	\$ 154,795
Total assets	<u>\$ 146,852</u>	<u>\$ 299,087</u>	<u>\$ 291,144</u>	<u>\$ 154,795</u>
Liabilities				
Due to other funds	\$ 16,177	\$ -	\$ 16,177	\$ -
Due to student groups	130,675	316,431	292,311	154,795
Total liabilities	<u>\$ 146,852</u>	<u>\$ 316,431</u>	<u>\$ 308,488</u>	<u>\$ 154,795</u>

DARNELL & MEYERING, P.C.

Certified Public Accountants

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

20500 EUREKA ROAD • SUITE 300
TAYLOR, MICHIGAN 48180
(734) 246-9240
FAX (734) 246-8635

MEMBERS
AMERICAN INSTITUTE OF
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MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

October 12, 2017

Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sand Creek Community Schools (the School District) for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards and the Uniform Guidance*), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 8, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

Management's estimate of the depreciation expense is based on economic useful lives. We evaluated the key factors and assumptions used to develop the depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of Net Pension Liability for the fiscal year ended June 30, 2017 and computations of their deferred outflows of pension resources for the same year, was reviewed by us in determining the reasonableness in relation to the financial statements taken as a whole.

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

The disclosure of Fund Balance reporting in governmental funds in Note 1B to the financial statements provides the breakdown of the categories that may or may not be used.

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

Difficulties Encountered in Performing the Audit

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

Corrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 12, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to Management's Discussion & Analysis, Budgetary Comparison Schedule (General Fund), Schedule of Sand Creek Community Schools' Pension Contributions, Schedule of Sand Creek Community School's Proportionate Share of Net Pension Liability, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

Restriction on Use

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

Very truly yours,

Darnell & Meyering, P.C.

Darnell & Meyering PC