Shepherd Public School District
Shepherd, Michigan

Financial Statements
With Supplementary Information
June 30, 2017

Roslund Prestage & Company
Certified Public Accountants

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RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Education
Shepherd Public School District

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 Shepherd Public School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in

the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is 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 September 27, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
September 27, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Shepherd Public Schools
Management Discussion and Analysis
For the Year Ended June 30, 2017

Our discussion and analysis of the Shepherd Public School District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2017. Please read this discussion and analysis in conjunction with the District's financial statements beginning on page 1.

I. Description of the Basic Financial Statements

District-Wide Financial Statements

The Statement of Net Position and the Statement of Activities on pages 1 and 2 provide information concerning the operation of the District as a whole. This reporting model takes into consideration the cost of capital assets of the district, as well as, reflects the District's operations on the accrual basis of accounting similar to that used in industry. Most notable is the fact that capital assets are not recorded as an expense at the time of purchase. Instead, under this model, capital assets are depreciated over their expected life. Accumulated depreciation is recorded as an offset to capital assets. This reporting model is intended to present a clearer picture of the cost of utilizing capital assets in the District's operations. This model generally has a long-term focus.

Fund Financial Statements

The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance on pages 3 and 5 provide financial information for the individual governmental funds. The focus of this presentation is to present resources available at the beginning of the year, the receipt and use of resources during the year, and the balance of resources available at year-end to be used in future years. This model is referred to as modified accrual and is focused on available spendable resources. This model generally has a short-term focus.

Reconciliation

The statements on pages 4 and 6 reconcile the differences between the District-Wide Financial Statements and the Fund Financial Statements.

Trust and Agency Funds

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position present the financial activity of funds held for the benefit of other individuals and/or entities. These amounts are not reflected in the Government-Wide Financial Statements because these resources are not intended to be used to finance the operations of the District.

II. Condensed Government-Wide Financial Information

The change in assets, liabilities, and net position from the previous year for the government-wide financial statements were significant.

Current assets saw an increase of $712,641 over last year. The biggest reason for the increase in assets is the refunding of the 2008 bond issue. A portion of the proceeds from the refunding are currently sitting in the debt fund cash accounts to be used to make interest payments on our long term debt in November. The amounts due from other governmental units also increased over the prior year due to the increase in state aid.

The decrease in capital assets net of depreciation indicates that capital assets are depreciating at a faster rate than they are being replaced. This was expected since construction is finished from the 2008 bond issue and most of the facilities have already been updated. There were more asset additions than disposals this year by $235,457 however, current year net depreciation was $1,106,594 resulting in a net decrease in capital assets of $871,137.

The current liabilities increased significantly from the previous year by $391,168. Due primarily to an increase in accrued interest and an increase in the incurred by not reported health claims liability.

The net increase in noncurrent liabilities is comprised primarily of a $1,492,863 increase in net pension liability, an increase in long term obligations and premium on bonds of $1,177,376 due to the bond refinancing and the addition of the capital lease for the district's printers.

Total net position for governmental activities decreased by $2,139,419 for the fiscal year. This is primarily due to the issuance of bonds to pay down the school bond loan fund.

As of the year ended, June 30, 2015, the District implemented GASB 68, Accounting and Financial Reporting for Pensions. This pronouncement had a significant impact on the District's overall net position as the District was required to reflect its proportionate share of the MPSERS net pension liability. Note 11, Retirement and Post Retirement Benefits, beginning on page 22, provides detailed information regarding the implementation and financial impact of GASB 68 on the District's financial statements. The reporting of the districts share of the pension liability continues to contribute significantly to the districts decrease in net position.

All information presented in Table 1 relates to governmental activities. The District does not have any business-type activities.

Table 1
Comparative Summary of Assets, Liabilities, and Net Position
At June 30, 2017 and 2016

	2017	2016	Difference
Current Assets	$6,775,834	$6.063,193	$712,641
Noncurrent Assets	30,008,571	30,879,708	(871,137)
Total Assets	$36,784,405	$36,942,901	($158,496)
Current Liabilities	$4,269,475	$3,878,307	$391,168
Noncurrent Liabilities	56,266,479	53,607,407	2,659,072
Total Liabilities	$60,535,954	$57,485,714	$3,050,240
Net Deferred (Inflow)/Outflow of Resources	$3,343,715	$2,274,398	$1,069,317
Net Investment in Capital Assets	($1,936,404)	$5,310,972	($7,247,376)
Restricted	382,291	291,498	90,793
Unrestricted	(18,853,721)	(23,870,885)	5,017,164
Total Net Position	($20,407,834)	($18,268,415)	(2,139,419)

Total revenues reported on the Statement of Activities increased by $686,262. The Operating Grants and Contributions show an increase of $423,957. A major portion of that increase can be attributed to an increase in the UAAL retirement revenue

Total General Revenues saw an increase of $258,942. That can be attributed to State Aid Not Restricted to Specific Purposes increasing due to the increase in foundation allowance from the State of Michigan. Intermediate Sources also saw an increase due to the sharing of a position with the Gratiot Isabella RESD and property tax revenue increased due to an increase in taxable values.

Table 2
Comparative Summary of Program, General, and Total Revenues
At June 30, 2017 and 2016

	2017	2016	Difference
Charges for Services	$364,538	$361,175	$3,363
Operating Grants and Contributions	3,087,531	2,663,574	423,957
Total Program Revenues	$3,452,069	$3,024,749	$427,320
Property Taxes	$2,411,327	$2,379,060	$32,267
State Aid Not Restricted to Specific Purposes	12,492,430	12,371,304	121,126
Intermediate Sources	626,910	533,335	93,575
Other General Revenues	165,993	154,019	11,974
Total General Revenues	$15,696,660	$15,437,718	$258,942
Total Revenues	$19,148,729	$18,462,467	$686,262

Overall expenses increased $1,880,664 from the previous year. The main components of the increase to Instruction expenditures and Support Services expenditures pertain to MPSERS plan activity. Per recommendation of the auditor athletics is no longer broken down as a separate line item. Athletics are included with all other support services which also contributes to the increase in support services expenses. There is also a significant increase in the Interest and Fees on Long-Term Debt due to the refinancing of the 2008 bond issue and the paying down of the School Bond Loan Fund.

Table 3
Comparative Summary of Program Expenses by Function and Total Expenses
At June 30, 2017 and 2016

	2017	2016	Difference
Instruction	$9,740,862	$9,630,534	$110,328
Support Services	6,861,790	6,057,113	804,677
Athletics	-0-	321,559	(321,559)
Food Service	828,025	769,487	58,538
Community Services	1,061	281	780
Building Improvement Services	133,635	51,137	82,498
Interest and Fees on Long-Term Debt	2,458,498	1,300,390	1,158,108
Depreciation - Unallocated	1,261,977	1,267,371	(5,394)
Loss on Sale of Capital Assets	2,300	9,612	(7,312)
Total Expenses	$21,288,148	$19,407,484	$1,880,664

III. Analysis of the Overall Financial Position and Results of Operations for Governmental Activities

Governmental Activities

The net position and changes in net position are presented in table 4 below. Since the District does not have any business-type activities, this change is entirely comprised of governmental type activities.

Table 4
Comparative Summary of Net Position and Changes in Net Position
At June 30, 2017 and 2016

	2017	2016	Difference
Net Position - Beginning	($18,268,415)	($17,323,399)	($945,016)
Increase (Decrease) in Net Position	(2,139,419)	(945,016)	(1,194,403)
Net Position - Ending	($20,407,834)	($18,268,415)	($2,139,419)

The District normally operates under the philosophy that it should neither increase nor decrease fund balance from one year to the next based on the Fund Financial Statements (modified accrual). To increase fund balance is an indication that taxpayer money is not being fully utilized for the education of the children. To decrease fund balance is not sustainable for the long-term and would result in cuts to programs in the future. To operate at break-even allows the full utilization of resources to finance education in a sustainable fashion.

At year-end, the unassigned general fund balance was 13.4% of annual expenditures compared to 11.5% in the preceding year.

The change in Net Position is a function of the difference between the District-Wide Financial Statements and the Fund Financial Statements. The reconciliation between these two methods is presented on page 6. There are a number of differences between the two models including but not limited to the accounting for depreciation $1,261,977, the capitalization of fixed assets purchased during the year $393,140, refinancing of the 2008 bond issue and the repayment to the school bond loan fund $1,177,376, the net impact of MPSERS plan activity $423,546, Internal Service Fund activity $233,913 along with the health claims incurred but not reported of $158,664.

Statement of Activities

The Statement of Activities on page 2 is significantly different from the Statement of Revenues, Expenditures, and Changes in Fund Balance. This statement is organized by program listing the expenses in the first column, charges for services in the second column, grants/contributions in the third column, and net expense/revenue in the fourth column. This manner of presentation illustrates the expenses each program generates as well as the corresponding revenues. The net expense/revenue indicates the portion of that program that must be financed with general revenues of the district.

To help the user better understand this statement, the significant program revenues have been identified as follows:

<u>Instruction:</u>

Basic Instruction	Tribal grants and State revenue restricted to qualifying expenses including MPSERS Cost Offset funding.
Added Needs	State Special Education funding, At-Risk grant, Vocational Education funding, Title IA grant, and Title IIA grant.

<u>Support Services:</u>

Athletics	Gate receipts and tournament fees.

<u>Food Service</u>:

Hot lunch sales, State Hot Lunch funds, and Federal Hot Lunch funds.

All other revenues are considered General Revenues and are listed at the bottom of the Statement of Activities.

IV. Significant Transactions and Changes in Individual Funds

The overall financial position of the General Fund and the Food Service Fund experienced a slight change from the previous year. The General Fund increase in fund equity due mainly to an increase in State per-pupil funding. The Food Service Fund increase was a function of the normal operations of the Food Service Fund.

The financial position of the Debt Service Funds changed significantly. Two new debt service funds were added to account for the refinancing of the 2008 bond issue and the sale of bonds to pay down the debt owed to the school bond loan fund.

A comparison of the change in fund balance to the revenues and other financing sources for each of the governmental funds is as follows:

	Revenues and Other Financing Sources	Net Change in Fund Balance from Prior Year	Percent Change in Fund Balance as a Percent of Revenues and Other Financing Sources
General	$16,969,101	$100,753	.59%
Food Service	826,152	7,864	.95%
Debt Service	32,780,611	486,796	1.49%

General Fund

Approximately 80% of the General Fund is spent on salaries and benefits. Since this represents such a large portion of the budget, every attempt is made to settle bargaining agreements that will result in no change to this percentage. If a larger portion of the budget is spent on salaries and benefits, then the fund balance will most likely be reduced because significant reductions to the remainder of the budget are difficult to make.

The Board of Education has committed a portion of the fund balance for specific purposes itemized on pages 27 & 28. The Board allows certain unspent budget items to be carried over to the following year. It is Management's belief that if people are allowed to carryover unspent portions of their budget, these people will spend this money more wisely than under the "use it or lose it" philosophy of some governmental units. The Board committed fund balance is equal to the amount of these funds carried over to the following year, as well as Board committed funds to be used for future maintenance projects that would be too large a burden on fund balance to complete without setting aside funds over a period of years, and Board committed funds to pay for future health insurance expenses. As the district's health and dental policy is self-insured, the Board understands the importance of ensuring there are adequate funds to take care of future health and dental care expenses.

Food Service Fund

The Food Service Fund for the District has not required any contribution from the General Fund in recent years because it has been operating at a profit. The District regularly builds fund equity in the Food Service Fund to set aside funds necessary to replace large equipment and food service delivery vehicles. At this time the food service fund has a fund balance excess over the maximum allowed by the State of Michigan. A new food service delivery vehicle was ordered during the 2016/2017 fiscal year, but due to complications at the vendor's site the district did not take possession of the vehicle until July 2017. Due to the delay the funds for the food service vehicle were still held in the food service account at year end. The food service truck has been delivered and payment has been made which should take care of the excess funds in the food service account.

Debt Service Fund

The Debt Service Fund collected property taxes and received interest earnings on bank deposits to finance the payment of interest and principal on bonds issued to construct facilities throughout the District. The tax rate is set each year at a level to pay the current year principal and interest payments on the bond issue with a maximum levy of 7.0 mills. Since the maximum tax levy has not generated sufficient revenues to pay the principal and interest payment on the 2008 Bond Issue, the District has been participating in the School Bond Loan Fund and has been receiving loans from this fund to fill the shortfall in the revenues until the tax levy equals or exceeds the debt service requirements for a given year. During the 2016/2017 year the district sold bonds to refinance the 2008 Bond Issue and to pay down the balance of the school bond loan fund. Payments are required for one more year on the 2008 bond issue. After 2017/2018 two debt retirement funds will remain: the 2017 Refunding Bond Debt Series A Fund used to pay back the money borrowed to refinance the 2008 bond issue and the 2017 Taxable School Bond Debt Series B Fund used to pay back the money used to pay down the school bond load fund debt. The District does anticipate the need to continue borrowing from the school bond loan fund until approximately 2023/2024. At that time the 7.0 debt mills should generate enough money to make the bond payments and begin paying back the money borrowed from the school bond loan fund plus interest.

Internal Service Fund

The Internal Service Fund was established this year for the purpose of accounting for self-funded medical, pharmacy, and dental claims. The Internal Service Fund charges the other funds a fee for health and dental coverage and uses those funds to pay the actual claims, and aggregate/specific stop loss coverage. This accounting method aides in budgeting for health and dental expenses in the general and food service funds. As the District continues with the self-funded model from year to year the fee charged by the Internal Service Fund will be sufficient to cover all claims without building a significant balance in the Internal Service Fund.

V. Changes to Budget and Comparison to Actual Results

It is required by State law to adopt the original budget before the beginning of the fiscal year. For the fiscal year ended June 30, 2017 the original budget was adopted on June 21, 2016 and amended on January 17, 2017 and again on June 20, 2017. The original budget is adopted more than two months before school is in session and, therefore, many assumptions are made in constructing the budget for unknowns such as student enrollment for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. The significant variances for the fiscal year ended June 30, 2017 are as follows:

General Fund

Changes from Original Budget to Final Budget

Non-Educational Entity or Political Subdivision – The District received grant monies from the Saginaw Chippewa Indian Tribe during the year. The budget was also adjusted for grants received in prior years that were carried over to the current fiscal year to reflect the total amount of tribal grant revenues received and available for use.

State Sources – State revenues had a net increase due to an increase in the Dual Enrollment Incentive grant, Early Literacy Targeted Instruction grant, and the increase in the UAAL Rate Stabilization.

Federal Sources – Additional funding added to reflect the final allocation of Title funding to the District. The additional funding was offset by an increase in expenditures.

Other Sources – The final budget was amended to reflect the amount received from the Gratiot Isabella RESD to cover the Curriculum Director position shared with the RESD. In addition, Capital Lease Proceeds were added as the District entered into a capital lease for printers during the year.

Basic Programs – The budget was adjusted to reflect the total amount to be spent by year end in the curriculum line items as well as supplies. Curriculum/Frameworks money and supply money is carried over from year to year. Any unspent amount is included in the original budget.

Adjustments were made to the final budget to better reflect the amount of money that would actually be spent by year end.

Added Needs – The budget was adjusted to reflect an increase in paraprofessional wages for special education and educational assistant positions funded by the literacy grant money received from the State. Substitute costs were also increased as we had a teacher placed on paid administrative leave during the year.

Pupil Services – The budget was adjusted to include a new at risk counseling position as well as an increase in paraprofessional substitute costs..

Instruction Staff – The budget was adjusted to include the Curriculum Director position. Adjustments were also made to the Instructional Related Technology function to reflect the technology cycle replacements and technology curriculum money that would be carried over.

General Administration – The budget was adjusted to reflect an increase in anticipated legal fee.

Business Services – The budget was adjusted to reflect the cost of the new copiers and the printer lease entered into during the year.

Operations and Maintenance – The budget was adjusted to reflect the overlap of a Director of Operations & Maintenance for a month and the compensated absences paid out at retirement.

Pupil Transportation – The budget was adjusted to reflect an increase in compensation costs for bus drivers and the overlap of a Transportation Director for a month and the compensated absences paid out at retirement.

Central Services ; The budget was adjusted to reflect an increase in technology equipment purchases.

Facilities Acquisition – The budget was adjusted to reflect the actual cost of building improvement services this fiscal year with the remaining budget to be carried over to next year.

Operating Transfers – The budget was decreased as we learned that funds cannot be simply transferred from General Fund to Internal Service Fund. If funds are moved from General Fund to the Internal Service Fund they must be expensed not transferred.

Variances between Final Budget and Actual Amounts

Local Sources - Driver’s education tuition, gate receipts and bus trips all came in above budget.

Non-Educational Entity or Political Subdivision – Revenues from the previously mentioned Tribal grants were deferred because those monies were not spent by year end.

Other Sources – Decision was made to not charge indirect costs to the food service fund. Also, Capital Lease Proceeds were recorded as other financing source not revenue.

Basic Programs – The amounts budgeted for Tribal grants related to basic programs were not spent by year-end. The unspent Tribal grant amounts will be carried over to the new fiscal year along with the unspent budget items reflected as committed fund balance.

Added Needs – Decision was made to not charge UAAL retirement expense on Title I staff.

Instructional Staff – Funds budgeted for Tribal grants and professional development were not spent by year-end.

Operation and Maintenance – Utility and supply costs were lower than anticipated for the year as compared to what was projected in the final budget.

Pupil Transportation – Fuel costs were lower than anticipated for the year as compared to what was projected in the final budget.

Proceeds from Capital Lease – Capital Lease Proceeds were recorded here rather than Other Sources of revenue.

Food Service Fund

Changes from Original Budget to Final Budget

Federal Sources – This line item was adjusted to reflect an increase in the projected number of free/reduced meals served and a increase in commodities revenue.

Food Service Activities – The budget was adjusted to reflect an increase in food service activity expenses including compensation, food costs and the addition of indirect costs.

Variances between Final Budget and Actual Amounts

Food Service Activities – Actual expenses were less than the final budget. Decision was made to not charge indirect costs to the Food Service Fund. In addition, the food service truck that was ordered in March was not delivered until after July 1st.

VI. Capital Assets and Long-Term Debt Activity during the Year

Capital Assets

A summary of the changes in the District's capital assets is presented on page 19. The significant additions are described as follows:

Buildings and Additions – The roof was replaced on the elementary building in Winn.
Furniture & Equipment – The district purchased seven new copy machines that were distributed through the district. Generators were also purchased for the middle school and a new milk cooler and garbage disposal was purchased for food service.
Vehicles – The District purchased two school buses this year and an eight passenger van.

Significant disposals are described as follows:

Furniture & Equipment – Four copy machines were disposed of when the new ones were purchased.
Vehicles – Two school buses and two vans were disposed of.
Land Improvements – Miscellaneous paving was removed from the asset schedule.

Long-Term Debt

A summary of the changes in long-term debt is presented on page 21. Detailed schedules of outstanding long-term debts are on pages 32 – 34.

VII. Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations.

Our elected officials and administration consider many factors when setting the School District's fiscal year budget. The State of Michigan is the primary source of revenue and is dependent upon student enrollment. Looking forward to fiscal year 2017/2018, the District anticipates an increase in per-pupil funding from the State. This will be helpful as the District projects a small decrease in student numbers.

Contracts have been settled with all bargaining units. The Board of Education agreed to steps and a 1% increase on the salary scale with the Shepherd Education Association. Teachers will also receive a $250 off schedule bonus with the possibility of increases to the bonus if enrollment increases. The off schedule bonus allows the Board of Education to share some of the accumulated fund equity without creating recurring expenses on the salary schedule.

Health insurance costs continue to be a concern for the District. The self-insured health and dental plan require the District to pay all expenses until the claims for an individual policy reach an insured stop loss limit. Claims came in high this year exceeding the illustrated rate, the Blue Cross/Blue Shield expected rate and the claims from last year. Any way you look at it, it was not a good year. The District has been advised that when on a self-insured plan you should expect one bad year every five.

The district has experienced challenges in replacing staff members. Whether we need a full time position filled or a substitute to fill in temporarily, qualified teacher candidates and qualified bus drivers are in short supply. The District is concerned that this problem is likely to get worse instead of better.

Shepherd Public Schools has invested in district technology by establishing a 1 to 1 initiative for all students in grades 2 through 12. While this initiative will require investments in technology on an ongoing yearly basis, the district is committed to providing all students with the tools necessary to succeed in the current technology environment.

VIII. Contacting the District's Financial Management

This financial report is designed to provide a general overview of the finances for the Shepherd Public Schools for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Shepherd Public Schools Central Office, 258 W. Wright Ave., P.O. Box 219, Shepherd, MI 48883.

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

Shepherd Public School District
Statement of Net Position
June 30, 2017

Assets	
Current assets	
Cash and cash equivalents	$ 3,429,665
Accounts receivable, net	7,325
Due from other governmental units	3,025,404
Inventory	64,262
Other current assets	249,178
Total current assets	6,775,834
Noncurrent assets	
Capital assets not being depreciated	182,750
Capital assets being depreciated, net	29,825,821
Total noncurrent assets	30,008,571
Total assets	36,784,405
Deferred outflows of resources	
Deferred outflow - related to pension	4,253,843
Liabilities	
Current liabilities	
Accounts payable	309,592
Due to other governmental units	196,724
Accrued expenses	1,248,697
Unearned revenue	597,239
State aid loan payable	130,426
Accrued interest	336,153
Incurred but not reported - health claims	350,186
Compensated absences due within one year	62,197
Long-term obligations due within one year	1,025,000
Capital lease due within one year	13,261
Total current liabilities	4,269,475
Noncurrent liabilities	
Compensated absences due beyond one year	352,452
Long-term obligations due beyond one year	29,595,000
Capital lease due beyond one year	50,389
School loan revolving fund	499
Premium on bonds less accumulated amortization	1,261,325
Net pension liability	25,006,814
Total noncurrent liabilities	56,266,479
Total liabilities	60,535,954
Deferred inflows of resources	
Deferred inflow - related to pension	121,933
Deferred inflow - 147c allocation	788,195
Total deferred inflows of resources	910,128
Net position	
Net investment in capital assets	(1,936,404)
Restricted for Food Service	290,417
Restricted for Debt Service	91,874
Unrestricted	(18,853,721)
Total net position	$ (20,407,834)

The notes are an integral part of these financial statements.

Shepherd Public School District
Statement of Activities
For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Change in Net Position
Governmental activities:				
Instruction	$ 9,740,862	$ 18,521	$ 2,579,202	$ (7,143,139)
Support services	6,861,790	93,548	-	(6,768,242)
Food Service	828,025	252,469	508,329	(67,227)
Community services	1,061	-	-	(1,061)
Building improvement services	133,635	-	-	(133,635)
Interest and fees	2,458,498	-	-	(2,458,498)
Depreciation - unallocated	1,261,977	-	-	(1,261,977)
Loss on sale of capital assets	2,300	-	-	(2,300)
Total governmental activities	$ 21,288,148	$ 364,538	$ 3,087,531	(17,836,079)
General revenues:				
Property taxes				2,411,327
State aid not restricted to specific purposes				12,492,430
Intermediate sources				626,910
Interest and investment earnings				6,448
Other revenues				159,545
Total general revenues				15,696,660
Change in net position				(2,139,419)
Net position - beginning				(18,268,415)
Net position - ending				$ (20,407,834)

FUND FINANCIAL STATEMENTS

Shepherd Public School District
Balance Sheet - Governmental Funds
June 30, 2017

	Major Funds		Non-Major Funds			
	General	2008 Bonds	Food Service	2017 Series A	2017 Series B	Total
Assets						
Cash and cash equivalents	$ 2,428,590	$ 91,874	$ 317,693	$ 401,818	$ 2,049	$ 3,242,024
Accounts receivable, net	6,699	-	626	-	-	7,325
Due from other funds	139,444	-	1,902	-	-	141,346
Due from internal service fund	71,368	-	-	-	-	71,368
Due from other governmental units	3,020,204	-	5,200	-	-	3,025,404
Inventory	41,643	-	22,619	-	-	64,262
Other current assets	249,178	-	-	-	-	249,178
Total assets	$ 5,957,126	$ 91,874	$ 348,040	$ 401,818	$ 2,049	$ 6,800,907
Liabilities						
Accounts payable	$ 303,820	$ -	$ 5,772	$ -	$ -	$ 309,592
Due to other funds	98,773	-	42,573	-	-	141,346
Due to other governmental units	196,724	-	-	-	-	196,724
Accrued expenses	1,247,489	-	1,208	-	-	1,248,697
Unearned revenue	589,169	-	8,070	-	-	597,239
State aid loan payable	130,426	-	-	-	-	130,426
Total liabilities	2,566,401	-	57,623	-	-	2,624,024
Fund balance						
Nonspendable	290,821	-	22,619	-	-	313,440
Restricted	-	91,874	267,798	401,818	2,049	763,539
Committed	842,486	-	-	-	-	842,486
Unassigned	2,257,418	-	-	-	-	2,257,418
Total fund balances	3,390,725	91,874	290,417	401,818	2,049	4,176,883
Total liabilities and fund balances	$ 5,957,126	$ 91,874	$ 348,040	$ 401,818	$ 2,049	$ 6,800,907

Shepherd Public School District
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to the Net Position of Governmental Activities on the Statement of Net Position
June 30, 2017

Total fund balance - governmental funds		$ 4,176,883
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Add:	Cost of capital assets	43,434,057
Deduct:	Accumulated depreciation	(13,425,486)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Deduct:	2008 Bonds issue	(1,025,000)
Deduct:	2017 Refunding Bond Series A	(23,620,000)
Deduct:	2017 Refunding Bond Series B	(5,975,000)
Deduct:	School Loan Revolving Fund	(499)
Deduct:	Premium on 2008 bonds (net of amortization)	(216,069)
Deduct:	Premium on 2017 Refunding Bond Series A	(1,033,834)
Deduct:	Premium on 2017 Refunding Bond Series B	(11,422)
Deduct:	Capital lease	(63,650)
Internal service fund is used by management to charge the cost of self funded employee benefits to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.		
Deduct:	Net position reported in the internal service fund	(233,913)
Other amounts reported in the statement of activities that do not require current financial resources consist of:		
Add:	Deferred outflow - related to pension	4,253,843
Deduct:	Net pension liability	(25,006,814)
Deduct:	Deferred inflow - related to pension	(121,933)
Deduct:	Deferred inflow - 147c allocation	(788,195)
Deduct:	Compensated absences payable	(414,649)
Deduct:	Incurred but not reported - health claims	-
Deduct:	Accrued interest on long-term liabilities	(336,153)
Total net position - governmental activities		$ (20,407,834)

Shepherd Public School District
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

	Major Funds		Non-Major Funds			
	General	2008 Bonds	Food Service	2017 Series A	2017 Series B	Total
Revenues						
Local sources	$ 1,109,885	$ 1,554,885	$ 254,649	$ -	$ -	$ 2,919,419
Non-educational entity	205,349	-	-	-	-	205,349
State sources	14,624,827	14,802	63,174	-	-	14,702,803
Federal sources	323,340	-	508,329	-	-	831,669
Other sources	634,535	-	-	9	1	634,545
Total revenues	16,897,936	1,569,687	826,152	9	1	19,293,785
Expenditures						
Instruction						
Basic programs	7,667,474	-	-	-	-	7,667,474
Added needs	1,968,959	-	-	-	-	1,968,959
Total instruction	9,636,433	-	-	-	-	9,636,433
Support services						
Pupil services	767,241	-	-	-	-	767,241
Instructional staff	674,446	-	-	-	-	674,446
General administration	302,094	-	-	-	-	302,094
School administration	1,407,081	-	-	-	-	1,407,081
Business	498,024	-	-	-	-	498,024
Operation and maintenance	1,675,719	-	-	-	-	1,675,719
Pupil transportation	1,080,397	-	-	-	-	1,080,397
Central	333,728	-	2,210	-	-	335,938
Athletics	349,048	-	-	-	-	349,048
Total support services	7,087,778	-	2,210	-	-	7,089,988
Food service	-	-	816,078	-	-	816,078
Community services	1,061	-	-	-	-	1,061
Building improvement services	133,635	-	-	-	-	133,635
Debt service		-		-	-	
Principal	7,514	29,246,812	-	-	-	29,254,326
Interest, fees and other	1,927	3,047,003	-	-	-	3,048,930
Total expenditures	16,868,348	32,293,815	818,288	-	-	49,980,451
Revenues over (under) expenditures	29,588	(30,724,128)	7,864	9	1	(30,686,666)
Other financing sources (uses)						
Transfers in	-	-	-	401,809	2,048	403,857
Transfers out	-	(403,857)	-	-	-	(403,857)
Proceeds from capital lease	71,165	-	-	-	-	71,165
Proceeds from Refinancing	-	30,660,355	-	-	-	30,660,355
Proceeds from SLRF	-	550,559	-	-	-	550,559
Net change in fund balance	100,753	82,929	7,864	401,818	2,049	595,413
Fund balances - beginning	3,289,972	8,945	282,553	-	-	3,581,470
Fund balances - ending	$ 3,390,725	$ 91,874	$ 290,417	$ 401,818	$ 2,049	$ 4,176,883

Shepherd Public School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds		$ 595,413
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Add:	Capital outlay	393,140
Deduct:	Depreciation expense	(1,261,977)
Deduct:	Loss on disposal of capital assets	(2,300)
Long-term debt proceeds are reported as other financing sources in the governmental funds, thereby increasing fund balances. In the statement of net position, however, issuing long-term debt increases liabilities and has no effect on net position. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Add:	Payment of 2008 bond issue	24,005,000
Deduct:	Proceeds from 2017 Refunding Bond Series A	(23,620,000)
Deduct:	Proceeds from 2017 Refunding Bond Series B	(5,975,000)
Add:	Payment of School Loan Revolving Fund (SLRF)	5,792,371
Deduct:	Proceeds from School Loan Revolving Fund (SLRF)	(550,559)
Deduct:	Proceeds from 2017 Refunding Bond Series A premium	(1,053,218)
Deduct:	Proceeds from 2017 Refunding Bond Series B premium	(12,136)
Add:	Amortization of 2008 bond premium	216,068
Add:	Amortization of 2017 Refunding Bond Series A premium	19,384
Add:	Amortization of 2017 Refunding Bond Series B premium	714
Add:	Capital lease payment	7,513
Deduct:	Proceeds from capital lease	(71,163)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.		
Add:	Change in deferred outflow - related to pension	1,258,423
Deduct:	Change in net pension liability	(1,492,863)
Deduct:	Change in deferred inflow - related to pension	(44,048)
Add:	Change in accrual for compensated absences	72,419
Add:	Change in incurred but not reported - health claims	158,664
Deduct:	Change in interest on long-term debt	(196,293)
Revenue in support of pension contribution made subsequent to the measurement date.		
Deduct:	Change in deferred inflow - 147c allocation	(145,058)
Internal service fund is used by management to charge the cost of self funded employee benefits to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.		
Deduct:	Net revenues and expenses	(233,913)
Net change in net position - governmental activities		$ (2,139,419)

Shepherd Public School District
Statement of Net Position
June 30, 2017

	Internal Service Fund
Assets	
Current assets	
Cash and cash equivalents	$ 187,641
Total assets	187,641
Liabilities	
Current liabilities	
Incurred but not reported claims (IBNR)	350,186
Due to general fund	71,368
Total liabilities	421,554
Net position	
Unrestricted	$ (233,913)

The notes are an integral part of these financial statements.

Shepherd Public School District
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

	Internal Service Fund
Operating revenues	
Employer health and dental premiums	$ 1,232,456
Total operating revenues	1,232,456
Operating expenses	
Medical and dental claims	1,327,788
Purchased services	7,451
Other	131,383
Total operating expenses	1,466,622
Operating income	(234,166)
Non operating revenues	
Interest income	253
Net change in net position	(233,913)
Net position - beginning	-
Net position - ending	$ (233,913)

The notes are an integral part of these financial statements.

Shepherd Public School District
Statement of Cash Flows
For the Year Ended June 30, 2017

	Internal Service Fund
Cash flows from operating activities	
Employer health and dental premiums	$ 1,232,456
Payment of medical and dental claims	(977,602)
Payment of purchased services	(7,451)
Other payments	(131,383)
Net cash from operating activities	116,020
Cash flows from investing activities	
Interest received	253
Cash flows from non-capital financing activities	
Payments from other funds	71,368
Net change in cash and cash equivalents	187,641
Cash and cash equivalents - beginning	-
Cash and cash equivalents - ending	$ 187,641

Reconciliation of operating income to net cash provided by operating activities:

Operating Income	$ (234,166)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Incurred but not reported claims (IBNR)	350,186
Net cash provided by operating activities	$ 116,020

Shepherd Public School District
Statement of Fiduciary Net Position
June 30, 2017

	Trust Fund	Agency Fund	Total
Assets			
Cash and investments	$ 13,384	$ 264,799	$ 278,183
Liabilities			
Due to student groups	-	264,799	264,799
Net position			
Restricted for endowments	$ 13,384	$ -	$ 13,384

The notes are an integral part of these financial statements.

Shepherd Public School District
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

	Trust Fund
Revenues	
Interest	$ 66
Change in net position	66
Net position - beginning	13,318
Net position - ending	$ 13,384

The notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Shepherd Public School District (the District) conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District. All amounts shown are in dollars.

Reporting Entity

The District is governed by Board of Education members which have the responsibility and control over all activities related to public school education within the District. 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. The 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 District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds. Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following major governmental funds:

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

- The *debt service fund* (2008 Bonds) account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The District reports the following non-major governmental funds:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service in the special revenue funds.

- The *debt service funds (2017 Series A and 2017 Series B)* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the government reports the following fund types:

- Internal service fund is a propriety fund which is used to provide services to the other funds on a cost reimbursement basis. The services provided include self-funded medical and dental coverage for the employees of the District. The various governmental funds pay premiums to the internal service fund based upon the illustrative rates computed by the administrator of the plan. The internal service fund uses those funds to pay the actual cost of the claims and stop loss insurance premiums. The internal service fund is accounted for using the accrual basis of accounting.

- The agency fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities). These funds are not reported in the District's government-wide financial statements.

- The private purpose trust funds account for funds entrusted to the District for scholarship awards and both the principal and interest may be spent. These funds are not reported in the District's government-wide financial statements.

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

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates 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.

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.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

The agency fund has no measurement focus but utilizes the accrual basis in accounting for reporting its assets and liabilities. The private-purpose trust fund is reported using the economic resources measurements focus and the accrual basis of accounting.

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

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

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

- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
- Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to year ended June 30. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents
The District's cash and cash equivalents are considered to be demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments
Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Inventory
Inventory are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies and vehicle repair parts. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Prepaid items
Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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

Capital Assets
Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

Land and construction in progress if any are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Land	Not Depreciated
Land Improvements	10 - 20
Buildings & additions	10 - 50
Furniture & equipment	5 - 20
Vehicles	10

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District has the following items that qualify for reporting in this category:

- Related to pension- A deferred outflow is recognized for pension related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualifies for reporting in this category:

- Related to pension - Future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.
- 147c allocation - Restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

Compensated Absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

Unearned Revenue

Unearned revenues arise when resources are received by the District before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the fund financial statements and Government-wide financial statements, and revenue is recognized.

Incurred but not Reported (IBNR) Liability

The amounts recorded in liabilities include amounts for medical, pharmacy and dental claims liability based on management's estimate. The District may not be billed for these until several months after the date of service. The actual cost may vary from the estimated amount for a variety of reasons. The methodology used in estimating reserves considers factors such as historical data adjusted for payment patterns, cost trends, service and benefit mixes, seasonality, utilization of health care services, internal processing changes, the amount of time it took to pay claims from prior periods, changes in the past few months in the claims adjudication procedures, changes in benefits, events that would lead to excessive claims, large increases or decreases in membership, and other relevant factors.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

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

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

Net Position and Fund Balances
Restricted net position shown in the Government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental fund financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Net Position – Restrictions
Net position in the government-wide financial statements are reported as restricted when constraints placed on net position use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

Fund Balance
The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Debt Service fund balance is considered restricted. The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.
- *Committed fund balance* - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- *Assigned fund balance* - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.
- *Unassigned fund balance* - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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

The District levied the following amounts per $1,000 of assessed valuation. The District levied 18.00 mills for school general operations on the non-homestead taxable value. The District also levied an additional 7.00 mills on all property in the District for the purpose of debt service.

State Aid 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 districts. For the current year ended, the foundation allowance was based on pupil membership counts.

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

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

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND CASH EQUIVALENTS
At June 30th, the carrying amount of the District's cash and cash equivalents were as follows:

Description	Amount
Petty Cash	1,050
Checking, Savings, & Money Market Accounts	3,428,614
Total	3,429,664

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

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

Concentration of credit risk: The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2017, $3,235,606 of the District’s bank balance of $3,498,923 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The fiduciary fund balances are not included in the above balances.

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

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

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

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

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

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

The asset or liability's fair 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.

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

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivable and payable shown on the fund financial statements as of June 30th, are as follows:

Receivable fund	Amount	Payable fund	Amount
General Fund	139,444	General Fund	98,773
Food Service	1,902	Food Service	42,573
Total	141,346	Total	141,346

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

As of June 30th, due from other governmental units is comprised of the following amounts:

Description	Amount
State aid	2,674,593
Federal grants and other pass-through agencies	54,026
Other	296,785
Total	3,025,404

No allowance for doubtful accounts is considered necessary.

NOTE 5 - CAPITAL ASSETS
A summary of changes in the District's capital assets follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	182,750	-	-	182,750
Total capital assets not being depreciated	182,750	-	-	182,750
Capital assets being depreciated				
Land improvements	5,120,992	-	(11,505)	5,109,487
Buildings & additions	34,547,773	98,548	-	34,646,321
Furniture & equipment	1,303,258	100,549	(32,786)	1,371,021
Vehicles	2,043,827	194,043	(113,392)	2,124,478
Total capital assets being depreciated	43,015,850	393,140	(157,683)	43,251,307
Accumulated depreciation				
Land improvements	(1,808,929)	(251,377)	11,505	(2,048,801)
Buildings & additions	(8,348,334)	(723,026)	-	(9,071,360)
Furniture & equipment	(834,799)	(109,492)	32,786	(911,505)
Vehicles	(1,326,830)	(178,082)	111,092	(1,393,820)
Total accumulated depreciation	(12,318,892)	(1,261,977)	155,383	(13,425,486)
Net capital assets being depreciated	30,696,958	(868,837)	(2,300)	29,825,821
Net capital assets	30,879,708	(868,837)	(2,300)	30,008,571

Depreciation for the year ended June 30, 2017 totaled $1,261,977. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 6 - ACCRUED EXPENSES
Accrued expenses as of year-end include amounts due for accrued wages, retirement, FICA, employee benefit insurances, and termination benefits (if any). Accrued wages represent the remaining balance on teacher contracts to be paid during the summer and other salaries and wages earned as of June 30th.

NOTE 7 - DEBT

Short-term debt
On August 22, 2016, the District borrowed $950,000 in two notes ($379,767 and $570,233) from the Michigan Finance Authority in the form of a State Aid Anticipation note for the purpose of providing funds for school operations. The interest rate is stated at 1.00%, and 0.76% respectively and is payable on July 20, 2017. During the year, the District sets aside funds to pay the state aid note. The amount included in current liabilities on the Statement of Net Position is net of these set aside funds.

On August 21, 2017 (after the end of the fiscal year), the District borrowed $900,000 in one note from the Michigan Finance Authority in the form of a State Aid Anticipation note for the purpose of providing funds for school operations. The interest rate is stated at 1.27% and is payable on July 20, 2018. This loan was acquired after the end of the fiscal year and, therefore, is not shown as a current liability.

Long-term debt

2008 School Building and Site Refunding Bonds

During 2008, the District issued $31,895,000 of general obligation bonds. Bonds in the amount of $28,905,000 will be used for the purpose of erecting, furnishing, and equipping additions to and remodeling, refurnishing and re-equipping school buildings; acquiring and installing educational technology improvements; and developing and improving playgrounds, athletic fields and facilities and sites. The remaining $2,990,000, together with other available funds of the District, were used to pay the remaining principal of and interest on the 1998 Refunding Bonds, dated April 15, 1998 and to pay the remaining portion of the cost of issuing the bonds.

This 2008 bond was refunded during fiscal year 2017 with the proceeds from the 2017 Refunding Bond Series A. The District is obligated to make one additional payment for the 2008 bonds in the amount of $1,025,000 on May 1, 2018 as shown in the Schedule of Long-Term Debt in the back of this report.

School Bond Loan Fund and School Loan Revolving Fund

The District has periodically approved the borrowing from the State Of Michigan's School Bond Loan Fund and the School Loan Revolving Fund for the purpose of paying debt service. The interest rates are variable. Repayment of the loans will begin when excess funds are available from the taxes collected for payment of the bond issue.

2017 Refunding Bond Series A - $23,620,000

During the fiscal year ended June 30, 2017, the District issued $23,620,000 of general obligation tax-exempt bonds for the purpose of a current refunding of $22,980,000 of the 2008 bonds outstanding.

2017 Refunding Bond Series B - $5,975,000

During the fiscal year ended June 30, 2017, the District issued $5,975,000 of general obligation taxable bonds for the purpose of a current refunding of $5,902,275 of the School Loan Revolving Fund outstanding.

Capital lease

The District entered into a lease agreement as lessee for financing the acquisition of printers valued at $71,163. The printers have a 5 year estimated useful life. No depreciation expense was taken on the printers as they do not meet the $5,000 threshold for capitalization. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30th, were as follows:

Year Ending June 30	Amount
2018	16,058
2019	16,058
2020	16,058
2021	16,058
2022	6,618
Total minimum lease payments	70,850
Less: amount representing interest	7,199
Present value of minimum lease payments	63,650

Summary of Debt Transactions
The changes in debt during the fiscal year are as follows:

	Beginning Balance	Additions	(Deletions)	Ending Balance	Due within one year
Short-term debt	131,218	950,000	(950,792)	130,426	130,426
Long-term debt					
Compensated abs	487,068	641	(73,060)	414,649	62,197
Capital lease	-	71,163	(7,513)	63,650	13,261
2008 Bonds	25,030,000	-	(24,005,000)	1,025,000	1,025,000
2017 Series A	-	23,620,000	-	23,620,000	-
2017 Series B	-	5,975,000	-	5,975,000	-
School Loan Fund	5,242,311	550,559	(5,792,371)	499	-
Total long-term debt	30,759,379	30,217,363	(29,877,944)	31,098,798	1,100,458

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2017, are shown in the *Schedule of Long-term Debt*.

NOTE 8 - NET INVESTMENT IN CAPITAL ASSETS
As of June 30th, the composition of net investment in capital assets was comprised of the following:

Net investment in capital assets	Amount
Capital assets not being depreciated	182,750
Capital asset being depreciated, net	29,825,821
Capital related general obligation bonds	(30,620,000)
Capital lease	(63,650)
Unamortized premium on bond refunding	(1,261,325)
Net investment in capital assets	(1,936,404)

NOTE 9 - OPERATING LEASES
The District has entered into an operating lease for the office space. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements. Lease expense for the fiscal year was approximately $8,589. The future minimum lease obligations as of:

Year Ending June 30	Amount
2018	8,589
2019	2,147

NOTE 10 - RISK MANAGEMENT
The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District participates in the SET/SEG risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 11 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

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

Benefits Provided

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

Plan name	Plan Type	Plan status
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. In addition, the System's health plan provides all retirees with the option of receiving health, prescription drug, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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

Pension Reform 2010

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

Pension Reform 2012

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

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, age 46 with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

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

Pension Plus

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

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

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

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

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

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

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

Member Contributions

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

Employer Contributions

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

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

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

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

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Contributions to the plan for the years ended June 30, 2017 and 2016 were $2,404,226 and $2,290,394, respectively. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB). The District UAAL/147c contributions for the years ended June 30, 2017 and 2016 were $788,195 and $643,137, respectively.

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

Pension Liabilities

At June 30, 2017, the District reported a liability of $25,006,814 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating districts, actuarially determined. At September 30, 2016 and 2015, the District's proportion was 0.10023100% and 0.09626991%.

MPSERS (Plan) Non-university employers	September 30, 2016	September 30, 2015
Total Pension Liability	67,917,445,078	66,312,041,902
Plan Fiduciary Net Position	42,968,263,308	41,887,015,147
Net Pension Liability	24,949,181,763	24,425,026,755
Proportionate share	0.10023100%	0.09626991%
Net Pension Liability for the District	$25,006,814	$23,513,951

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

For the year ended June 30, 2017 and 2016, the District recognized pension expense of approximately $ $2,700,917 and $2,118,574 respectively. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate, these amounts have been recorded as a deferred outflow as of June 30, 2017.

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

Description	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	311,651	(59,267)
Changes of assumptions	390,962	-
Net difference between projected and actual plan investments earnings	415,613	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,094,538	-
District's contributions subsequent to the measurement date	2,041,079	(62,666)
Total	4,253,843	(121,933)

$2,041,079, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Description	Amount
June 30, 2018	514,383
June 30, 2019	481,698
June 30, 2020	881,660
June 30, 2021	213,090

Actuarial Assumptions

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

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

Inflation - 2.5%

Mortality assumptions – RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

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

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

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

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

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

Discount rate - The discount rate used to measure the total pension liability was **8%** (**7%** for Pension Plus Plan). The discount rate did not change from the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus Plan), as well as what the 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 than the current rate:

	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net pension liability	32,202,483	25,006,814	18,940,174

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

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. At June 30, 2017, the District reported a payable of $300,784 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017, consisting of pension contribution payable plus any other amounts owed to the pension plan including the UAAL payments for July and August 2017.

Benefit Provisions - Other Postemployment

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

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

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

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

Employer Contributions

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

The District's contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were $505,115, $493,753, and $683,101, respectively.

NOTE 12 - TRANSFERS

During the year the following transfers were made between funds:

- The transfer of $401,809 from the 2008 Bond Fund to the 2017 Series A Fund was for the purpose of distributing excess loan proceeds to cover future loan payments.
- The transfer of $2,048 from 2008 Bond Fund to 2017 Series A Fund was for the purpose of distributing excess loan proceeds to cover future loan payments.

NOTE 13 - SELF-INSURANCE LIABILITY

The District maintains a self-insurance program for employee medical, pharmacy and dental insurance claims. The District also maintains insurance coverage in these areas for claims in excess of the self-insured retentions. There were no significant changes in insurance coverage from coverage in the prior year. The District has a stop-loss agreement that limits its exposure to $35,000 per contract per year.

The District believes the estimated liabilities for all unsettled employee medical, pharmacy and dental insurance claims at June 30, 2017 are adequate to reflect all claims for events that have occurred through that date. The lag payout depends on the nature of the claim: medical – 1.0 months, pharmacy – 0.5 months, dental claims – 0.5 months, administrative fee – 2.0 months and stop loss fee – 3.0 months; therefore, all of the June 30, 2017 balance of $158,897 is expected to be paid the following year.

NOTE 14 - TAX ABATEMENTS

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

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions, Brownfield Redevelopment Agreements, and Payments in Lieu of Taxes (PILOT) granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield Redevelopment Agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties; PILOT programs apply to multiple unit housing for citizens of low income and the elderly. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Amount
Coe Township	4,554

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

There are no significant abatements made by the District.

NOTE 15. FUND BALANCE – NON SPENDABLE, COMMITTED, AND RESTRICTED

Non-spendable fund balance for the General Fund and Food Service Fund is for inventory. Fund balance in the Food Service Fund (other than non-spendable) is restricted for food service activities. Fund Balance for the Debt Service Fund is restricted for debt service. Fund balance in the Trust Funds is non-spendable for the corpus and restricted for the earnings that have not been spent.

Fund balance in the General Fund has been committed by the Board of Education for the following items at June 30th.

Description	Amount
Instructional Supplies, Text Books, and Capital Outlay	101,701
Curriculum	259,497
Media Center	2,168
Technology	64,289
Transportation Equipment and Vehicles	2,258
Capital Projects	244,333
Health Benefits	168,240
Total Committed Fund Balance	842,486

NOTE 16 - UPCOMING ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, establishes requirements for governments that provide their employees with OPEB through a trust and replaces *GASB Statement No. 45* for those government employers. The most significant change is that governments will now be required to recognize their net OPEB liability, which is the difference between the total OPEB liability (the portion of the present value of projected benefit payments that is attributed to past periods) and the value of OPEB assets available to pay pension benefits. Additional note disclosure and the first two RSI schedules from *GASB 74* will be required. This requirement also applies to cost sharing, multiple-employer plans and plans that are not administered through a trust. Unlike pension plans, which most governments have been funding for quite a while, many OPEB plans are severely underfunded, and the liability to be recorded will be significant.

The statement mirrors the pension requirements of *GASB 68*. Most changes in the net OPEB liability will be included in current period expense. Other components, such as changes in economic assumptions, will be recognized over a closed period equal to the expected remaining service lives of all employees that are provided benefits. Differences between expected and actual investment rate of return will be recognized in expense over a closed five-year period. The pronouncement will be effective for years ending June 30, 2018.

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

REQUIRED SUPPLEMENTARY INFORMATION

Shepherd Public School District
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with final budget
Revenues				
Local sources	$ 1,067,516	$ 1,080,840	$ 1,109,885	$ 29,045
Non-educational entity	633,125	759,178	205,349	(553,829)
State sources	14,503,360	14,614,024	14,624,827	10,803
Federal sources	299,009	340,920	323,340	(17,580)
Other sources	533,341	737,261	634,535	(102,726)
Total revenues	17,036,351	17,532,223	16,897,936	(634,287)
Expenditures				
Instruction				
Basic programs	8,384,518	8,167,013	7,667,474	499,539
Added needs	1,961,180	2,016,990	1,968,959	48,031
Total instruction	10,345,698	10,184,003	9,636,433	547,570
Support services				
Pupil services	707,168	780,207	767,241	12,966
Instructional staff	966,427	796,487	674,446	122,041
General administration	306,413	322,018	302,094	19,924
School administration	1,404,206	1,416,054	1,407,081	8,973
Business	377,197	517,223	498,024	19,199
Operation and maintenance	1,687,558	1,706,534	1,675,719	30,815
Pupil transportation	1,035,644	1,101,159	1,080,397	20,762
Central	289,606	346,543	333,728	12,815
Athletics	323,984	348,016	349,048	(1,032)
Total support services	7,098,203	7,334,241	7,087,778	246,463
Community Services	782	1,328	1,061	267
Building improvement services	247,709	138,000	133,635	4,365
Debt service	-	9,441	9,441	-
Total expenditures	17,692,392	17,667,013	16,868,348	798,665
Other financing sources (uses)				
Proceeds from capital lease	-	-	71,165	(71,165)
Operating transfers in (out)	(396,370)	-	-	-
Revenues over (under) expenditures	(1,052,411)	(134,790)	100,753	235,543
Fund balance - beginning	3,289,972	3,289,972	3,289,972	-
Fund balance - ending	$ 2,237,561	$ 3,155,182	$ 3,390,725	$ 235,543

Shepherd Public School District
Budgetary Comparison Schedule for the Food Service Fund
For the Year Ended June 30, 2017

	Budgeted Amounts			Variance with
	Original	Final	Actual	final budget
Revenues				
Local sources	$ 238,000	$ 255,725	$ 254,649	$ (1,076)
State sources	43,000	63,499	63,174	(325)
Federal sources	459,500	507,746	508,329	583
Total revenues	740,500	826,970	826,152	(818)
Expenditures				
Central	2,500	2,500	2,210	290
Food service	745,076	891,647	816,078	75,569
Total expenditures	747,576	894,147	818,288	75,859
Revenues over (under) expenditures	(7,076)	(67,177)	7,864	75,041
Fund balance - beginning	282,553	282,553	282,553	-
Fund balance - ending	$ 275,477	$ 215,376	$ 290,417	$ 75,041

Shepherd Public School District
Required Supplemental Information
Michigan Public School Employees Retirement Plan
Prospective 10-year trend information

Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability	**Plan year Sept 30, 2016**	**Plan year Sept 30, 2015**	**Plan year Sept 30, 2014**
Reporting unit's proportion of net pension liability (%)	0.10023100%	0.09626991%	0.0936836%
Reporting unit's proportionate share of net pension liability	$ 25,006,814	$ 23,513,951	$ 20,635,221
Reporting unit's covered employee payroll	$ 8,651,090	$ 8,049,542	$ 7,964,513
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	289.06%	292.12%	259.09%
Plan fiduciary net position as a percentage of total pension liability	63.01%	62.92%	66.20%

Note: Amounts were determined as of 9/30 of each fiscal year.

Schedule of the Reporting Unit's Contributions	**Fiscal year June 30, 2017**	**Fiscal year June 30, 2016**	**Fiscal year June 30, 2015**
Statutorily required contributions	$ 2,379,743	$ 2,248,149	$ 1,761,175
Contributions in relation to statutorily required contributions	2,379,743	2,248,149	1,761,175
Contribution deficiency (excess)	$ -	$ -	$ -
Reporting unit’s covered-employee payroll	$ 8,413,324	$ 8,267,922	$ 8,039,307
Contributions as a percentage of covered-employee payroll	28.29%	27.19%	21.91%

Note: Amounts were determined as of 6/30 of each year.

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms
Changes of assumptions: There were no changes of benefit assumptions

OTHER SUPPLEMENTARY INFORMATION

Shepherd Public School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2017

Fiscal Year	Interest Rate (%)	Principal Due	Interest Due November	Interest Due May	Total
2008 Bond Issue - $31,895,000					
2018	5.00%	$ 1,025,000	$ 25,625	$ 25,625	$ 1,076,250
Total		1,025,000	25,625	25,625	1,076,250
2017 Refunding Bond Series A - $23,620,000					
2018	3.00%	-	504,604	354,800	859,404
2019	3.00%	1,000,000	354,800	354,800	1,709,600
2020	3.00%	1,000,000	339,800	339,800	1,679,600
2021	3.00%	1,000,000	324,800	324,800	1,649,600
2022	3.00%	1,000,000	309,800	309,800	1,619,600
2023	3.00%	12,820,000	294,800	294,800	13,409,600
2024	3.00%	1,000,000	102,500	102,500	1,205,000
2025	3.00%	1,000,000	87,500	87,500	1,175,000
2026	3.00%	1,000,000	72,500	72,500	1,145,000
2027	3.00%	1,000,000	57,500	57,500	1,115,000
2028	3.00%	1,000,000	42,500	42,500	1,085,000
2029	3.00%	1,000,000	27,500	27,500	1,055,000
2030	3.00%	100,000	12,500	12,500	125,000
2031	3.00%	100,000	11,000	11,000	122,000
2032	3.00%	100,000	9,500	9,500	119,000
2033	3.13%	100,000	8,000	8,000	116,000
2034	3.13%	100,000	6,438	6,438	112,876
2035	3.25%	100,000	4,875	4,875	109,750
2036	3.25%	100,000	3,250	3,250	106,500
2037	3.25%	100,000	1,625	1,625	103,250
Total		23,620,000	2,575,792	2,425,988	28,621,780
2017 Refunding Bond Series B - $5,975,000					
2018	2.00%	-	98,081	68,964	167,045
2019	2.00%	770,000	68,964	68,964	907,928
2020	2.00%	820,000	61,264	61,264	942,528
2021	2.10%	860,000	53,064	53,064	966,128
2022	2.35%	910,000	44,034	44,034	998,068
2023	2.55%	2,615,000	33,341	33,341	2,681,682
Total		5,975,000	358,748	329,631	6,663,379

Shepherd Public School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2017

Maturity Date	Principal Due	Interest Due November	Interest Due May	Total
Summary by year				
Year 1	$ 1,025,000	$ 628,310	$ 449,389	$ 2,102,699
Year 2	1,770,000	423,764	423,764	2,617,528
Year 3	1,820,000	401,064	401,064	2,622,128
Year 4	1,860,000	377,864	377,864	2,615,728
Year 5	1,910,000	353,834	353,834	2,617,668
Year 6-10	19,435,000	648,141	648,141	20,731,282
Year 11-15	2,300,000	103,000	103,000	2,506,000
Year 16-20	500,000	24,188	24,188	548,376
	30,620,000	2,960,165	2,781,244	36,361,409

Shepherd Public School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2017

Year	Loan Proceeds	Accrued Interest	Balance Due
School Loan Revolving Fund			
June 30, 2010	$ 262,790	$ 8,628	$ 271,418
June 30, 2011	524,726	24,360	549,086
June 30, 2012	766,197	38,706	804,903
June 30, 2013	824,933	66,444	891,377
June 30, 2014	798,445	105,079	903,524
June 30, 2015	781,269	133,289	914,558
June 30, 2016	745,215	162,230	907,445
June 30, 2017*	(4,703,082)	(538,730)	(5,241,812)
Total	493	6	499

* - During fiscal year 2017, the District issued the 2017 Refunding Bonds, Series B and used the proceeds to pay down the balance due in the School Loan Revolving Fund.

On February 15, 2017, two payments were made to the School Loan Revolving Fund: 1) a $4,703,082 principal payment and 2) a $648,645 accrued interest payment. The $538,730 accrued interest amount noted above is net of $109,915 in current year accrued interest.