

Ithaca Public Schools

Financial Statements

June 30, 2017

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Ithaca Public Schools
Members of the Board of Education and Administration
June 30, 2017

Members of the Board of Education

Steve Lehman - President

Mike Reeves - Vice - President

Brad Heffner - Secretary

Rick Wilson - Treasurer

Trina Schall - Trustee

Tom Clark - Trustee

Kevin Kindel - Trustee

Administration

Charmian Fletcher - Superintendent



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Independent Auditors' Report

Management and the Board of Education
Ithaca Public Schools
Ithaca, Michigan

Report on the Financial Statements

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

Auditors' 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 auditors' 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 Ithaca Public Schools, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ithaca Public Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, 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 supplementary information, as identified in the table of contents, 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 October 13, 2017 on our consideration of Ithaca Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Ithaca Public Schools' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ithaca Public Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, Michigan
October 13, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ithaca Public Schools
Management's Discussion and Analysis
June 30, 2017

Our discussion and analysis of the Ithaca Public School'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 4-1.

I. Description of the Basic Financial Statements

District-wide Financial Statements

The Statement of Net Position (pages 4-1 and 4-2) and the Statement of Activities (page 4-3) 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 the private sector. 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 (pages 4-4 and 4-5) and the Statement of Revenues, Expenditures, and Changes in Fund Balance (pages 4-7 and 4-8) 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 4-6 and 4-9 reconcile the differences between the District-wide Financial Statements and the Fund Financial Statements.

Trust and Agency Funds

The Statement of Fiduciary Net Position (page 4-10) and the Statement of Changes in Fiduciary Net Position (page 4-11) present the financial activity of funds held for the benefit of other individuals and/or entities. These amounts are not reflected in the District-wide Financial Statements because these resources are not intended to be used to finance the operations of the District.

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Management's Discussion and Analysis
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II. Condensed District-wide Financial Information

The change in assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position from the previous year for the District-wide financial statements were significant, as shown in Table 1. All information presented in Table 1 relates to governmental activities. The District does not have any business-type activities.

Table 1
Comparative Summary of the Statement of Net Position
At June 30, 2017 and 2016

	2017	2016	Difference
Current assets	\$ 4,855,282	\$ 4,969,118	-\$ 113,836
Noncurrent assets	7,749,204	7,132,946	616,258
Total assets	<u>12,604,486</u>	<u>12,102,064</u>	<u>502,422</u>
Deferred outflows of resources	<u>2,511,995</u>	<u>2,297,125</u>	<u>214,870</u>
Total assets and deferred outflows of resources	<u>15,116,481</u>	<u>14,399,189</u>	<u>717,292</u>
Current liabilities	3,275,167	3,077,809	197,358
Noncurrent liabilities	19,872,197	20,403,915	-531,718
Total liabilities	<u>23,147,364</u>	<u>23,481,724</u>	<u>-334,360</u>
Deferred inflows of resources	<u>734,991</u>	<u>492,225</u>	<u>242,766</u>
Total liabilities and deferred inflows of resources	<u>23,882,355</u>	<u>23,973,949</u>	<u>-91,594</u>
Net investment in capital assets	5,468,728	4,253,751	1,214,977
Restricted	435,261	826,906	-391,645
Unrestricted (deficit)	<u>-14,669,863</u>	<u>-14,655,417</u>	<u>-14,446</u>
Total net position	<u>-\$ 8,765,874</u>	<u>-\$ 9,574,760</u>	<u>\$ 808,886</u>

Current assets decreased by \$113,836 primarily due to a planned decrease in cash in the debt service fund, as well as a decrease in the receivables for state aid compared to the prior year. The District retained a higher balance of cash on hand in the general fund through a combination of tighter controls on spending and expenditures coming in less than budgeted. The increase in noncurrent assets is the result of capital assets being added or replaced at a faster rate than they are depreciating. This is largely the result of the passage of a sinking fund for the District, which has provided revenue for the completion of needed projects. Capital assets added during the year totaled

**Ithaca Public Schools
Management's Discussion and Analysis
June 30, 2017**

\$935,664, while current year depreciation was only \$270,457. Capital assets with an acquisition cost of \$78,319 were retired/ scrapped during the year.

The current liabilities increased from the previous year as the District owed more money for accounts payable in the general fund and sinking fund, but slightly less for accrued salaries payable and accrued expenditures. The District owed \$366,144 at the end of the fiscal year for accounts payable, compared to the \$30,953 that was owed in the prior year. Accrued salaries payable decreased by \$18,797 and payroll-related accrued expenditures and other accrued expenditures decreased \$8,115 during the period. The net decrease in noncurrent liabilities was largely the result of the District recognizing and reporting a larger proportionate share of the state's pension plan liability (MPSERS) in the amount of \$144,867. This increase was offset by the District continuing to pay back the long-term liability of \$1,033,430 for state aid that was paid to the District for the operation of an online alternative education program that did not meet pupil accounting requirements, reducing the amount to \$751,586 (including the amount owed within a year) at year-end. The District also continued to reduce the balance owed on government obligation bonds due to principal repayment.

Total net position for governmental activities increased during the period, but remained a negative amount. The increase in net investment in capital assets of \$1,214,977 was the primary reason for the increase. The District experienced an increase in net position of \$808,886 for the fiscal year, bringing the ending balance at June 30, 2017 to (\$8,765,874).

Total revenues reported on the Statement of Activities did not vary significantly from the previous year, as shown in Table 2.

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

	2017	2016	Difference
Charges for Services	\$ 338,467	\$ 384,426	-\$ 45,959
Grants and Contributions	2,697,215	2,596,714	100,501
Total Program Revenues	<u>\$ 3,035,682</u>	<u>\$ 2,981,140</u>	<u>\$ 54,542</u>
Property Taxes	\$2,242,367	\$2,294,771	-\$ 52,404
State Aid - unrestricted	7,823,970	8,068,720	-244,750
Interest and Investment Earnings	5,702	5,979	-277
Other	75,562	24,264	51,298
Total General Revenues	<u>\$ 10,147,601</u>	<u>\$ 10,393,734</u>	<u>-\$ 246,133</u>
 Total Revenues	 <u>\$ 13,183,283</u>	 <u>\$ 13,374,874</u>	 <u>-\$ 191,591</u>

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Management's Discussion and Analysis
June 30, 2017**

Charges for Services decreased in 2017 from the prior year. Charges for Food Services remained steady, but Supporting Services decreased \$33,388 and Community Services decreased \$20,595. Grants and Contributions increased by \$100,501, as the District received additional categorical funding from the State of Michigan during the fiscal year. The largest increases were the Special Education, MPSERS cost offset, and At-Risk funding.

Property taxes decreased by \$52,404 across all funds, as the district levied less taxes in the debt funds. Overall, the district's taxable value in the district increased slightly for the period. Unrestricted state aid decreased nearly \$245,000 due mainly to a decrease in student enrollment.

Total expenses again decreased from the previous year. The District's instructional, supporting services, food services, and community services expenses were all lower for the period than in the prior year, as shown in Table 3. Wages across the district have not increased significantly over the past few years; however the total cost of employment for many employees has increased due to increases in benefit costs. The district has lowered expenses in many areas through attrition and partnerships with the Gratiot Isabella RESD, among other cost saving measures.

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

	2017	2016	Difference
Instruction	\$ 7,503,590	\$ 7,540,094	-\$ 36,504
Support Services	4,228,662	4,260,062	- 31,400
Food Service	489,634	495,745	- 6,111
Community Services	36,530	75,387	- 38,857
Interest and Fees on Long-term Debt	115,981	126,494	- 10,513
Total Expenses	<u>\$ 12,374,397</u>	<u>\$ 12,497,782</u>	<u>-\$ 123,385</u>

Instruction costs decreased due to elimination of teaching positions to match the trend of decreasing enrollment. The district also reduced supplies and materials budgets during the year, as an additional cost control measure because of unanticipated enrollment losses at the start of the school year. The cost of support services decreased \$31,400 during the year as multiple positions were not filled or were replaced with lower cost alternatives. Some support services increased, such as some salary-related costs, one-time expenditures, and required utility costs. Food Service costs decreased from the previous year, as food costs increases were offset by controlling labor costs. Community Services costs decreased during the year due to cost reductions related to the closing of the community pool, elimination of tuition-based preschool and reductions in expenses for child care services (latchkey).

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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
 Years Ended June 30, 2017 and 2016

	2017	2016	Difference
Net Position – Beginning	-\$9,574,760	-\$10,451,852	877,092
Increase in Net Position	808,886	877,092	-86,206
Net Position – Ending	-\$8,765,874	-\$9,574,760	

The District operates under the philosophy that it should maintain or grow fund balance from one year to the next based on the Fund Financial Statements (modified accrual). Most business officials contend that 12% to 18% fund balance is the optimal target for a district. With only modest increases in funding and the state-mandated payback of prior year alternative education funding, the District strives to maintain essential current programming, while ensuring the fund balance does not drop below 5%.

The increase 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 4-9. The main difference between the two models is the accounting for purchases of capital assets of \$935,664. The purchases are recorded as assets on the District-wide Financial Statements and as expenditures on the Fund Financial Statements. Other major differences include the recognition of items related to the net pension liability (\$144,876), the payment of principal on outstanding bonds (\$631,790), depreciation of fixed assets (\$270,457) and sale of capital assets (\$48,949).

Statement of Activities

The Statement of Activities on page 4-3 is significantly different from the Statement of Revenues, Expenditures, and Changes in Fund Balance (pages 4-7 and 4-8). 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.

**Ithaca Public Schools
Management's Discussion and Analysis
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To help the user better understand this statement, the significant program revenues have been identified as follows:

Instruction:

Basic Instruction	Early Literacy Additional Time Grant, Great Start Readiness Program revenue.
Added Needs	State Special Education funding, State Vocational Education funding, At Risk grant, MPSERS 147 funding, Title I - Part A grant, Title II - Part A grant, county special education tax levy, and vocational education revenue from the intermediate school district.

Support Services:

Pupil Services	Private Grants and Donations, Medicaid revenues, State Financial Analytic Tools grant, and Federal Bond Interest reimbursement.
Instructional Staff	Title I - Part A grant, Title II - Part A grant, county special education tax levy, and Technology Infrastructure grant.
Operations & Maintenance	Universal Service Funds.
Pupil Transportation	Special Education funding, county special education tax levy, and Great Start Readiness Program revenue.
Central	State Headlee Obligation for Data Collection grant, Technology Infrastructure Grant.
Athletics	Gate receipts, tournament fees.
Food Service	School meals sales, State School Lunch funds, and Federal National School Lunch Program.
Community services	Latchkey receipts, Pool admission fees, Adult Enrichment and Recreation fees.

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

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Management's Discussion and Analysis
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IV. Significant Transactions and Changes in Individual Funds

The overall financial position of the individual governmental funds of the District did not change significantly from the previous year. The General Fund realized a similar increase in fund balance as the prior year by maintaining a similar ratio of revenues to expenditures, despite changes in some of the programming.

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 <u>Sources</u>	Net Change in Fund Balance <u>From Prior Year</u>	Percent Change in Fund Balance as a Percent of Revenues and Other Financing <u>Sources</u>
General	\$ 11,335,647	\$ 50,450	0.45%
Food Service	492,039	4,856	0.99%
Debt Service	615,337	-56,421	-9.17%
Sinking Fund	672,435	-339,317	-50.46%

General Fund

Approximately 83% of the General Fund budget is spent on salaries and benefits. As this is a large portion of the budget, every attempt is made to settle bargaining agreements that will not result in a large 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.

Food Service Fund

The Food Service program for the District did not require a contribution from the General Fund for the first time in recent years. The food service fund has required this contribution because it has been operating at a loss. The excess revenues over expenditures helped the District to build fund equity that hopefully will allow for replacement of equipment in the future.

Debt Service Fund

The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bonds issued to construct and upgrade facilities and technology 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. During the fiscal year ending June 30, 2017, the District intentionally levied a lower rate to spend down fund balance and reduce the costs to the taxpayers. This reduction still allowed the District to meet the obligations.

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Management's Discussion and Analysis
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Sinking Fund

The District passed a Sinking Fund in the fall of 2014. Tax collections have exceeded the amount of construction for projects in recent years. The district has completed boiler replacement at one elementary, abated asbestos in multiple buildings, reconstructed parking lots and the bus loop at one elementary, renovated office space and computer labs among other projects. The District has started construction on the Junior/Senior High School boiler project to modernize the heating system in that building. This required spending down the fund balance accumulated in recent years and will require the use of a non-voted bond to cover the additional costs of the project. The fund balance represents the amount available for projects, as of June 30, 2017.

Ithaca Public Schools
Management's Discussion and Analysis
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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 27, 2016. The original budget is adopted before the enrollment is known, final grant allocations are awarded, and some staff is hired. Many assumptions are therefore made in constructing 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

Local Sources – The District lowered the budget amount for tax revenue based on updated property tax valuations. Amounts for athletic gate and tournament revenues and latchkey revenues were also adjusted to known amounts.

State Sources – The original budget was based upon enrollment estimates. The final budget used the actual numbers based on student count data, which was approximately 35 pupils less than budgeted. The District also received a pause in the State Aid payback as legislative changes may impact the timing and amount of payback. MPSERS cost offset payments figures were adjusted. Special Education and At-Risk funding was adjusted to actual known amounts.

Federal Sources – The original budget was amended to include carryover in the Title grants, as well as the final allocations, which were not known at the time of the original budget adoption.

Other Sources – The original budget was amended to account for additional revenues received from the intermediate school district as final allocations became available.

Basic Programs – The budget revision included the cost of contract settlement with the teachers union, as well as updated benefit and staffing costs as the true values became known. Other costs such as substitute teachers and dual enrollment costs were updated to reflect actual amounts.

Pupil Support – Staffing changes that occurred during the school year lowered the amount the district would spend.

Instructional Staff – Updated Title I and Title II expenditures, including teachers' salaries, based on the final Consolidated Application. Staffing changes also required amounts to be updated.

General Administration – A decrease in expected legal expenditures that occurred after the original budget was adopted.

Business – The budget was amended to include known costs for contracted services and other costs.

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Management's Discussion and Analysis
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Operations & Maintenance – The budget was updated to reflect known utility costs, which were lower than anticipated, as well as custodial wages and benefits that were higher than anticipated.

Transportation – The budget was updated to reflect known fuel costs, which were lower than anticipated, and to reflect major repair costs that were not anticipated.

Central Services – The budget was updated to reflect contracted services replacing a staff position.

Variances between Final Budget and Actual Amounts

Federal Sources – Federal grant revenue was lower than anticipated due to not being able to complete all approved grant spending. Additionally, last minute expenditures were not able to be counted as revenue during this fiscal year.

Added Needs – Support staff expenses were under budgeted amounts. Reclassification of expenditures that were allowable for grants occurred after the final budget was completed.

Pupil Support – Psychological services were less than budgeted.

Community Services – Anticipated expenditures did not occur in Community Recreation.

Capital Outlay – Expenses for the capital lease of one bus were not included in the final budget.

Food Service Fund

Variances between Final Budget and Actual Amounts

Food Service – Commodities usage was higher than anticipated.

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Management's Discussion and Analysis
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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 in the Notes to Financial Statements on page 4-18. The significant additions and disposals are described as follows:

Vehicles – The District leased one school bus and returned on previously leased school bus.

Buildings – The District completed the replacement of the boilers at South Elementary and replaced floor tile at South Elementary.

Equipment – The District purchased one high jump mat and associated cover.

Construction-in-progress – The District has construction in progress related to the heating and cooling system at the Junior/Senior High School, as well as relocation of the pole vault and long jump runways.

Long-Term Debt

Detailed notes for the long-term debts are on page 4-20 and 4-21.

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

One of the most significant factors facing Ithaca Public Schools continues to be the economic condition of the State of Michigan. With state funding the primary source of revenue, the District monitors the state's periodic revenue-estimating conference in order to project revenue for the upcoming fiscal year's budget. In addition, local student enrollment is another revenue producing factor that the District monitors. The state foundation is based on a blended student count. This count is taken in October and February of each fiscal year. The blended count consists of 90% of count taken in October and 10% of the count taken in February. In addition to the state required count days, the District conducts monthly enrollment updates in order to monitor this important revenue source. For budgeting purposes, an estimated student count is used based on the District's enrollment history and third-party enrollment projection.

The District along with other schools throughout Michigan are faced with significant budget challenges as the State of Michigan continues to struggle to determine an effective method to provide adequate funding for public education. Districts must continue to provide quality educational services to their students while effectively managing their resources within the ever changing financial landscape for Michigan Schools.

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The budget prepared for the 2017-18 school year was based on a \$120 per student state funding increase and a decline in student enrollment of 40 students, projecting a decrease in the District's fund balance. Early indications are that actual enrollment will be close to the anticipated number.

The District faces a significant payback of state aid funding as described in Note 10. The District began repayment during the 2015-16 year, however the Department of Education paused further withholding of the monthly payments in January 2017. During June of 2017, legislative changes occurred that would give discretion to the State Superintendent to waive all or a portion of the district's school aid repayment or to extend the repayment timeline up to a total of 10 years (from 5 years) if the district can demonstrate that repayment will cause significant hardship and has taken corrective action to ensure the circumstances leading to the state aid repayment do not recur. The District anticipates a decision by the State Superintendent prior to May of 2018.

Request for Information

This financial report is designed to provide our stakeholders with a general overview of the District's finances and to show the District's accountability for the funding it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Ithaca Public School District, 710 North Union Street, Ithaca, Michigan, 48847.

BASIC FINANCIAL STATEMENTS

Ithaca Public Schools
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
Assets	
Cash	\$ 2,505,730
Due from other governmental units	2,209,285
Inventory	14,067
Prepaid items	126,200
Capital assets not being depreciated	1,835,473
Capital assets - net of accumulated depreciation	<u>5,913,731</u>
 Total assets	 <u>12,604,486</u>
Deferred Outflows of Resources	
Deferred amount relating to net pension liability	2,501,308
Deferred amount on debt refunding	<u>10,687</u>
 Total deferred outflows of resources	 <u>2,511,995</u>
 Total assets and deferred outflows of resources	 <u>15,116,481</u>

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 366,144
State aid anticipation note payable	1,880,000
Payroll deductions and withholdings	232
Accrued expenditures	418,286
Accrued salaries payable	595,682
Unearned revenue	14,823
Noncurrent liabilities	
Net pension liability	16,829,448
State aid chargeback	413,372
Debt due within one year	919,401
Debt due in more than one year	<u>1,709,976</u>
Total liabilities	23,147,364
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	<u>734,991</u>
Total liabilities and deferred inflows of resources	<u>23,882,355</u>
Net Position	
Net investment in capital assets	5,468,728
Restricted for	
Debt service	115,636
Capital projects	319,625
Unrestricted (deficit)	<u>(14,669,863)</u>
Total net position	<u>\$ (8,765,874)</u>

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Statement of Activities
For the Year Ended June 30, 2017

	Program Revenues				
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
Functions/Programs					
Governmental activities					
Instruction	\$ 7,503,590	\$ -	\$ 2,284,964	\$ -	\$ (5,218,626)
Supporting services	4,228,662	136,256	103,551	-	(3,988,855)
Food services	489,634	181,747	308,700	-	813
Community services	36,530	20,464	-	-	(16,066)
Interest on long-term debt	115,981	-	-	-	(115,981)
	\$ 12,374,397	\$ 338,467	\$ 2,697,215	\$ -	(9,338,715)
General revenues					
					1,020,555
					550,563
					671,249
					7,823,970
					5,702
					17,200
					58,362
					10,147,601
					808,886
					(9,574,760)
					\$ (8,765,874)

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Governmental Funds
Balance Sheet
June 30, 2017

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 1,728,906	\$ 629,374	\$ 147,450	\$ 2,505,730
Due from other funds	57,368	-	100	57,468
Due from other governmental units	2,199,990	-	9,295	2,209,285
Inventory	-	-	14,067	14,067
Prepaid items	86,200	-	40,000	126,200
Total assets	<u>\$ 4,072,464</u>	<u>\$ 629,374</u>	<u>\$ 210,912</u>	<u>\$ 4,912,750</u>
Liabilities				
Accounts payable	\$ 43,081	\$ 309,749	\$ 13,314	\$ 366,144
State aid anticipation note payable	1,880,000	-	-	1,880,000
Due to other funds	-	-	57,468	57,468
Payroll deductions and withholdings	232	-	-	232
Accrued expenditures	408,191	-	1,834	410,025
Accrued salaries payable	594,082	-	1,600	595,682
Unearned revenue	9,180	-	5,643	14,823
Total liabilities	<u>2,934,766</u>	<u>309,749</u>	<u>79,859</u>	<u>3,324,374</u>
Deferred Inflows of Resources				
Unavailable revenue				
Grants	25,145	-	-	25,145

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Governmental Funds
Balance Sheet
June 30, 2017

	<u>General Fund</u>	<u>Sinking Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance				
Non-spendable				
Inventory	\$ -	-	\$ 14,067	\$ 14,067
Prepaid items	86,200	-	40,000	126,200
Restricted for				
Debt service	-	-	123,897	123,897
Capital projects	-	319,625	-	319,625
Assigned				
Bus purchase	35,356	-	-	35,356
Next fiscal year budget appropriations	137,580	-	-	137,580
Unassigned (deficit)	<u>853,417</u>	<u>-</u>	<u>(46,911)</u>	<u>806,506</u>
 Total fund balance	 <u>1,112,553</u>	 <u>319,625</u>	 <u>131,053</u>	 <u>1,563,231</u>
 Total liabilities, deferred inflows of resources and fund balance	 <u>\$ 4,072,464</u>	 <u>\$ 629,374</u>	 <u>\$ 210,912</u>	 <u>\$ 4,912,750</u>

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

Total fund balances for governmental funds	\$ 1,563,231
Total net position for governmental activities in the statement of net position is different because	
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	
Other governmental units	25,145
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	1,835,473
Capital assets - net of accumulated depreciation	5,913,731
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	10,687
Deferred inflows of resources resulting from net pension liability	(734,991)
Deferred outflows of resources resulting from net pension liability	2,501,308
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(8,261)
State aid chargeback	(751,586)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Bonds payable	(2,206,833)
Other loans payable and liabilities	(84,330)
Net pension liability	<u>(16,829,448)</u>
Net position of governmental activities	<u>\$ (8,765,874)</u>

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 1,224,723	\$ 672,435	\$ 733,582	\$ 2,630,740
State sources	9,419,017	-	18,224	9,437,241
Federal sources	207,489	-	354,375	561,864
Interdistrict sources	386,854	-	-	386,854
	<u>11,238,083</u>	<u>672,435</u>	<u>1,106,181</u>	<u>13,016,699</u>
Expenditures				
Current				
Education				
Instruction	7,206,551	-	-	7,206,551
Supporting services	3,867,283	334	313	3,867,930
Food services	-	-	487,015	487,015
Community services	36,105	-	-	36,105
Capital outlay	95,432	1,011,418	168	1,107,018
Debt service				
Principal	76,790	-	555,000	631,790
Interest and other expenditures	1,841	-	116,445	118,286
	<u>11,284,002</u>	<u>1,011,752</u>	<u>1,158,941</u>	<u>13,454,695</u>
Total expenditures	<u>11,284,002</u>	<u>1,011,752</u>	<u>1,158,941</u>	<u>13,454,695</u>
Deficiency of revenues over expenditures	<u>(45,919)</u>	<u>(339,317)</u>	<u>(52,760)</u>	<u>(437,996)</u>

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	General Fund	Sinking Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Proceeds from capital leases	\$ 80,364	-	\$ -	\$ 80,364
Proceeds from sale of capital assets	17,200	-	-	17,200
Transfers in	-	-	1,195	1,195
Transfers out	(1,195)	-	-	(1,195)
Total other financing sources (uses)	96,369	-	1,195	97,564
Net change in fund balance	50,450	(339,317)	(51,565)	(340,432)
Fund balance - beginning	1,062,103	658,942	182,618	1,903,663
Fund balance - ending	\$ 1,112,553	\$ 319,625	\$ 131,053	\$ 1,563,231

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
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	\$ (340,432)
Total change in net position reported for governmental activities in the statement of activities is different because	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Operating grants	25,145
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 and reported as depreciation expense.	
Depreciation expense	(270,457)
Capital outlay	935,664
Sale of capital assets (net book value)	(48,949)
Expenses are recorded when incurred in the statement of activities.	
Interest	4,093
State aid chargeback	75,158
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(144,876)
Net change in deferral of resources related to the net pension liability	(6,057)
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	(19,122)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds reports the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	
Capital lease	(80,364)
Repayments of long-term debt	631,790
Capital lease debt removed upon early return of equipment	49,081
Amortization of premiums	2,814
Amortization of deferred amount on debt refunding	(2,717)
Amortization of bond discount	(1,885)
	808,886
Change in net position of governmental activities	\$ 808,886

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2017

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 39,363	\$ <u>168,339</u>
Liabilities		
Due to agency fund activities	<u>-</u>	<u>\$ 168,339</u>
Net Position		
Assets held in trust for scholarships and loans	<u>\$ 39,363</u>	

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	\$ 2,445
Deductions	
Scholarships	<u>9,506</u>
Change in net position	(7,061)
Net position - beginning	<u>46,424</u>
Net position - ending	<u><u>\$ 39,363</u></u>

See Accompanying Notes to the Financial Statements

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Ithaca Public Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. 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 School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by

general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

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

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

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Sinking Fund – The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for construction or repair of school buildings.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District’s Special Revenue Funds include Food Service. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

Debt Service Funds – The Debt Service Funds are used to record taxes, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets

equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2017, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Fund	1.64000
Sinking Fund	2.00000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District’s boundaries. The majority of the School District’s tax roll lies within Gratiot County.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Gratiot and remitted to the School District by May 15.

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds, the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$ 5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Site improvements	20 years
Equipment and furniture	5-20 years
Buses and other vehicles	8 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made

after the measurement date. This amount will reduce the net pension liability in the following year.

Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

Compensated Absences – There is no contractual provision for payment of unused sick or vacation time for any employee.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

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

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education, or the Superintendent. The Board of Education has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

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 and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government’s own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government’s tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

Upcoming Accounting and Reporting Changes

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3)

private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Statement No. 85, *Omnibus 2017* addresses practice issues that were identified during implementation and application of certain GASB Statements. This statement covers issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits), which is effective for the fiscal year ending June 30, 2018.

Statement No. 86, *Certain Debt Extinguishment Issues* is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The statement provides uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irremovable trust for the purpose of extinguishing that debt were acquired. The effective date is for the fiscal year ending June 30, 2018.

The School District is evaluating the impact that the above GASBs will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Business	\$ 242,528	\$ 243,211	\$ 683
Pupil transportation services	564,310	578,278	13,968
Athletics	362,723	362,932	209
Capital outlay	50,576	95,432	44,856

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$14,669,863 as of June 30, 2017.

Fund Deficit

The Food Service Fund has a deficit unassigned fund balance of \$46,911. This occurred because the fund had \$7,156 in total fund balance at year end, but must account for non-spendable items within

the fund balance classifications. The deficit will be eliminated as inventory and prepaid items are used.

Compliance – Sinking Funds

The Sinking Fund records capital project activities funded with sinking fund millage. For this fund, management believes the School District has complied, in all material respects, with the applicable provisions of section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Note 3 - Deposits

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 2,505,730	\$ 207,702	\$ 2,713,432

The breakdown between deposits for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	<u>\$ 2,713,432</u>
---	---------------------

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, \$2,567,062 of the School District's bank balance of \$2,817,062 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,110,565	\$ -	\$ -	\$ 1,110,565
Construction-in-progress	42,374	696,909	14,375	724,908
Total capital assets not being depreciated	1,152,939	696,909	14,375	1,835,473
Capital assets being depreciated				
Buildings and additions	8,811,188	167,591	-	8,978,779
Site improvements	526,062	-	-	526,062
Equipment and furniture	871,918	5,175	-	877,093
Buses and other vehicles	1,320,272	80,364	78,319	1,322,317
Total capital assets being depreciated	11,529,440	253,130	78,319	11,704,251
Less accumulated depreciation for				
Buildings and additions	3,855,302	143,574	-	3,998,876
Site improvements	142,658	19,680	-	162,338
Equipment and furniture	534,551	36,199	-	570,750
Buses and other vehicles	1,016,922	71,004	29,370	1,058,556
Total accumulated depreciation	5,549,433	270,457	29,370	5,790,520
Net capital assets being depreciated	5,980,007	(17,327)	48,949	5,913,731
Net capital assets	\$ 7,132,946	\$ 679,582	\$ 63,324	\$ 7,749,204

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 175,996
Support services	94,461
Total governmental activities	\$ 270,457

Construction Contracts

As of year end, the School District had the following construction contracts in progress:

Project	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
High school boiler installation	\$ 1,922,385	\$ 1,140,768	\$ 306,871
Polevault / long jump	120,454	116,664	3,791
Total	\$ 2,042,839	\$ 1,257,432	\$ 310,662

Note 5 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

	Due From Fund	Due to Fund	Amount
Nonmajor governmental funds	General Fund		\$ 57,368
Nonmajor governmental funds	Nonmajor governmental funds		100
			\$ 57,468

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers during the year were:

	Transfers Out
Transfers in	General Fund
Nonmajor Governmental Funds	\$ 1,195

A transfer was made during the year from the General Fund to the Food Service Fund. This transfer was made to move at risk funding dollars to the Food Service Fund as required.

Note 6 - Short-Term Notes

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 2,000,000	\$ 1,880,000	\$ 2,000,000	\$ 1,880,000

Note 7 - Leases

Capital Leases

The School District has a capital lease for three busses. The future minimum lease payments are as follows:

Year ending June 30,			
2018	\$	28,431	
2019		12,050	
2020		49,000	
Total minimum lease payments		89,481	
Less amount representing interest		(5,151)	
Present value of minimum lease payments		\$ 84,330	

The assets acquired through capital leases are as follows:

Assets		
Buses and other vehicles	\$	237,002
Less accumulated depreciation		(67,948)
Total	\$	169,054

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Notes to the Financial Statements
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Note 8 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation	\$ 2,760,000	\$ -	\$ 555,000	\$ 2,205,000	\$ 555,000
Capital lease	129,837	80,364	125,871	84,330	26,187
State Aid Chargeback	826,744	-	75,158	751,586	338,214
Premium on bonds	14,072	-	2,814	11,258	-
Discount on bonds	(11,310)	-	(1,885)	(9,425)	-
Total	<u>\$ 3,719,343</u>	<u>\$ 80,364</u>	<u>\$ 756,958</u>	<u>\$ 3,042,749</u>	<u>\$ 919,401</u>

General obligation bonds payable at year end, consist of the following:

\$2,405,000 refunding bond due in annual installments of \$220,000 to \$225,000 through May 1, 2021, interest at 4.00% to 4.30% \$ 885,000

\$3,480,000 bond due in annual installments of \$330,000 through May 1, 2021, interest at 4.00% to 4.75% 1,320,000
Total general obligation bonded debt \$ 2,205,000

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 555,000	\$ 95,076	\$ 650,076
2019	550,000	72,876	622,876
2020	550,000	49,336	599,336
2021	550,000	25,136	575,136
Total	<u>\$ 2,205,000</u>	<u>\$ 242,424</u>	<u>\$ 2,447,424</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$123,897 to pay this debt. Future debt and interest will be payable from future tax levies.

Interest expenditures for the fiscal year in the Debt Service Funds were \$118,286.

Capital lease reductions includes \$49,081 of payments that were removed due to the School District returning the equipment to the lessor early.

Deferred Amount on Debt Refunding

The School District issued bonds in 2010 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$29,402. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2021. The balance at June 30, 2017 is \$10,687.

Note 9 - Risk Management

The School District participates in a public entity risk pool through the School Employers Group. With the exception of unemployment described below, this program provides substantially all the insurance needs of the School District. The possibility of additional liabilities in excess of current year contributions exists, however, since the amounts are indeterminable and believed to be immaterial, no contingent liabilities or assets have been recognized on the School District's financial statements.

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The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had unemployment compensation expense for the year of \$79. No provision has been made for possible future claims.

Note 10 - State Aid Chargeback

The School District received funding to run the iSchool, an online alternative education program. The School District contracted with a third-party company to provide services to the students enrolled in iSchool. The contract with the third-party company required 90% of the per-pupil funding to be paid to the third-party company. An audit performed by the Michigan Department of Education (MDE) found inadequate records of qualified teacher interaction with iSchool students. The School District believes the monitoring and maintenance of such records was the responsibility of the third-party company. MDE is requiring the School District to pay back the per-pupil funding.

During the fiscal year the State Superintendent agreed to pause the payments being deducted from the monthly state aid amounts received by the School District through the July 2017 payment.

The liability is included in statement of net position. The annual amount due will be deducted from the School District's future state funding as follows:

Year Ending June 30,	
2018	\$ 338,214
2019	206,686
2020	<u>206,686</u>
 Total	 <u><u>\$ 751,586</u></u>

Subsequent to June 30, 2017 the School District received communications from MDE agreeing to delay any further withholding of funds for six state aid payments to allow the Michigan State Police time to conclude their investigation.

Note 11 - Pension Plans and Post-Employment Benefits

Plan Description

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

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

The System's financial statements are available at www.michigan.gov/mpers-cafr.

Benefits Provided

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

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service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Contributions and Funding Status

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

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

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

Required contributions to the pension plan from the School District were \$1,514,735 for the year ending September 30, 2016.

Net Pension Liability

At June 30, 2017, the School District reported a liability of \$16,829,448 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 rolled forward from September 30, 2015. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2016, the School District's proportionate share percent was 0.0675 percent, which was a decrease of 0.0009 percent since the prior measurement date.

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

For the year ended June 30, 2017, the School District recognized total pension expense of \$1,664,021. The School District's actual contributions for the years ended June 30, 2017, 2016, and 2015 were approximately \$1,042,300, \$1,086,000, and \$1,404,100, respectively.

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Notes to the Financial Statements
June 30, 2017

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

	Deferred Outflows of Resources	Deferred Inflows of Resources	Amount to Amortize
Difference between expected and actual experience	\$ 209,739	\$ (39,886)	\$ 169,853
Changes in assumptions	263,115	-	263,115
Net difference between projected and actual earnings on pension plan investments	279,705	-	279,705
Changes in proportion and differences between employer contributions and proportionate share of contributions	302,731	(179,061)	123,670
Employer contributions subsequent to the measurement date	1,446,018	(516,044)	-
	<u>\$ 2,501,308</u>	<u>\$ (734,991)</u>	<u>\$ 836,343</u>

\$1,446,018 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. \$516,044 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2018 when the related payments reduce the net pension liability.

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

Plan Year Ending September 30	Amount
2017	\$ 192,495
2018	171,177
2019	437,468
2020	35,203
	<u>\$ 836,343</u>

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2015
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year 12

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Notes to the Financial Statements
June 30, 2017

- Mortality: RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (for men, 140% of the table rates for ages 0-79, 133% of the table rates for ages 80-84, and 121.8% of the table rates for ages over 84 were used and for women, 96% of the table rates were used).

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 total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.6273 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (CAFR) (www.michigan.gov/mpsers-cafr).

Long-Term Expected Return on Plan Assets

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	5.9%
Alternative Investment Pools	18.00%	9.2%
International Equity	16.00%	7.2%
Fixed Income Pools	10.50%	0.9%
Real Estate and Infrastructure Pools	10.00%	4.3%
Absolute Return Pools	15.50%	6.0%
Short Term Investment Pools	2.00%	0.0%
	100.00%	

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

Discount Rate

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

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

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

The following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 21,672,093	\$ 16,829,448	\$ 12,746,633

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

Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. See the 2016 MPSERS CAFR (www.michigan.gov/mpsers-cafr).

Payables to the Pension Plan

There were no significant payables to the pension plan that are not ordinary accruals to the district.

Post-Employment Benefits

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPSERS).

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

For the periods July 1, 2016 through September 30, 2016, and October 1, 2016 through June 30, 2017, the employer contribution rate ranged from 6.40% to 6.83% and 5.69% to 5.91%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2017, 2016, and 2015 were approximately \$349,000, \$358,000, and \$197,000, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2017, the School District had contributions in the amount of \$708,074 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 11.70% for the year ending June 30, 2017.

Ithaca Public Schools
Notes to the Financial Statements
June 30, 2017

Note 12 - Gratiot County Community Foundation

The School District has an endowment fund held by the Gratiot County Community Foundation. As of June 30, 2017, the balance was \$59,127. Of this amount, \$16,950 is available to the district, and the remaining is endowed with the Foundation.

Note 13 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Note 14 - Tax Abatements

The School District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by the City of Ithaca. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities;

For the fiscal year ended June 30, 2017, the School District's property tax revenues were reduced by \$9,533 under these programs.

There are no significant abatements made by the School District.

Note 15 - Subsequent Event

Subsequent to June 30, 2017, the School District paid the \$1,880,000 balance on the state aid anticipation note borrowed in August 2016. On August 21, 2017, the School District borrowed \$1,440,000 in a short-term state aid anticipation note. The interest rate is 1.35% and the note will mature August 20, 2018.

Subsequent to June 30, 2017, the School District received proceeds of the 2017 School Improvement Bonds. The par amount of the bonds issued was \$1,300,000. The bonds will mature May 1, 2020 and have a 2.00% interest rate.

REQUIRED SUPPLEMENTARY INFORMATION

Ithaca Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 1,216,839	\$ 1,220,979	\$ 1,224,723	\$ 3,744
State sources	9,437,305	9,414,744	9,419,017	4,273
Federal sources	257,753	254,667	207,489	(47,178)
Interdistrict sources	379,656	386,854	386,854	-
Total revenues	<u>11,291,553</u>	<u>11,277,244</u>	<u>11,238,083</u>	<u>(39,161)</u>
Expenditures				
Instruction				
Basic programs	5,780,685	5,784,800	5,739,870	(44,930)
Added needs	1,499,665	1,517,198	1,466,681	(50,517)
Supporting services				
Pupil	468,398	391,612	361,514	(30,098)
Instructional staff	262,621	234,045	222,683	(11,362)
General administration	267,085	257,598	254,406	(3,192)
School administration	643,852	644,433	632,788	(11,645)
Business	235,288	242,528	243,211	683
Operations and maintenance	1,042,790	1,044,568	1,030,267	(14,301)
Pupil transportation services	577,491	564,310	578,278	13,968
Central	197,053	191,801	181,204	(10,597)
Athletics	374,308	362,723	362,932	209
Community services	44,255	46,767	36,105	(10,662)
Capital outlay	138,600	50,576	95,432	44,856

Ithaca Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Debt service				
Principal	\$ 24,963	\$ 61,131	\$ 76,790	\$ 15,659
Interest and fiscal charges	3,737	17,500	1,841	(15,659)
Total expenditures	<u>11,560,791</u>	<u>11,411,590</u>	<u>11,284,002</u>	<u>(127,588)</u>
Deficiency of revenues over expenditures	<u>(269,238)</u>	<u>(134,346)</u>	<u>(45,919)</u>	<u>88,427</u>
Other Financing Sources (Uses)				
Proceeds from capital leases	\$ 85,000	\$ 85,000	\$ 80,364	\$ (4,636)
Proceeds from sale of capital assets	2,181	17,000	17,200	200
Transfers out	<u>(20,000)</u>	<u>(1,195)</u>	<u>(1,195)</u>	<u>-</u>
Total other financing sources (uses)	<u>67,181</u>	<u>100,805</u>	<u>96,369</u>	<u>(4,436)</u>
Net change in fund balance	(202,057)	(33,541)	50,450	83,991
Fund balance - beginning	<u>1,062,103</u>	<u>1,062,103</u>	<u>1,062,103</u>	<u>-</u>
Fund balance - ending	<u>\$ 860,046</u>	<u>\$ 1,028,562</u>	<u>\$ 1,112,553</u>	<u>\$ 83,991</u>

Ithaca Public Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th)

	June 30,										
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Reporting unit's proportion of net pension liability (%)	0.07%	0.07%	0.07%								
B. Reporting unit's proportionate share of net pension liability	\$ 16,829,448	\$ 16,684,572	\$ 14,557,137								
C. Reporting unit's covered-employee payroll	\$ 5,745,210	\$ 5,721,336	\$ 5,671,383								
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	292.93%	291.62%	256.68%								
E. Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%								

Ithaca Public Schools
Required Supplementary Information
Schedule of the School District's Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. Statutorily required contributions	\$ 1,042,251	\$ 1,086,019	\$ 1,404,115							
B. Contributions in relation to statutorily required contributions	<u>1,042,251</u>	<u>1,086,019</u>	<u>1,404,115</u>							
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
D. Reporting unit's covered-employee payroll	\$ 5,668,353	\$ 5,725,887	\$ 5,739,056							
E. Contributions as a percentage of covered-employee payroll	18.39%	18.97%	24.47%							

Notes:

Benefit changes - There were no changes of benefit terms in 2017.

Changes in assumptions - There were no changes of benefit assumptions in 2017.

OTHER SUPPLEMENTARY INFORMATION

Ithaca Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2017

	Special Revenue Fund	Debt Service Funds		Total Nonmajor Governmental Funds
	Food Service	2010 Refunding	2010 Debt	
Assets				
Cash	\$ 23,553	\$ 52,178	\$ 71,719	\$ 147,450
Due from other funds	-	100	-	100
Due from other governmental units	9,295	-	-	9,295
Inventory	14,067	-	-	14,067
Prepaid items	40,000	-	-	40,000
Total assets	<u>\$ 86,915</u>	<u>\$ 52,278</u>	<u>\$ 71,719</u>	<u>\$ 210,912</u>
Liabilities				
Accounts payable	\$ 13,314	\$ -	\$ -	\$ 13,314
Due to other funds	57,368	-	100	57,468
Accrued expenditures	1,834	-	-	1,834
Accrued salaries payable	1,600	-	-	1,600
Unearned revenue	5,643	-	-	5,643
Total liabilities	<u>79,759</u>	<u>-</u>	<u>100</u>	<u>79,859</u>
Fund Balance				
Non-spendable				
Inventory	14,067	-	-	14,067
Prepaid items	40,000	-	-	40,000
Restricted for				
Debt service	-	52,278	71,619	123,897
Unassigned (deficit)	(46,911)	-	-	(46,911)
Total fund balance	<u>7,156</u>	<u>52,278</u>	<u>71,619</u>	<u>131,053</u>
Total liabilities and fund balance	<u>\$ 86,915</u>	<u>\$ 52,278</u>	<u>\$ 71,719</u>	<u>\$ 210,912</u>

Ithaca Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

	Special Revenue Fund	Debt Service Funds		Total Nonmajor Governmental Funds
	Food Service	2010 Refunding	2010 Debt	
Revenues				
Local sources	\$ 182,644	\$ 275,390	\$ 275,548	\$ 733,582
State sources	18,224	-	-	18,224
Federal sources	289,976	-	64,399	354,375
	<u>490,844</u>	<u>275,390</u>	<u>339,947</u>	<u>1,106,181</u>
Total revenues				
Expenditures				
Current				
Education				
Supporting services	-	139	174	313
Food services	487,015	-	-	487,015
Capital outlay	168	-	-	168
Debt service				
Principal	-	225,000	330,000	555,000
Interest and other expenditures	-	46,160	70,285	116,445
	<u>487,183</u>	<u>271,299</u>	<u>400,459</u>	<u>1,158,941</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	3,661	4,091	(60,512)	(52,760)
Other Financing Sources				
Transfers in	1,195	-	-	1,195
Net change in fund balance	4,856	4,091	(60,512)	(51,565)
Fund balance - beginning	2,300	48,187	132,131	182,618
Fund balance - ending	<u>\$ 7,156</u>	<u>\$ 52,278</u>	<u>\$ 71,619</u>	<u>\$ 131,053</u>

Ithaca Public Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2017

Year Ending June 30,	2010 Refunding Bond	2010 Building Bond	Total
2018	\$ 225,000	\$ 330,000	\$ 555,000
2019	220,000	330,000	550,000
2020	220,000	330,000	550,000
2021	220,000	330,000	550,000
Total	<u>\$ 885,000</u>	<u>\$ 1,320,000</u>	<u>\$ 2,205,000</u>
Principal payments due	May 1st	May 1st	
Interest payments due	May and November 1st	May and November 1st	
Interest rate	4.00% - 4.30%	3.40% - 4.75%	
Original issue	<u>\$ 2,405,000</u>	<u>\$ 3,480,000</u>	



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Education
Ithaca Public Schools
Ithaca, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ithaca Public Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Ithaca Public Schools' basic financial statements, and have issued our report thereon dated October 13, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Ithaca Public Schools' Response to Findings and Corrective Action Plan

Ithaca Public Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and responses and corrective action plan. Ithaca Public Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Yeo & Yeo, P.C.

Alma, Michigan
October 13, 2017

Ithaca Public Schools
Schedule of Findings and Responses
June 30, 2017

GOVERNMENT AUDITING STANDARDS FINDINGS

Finding 2017-001 – Material Weakness – Audit Adjustments

Criteria:	Michigan Department of Education Bulletin 1022 Michigan Public School Accounting Manual states that financial statements and records should be free of errors that could change the users' overall assessment of the entity's finances.
Condition:	A material adjustment was required during the audit to record the capital lease proceeds and related capital outlay of approximately \$80,000 in the general fund for a new lease the School District entered into during the fiscal year. Additionally, over \$600,000 in capital expenditures was not identified and included in construction in progress at fiscal year end. The School District's normal year end closing procedures did not properly identify these adjustments.
Cause and Effect:	The capital lease adjustment and the lack of inclusion of amounts in construction in progress are the result of management oversight. The adjustments required had a material effect on the financial statements.
Recommendation:	We recommend that management evaluate the process used when a new capital lease is entered into to ensure the initial transaction is properly accounted and budgeted for within the fund level financial statements. Additionally, we recommend that the year end procedures related to capital asset identification be reviewed and modified to ensure all projects started, but not completed during the fiscal year are appropriately included in construction in progress.
Views of Responsible Officials:	Management agrees with the finding.
Corrective Action Plan:	See page 7 – 4 for the correction action plan from management.

Ithaca Public Schools
Corrective Action Plan
June 30, 2017



Ithaca Public Schools

Charmian Fletcher
Superintendent

710 N Union Street

989-875-3700

Ithaca, Michigan 48847

Ithaca Public Schools Financial Statements Finding Response

2017-001 Audit Adjustment

Management Response:

The RESD-contracted Business Manager and the Superintendent will review the procedures regarding capital leases and will record the value of any new leases at the time the lease occurs. The Business Manager and Superintendent will also review the procedures for capital asset identification and the recording of construction-in-progress and will create a check-and-balance system to ensure that all costs are recorded at year-end. The review of these procedures will be completed prior to December 31, 2017.

Respectfully submitted by,

A handwritten signature in black ink that reads "Charmian Fletcher". The signature is written in a cursive, flowing style.

Charmian Fletcher
Superintendent