RUDYARD AREA SCHOOLS
Chippewa and Mackinac Counties, Michigan

Annual Financial Report

For the year ended June 30, 2017

Hungerford Nichols CPAs + Advisors
Where good ideas add up

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Hungerford Nichols CPAs + Advisors
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INDEPENDENT AUDITOR'S REPORT

October 24, 2017

The Board of Education
Rudyard Area Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2017 on our consideration of Rudyard Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rudyard Area Schools' internal control over financial reporting and compliance.

Hungerford Nichols

Certified Public Accountants

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Rudyard Area Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

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

    - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

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

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows or resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

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

- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities*: The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

Condensed District-wide Financial Information

The Statement of Net Position provides financial information on the District as a whole.

	2017	2016
Assets		
Current assets	$ 5,890,601	$ 4,178,974
Net Capital assets	5,500,580	3,839,126
Total Assets	**11,391,181**	**8,018,100**
Deferred Outflows of Resources	**1,222,874**	**1,056,994**
Liabilities		
Current liabilities	3,450,636	3,694,634
Long-term liabilities	6,562,701	3,298,442
Net pension liability	8,689,186	8,575,737
Total Liabilities	**18,702,523**	**15,568,813**
Deferred Inflows of Resources	**475,658**	**542,671**
Net Position		
Net investment in capital assets	616,315	969,670
Restricted	462,573	195,608
Unrestricted (deficit)	(7,643,014)	(8,201,668)
Total Net Position	**$ (6,564,126)**	**$ (7,036,390)**

The Statement of Activities presents changes in net position from operating results:

	2017	2016
Program Revenues		
Charges for services	$ 113,927	$ 106,830
Operating grants	2,342,312	2,280,132
General Revenues		
Property taxes	1,677,700	1,516,004
State school aid, unrestricted	4,040,727	4,116,710
Impact aid	282,994	288,512
Schools and roads grant	120,484	129,752
Interest and investment earnings	27,587	7,580
Other	32,096	24,902
Total Revenues	8,637,827	8,470,422
Expenses		
Instruction	4,194,909	4,465,955
Supporting services	2,778,405	2,438,186
Community services	7,009	5,330
Food service	382,776	385,850
Other	239,812	-
Interest on long-term debt	205,468	132,655
Depreciation - unallocated	357,184	326,511
Total Expenses	8,165,563	7,754,487
Increase in net position	472,264	715,935
Net Position, Beginning of Year	(7,036,390)	(7,752,325)
Net Position, End of Year	$ (6,564,126)	$ (7,036,390)

Financial Analysis of the District as a Whole

Total revenues exceeded expenses by $472,264 on the Statement of Activities, increasing total net position from a deficit of $7,036,390 at June 30, 2016 to a deficit of $6,564,126 at June 30, 2017. Unrestricted Net Assets increased from a deficit of $8,201,668 at June 30, 2016 to a deficit of $7,643,014 at June 30, 2017. The District's net pension liability, including deferred outflows and inflows of resources, decreased by $119,444 during the fiscal year.

The District's financial position is the product of many factors.

The District's total revenues were $8.6 million. Property taxes and unrestricted State aid accounted for most of the District's revenues, contributing 66% of the total. The remainder came from State and federal aid for specific programs (27%), fees charged for services, interest earnings and other local sources.

The total cost of all programs was $8.2 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (66 percent). The District's administrative and business services accounted for 10 percent of total costs and, operation and maintenance services accounted for 5 percent of total costs.

The current position of the District's finances can be credited to careful monitoring of economic changes and appropriate cost-cutting measures to maintain programs during these challenging economic times. Despite the ongoing uncertainty of funding revenue from the State of Michigan, the District has endeavored to maintain a positive fund balance.

- The District has conducted a thorough budget analysis and has broken the budget down into specific components and their related expenses. This has allowed the District to prioritize expenses, and also to identify where cuts could occur if necessary.

- Regular updates were provided to the Board of Education during the school year. This information is also presented to the community via the District's website, staff meetings and presentations.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. As a general rule, fund balances from one fund are prohibited from being expended on expenditures of another fund.

The District utilizes two kinds of funds:

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

- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Rudyard Area Schools' funds are described as follows:

Major Funds

- The General Fund is our primary operating fund. The General Fund had total revenues of $7,588,889, total expenditures of $7,034,125, and total other financing uses of $200,000. The General Fund ended the fiscal year with a fund balance of $1,282,878, up from $928,114 at June 30, 2016.

- The District operates one major Capital Projects Fund. This fund, which is responsible for District capital improvement projects, had total revenues of $26,595, with total other financial sources (bond proceeds and premium) of $4,023,167, total expenditures of $2,487,346, and total other financing uses of $64,704 for the fiscal year. The resulting fund balance in the 2016 Construction Fund at year end was $1,497,712.

Nonmajor Funds

- The Food Service Fund, which administers the hot lunch program of the District, had total revenues of $415,202 and total expenditures of $388,006 in 2016-17, increasing its fund balance to $92,320 at June 30, 2017, up from $65,124 at June 30, 2016.

- The District operates two Debt Service Funds to finance the repayment of general obligation bonds. Total revenues were $596,704, total other financing sources of $64,704, and total expenditures of $587,764,. The ending fund balance totaled $149,770 at June 30, 2017, up from $76,126 at June 30, 2016.

- The District operates one non-major Capital Projects Fund which is responsible for District capital improvement projects. Total revenues were $173, with total other financial sources of $200,000, and total expenditures of $20,971, for the fiscal year. The remaining fund balance in the Capital Improvement Fund at year end was $252,727.

- The Scholarship Fund is operated as a Private Purpose Trust Fund of the District. The assets of this fund are being held for the benefit of District students. Balances on hand at June 30, 2017 totaled $84,050.

- The Student Activities Fund is operated as an Agency Fund of the District. The assets of this fund are being held for the benefit of District students. Balances on hand at June 30, 2017 totaled $123,863.

General Fund Budgetary Highlights

During the course of the year, the District continuously reviews the annual operating budget after the June adoption. Changes in the budget are due to the following:

- Changes made in the fall to account for the final student enrollment, which determines how much state foundation grant will be received during the fiscal year.

- Final amendments are made in June for increases in appropriations to prevent budget overruns and reductions in expenses put into place by the administration.

- The final budget for the General Fund anticipated the fund balance to be 13.6% of General Fund expenditures and transfers - the actual results equaled 17.0%.

- The increase in fund balance was due primarily to the District's savings on fuel costs, utilities, building/vehicle maintenance, contracted substitutes, instructional contracted services, special education costs, and technology.

Capital Asset and Debt Administration

Capital Assets

By the end of 2017, the District had a $16,175,312 investment in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.)

At June 30, 2017, the District's investment in capital assets (net of accumulated depreciation), was $5,500,580. Capital asset additions net of retirements and disposals, totaled $1,691,931 for the fiscal year with accumulated depreciation increasing $30,477, leaving a net increase in the book value of capital assets of $1,661,454.

The District's net investment in capital assets, including land, land improvements, buildings and additions, vehicles and furniture and equipment, is detailed as follows:

Land	$ 1,367
Construction in progress	1,119,935
Land improvements	43,806
Buildings and additions	3,910,753
Furniture and equipment	161,712
Vehicles	263,007
Net Capital Assets	$ 5,500,580

Long-term Debt

At year end, the District had $7.4 million in general obligation bonds and other long-term debt outstanding – a net increase of $3,428,075 from June 30, 2016.

The District's bond rating for general obligation debt was affirmed by Standard and Poor's as AA-with a positive outlook. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a District's boundaries.

The District's other obligations include early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in Note G in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program and the Michigan Merit Exam) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are tied to it.

- The district continues to face declining enrollment and enrollment projections estimate the district to be down 25 students in 2017-18. The foundation allowance was budgeted to increase $75 per pupil.

- Cost increases exceeding the general rate of inflation continue to be expected for the District relative to pension contribution obligations in 2017-18 and beyond. These costs represent a significant portion of the District's budget and their rate of increase is a concern to management. Surges in prices of energy commodities such as diesel, gasoline and natural gas have abated and prices have even declined. If this trend is sustained, it may provide some relief from the rate of growth in overall operating costs going forward.

- The District and bargaining units negotiated a three-year agreement expiring at the end of the 2018-19 school year. The current health insurance utilizing MESSA Choices II and ABC II and ABC III as the standard plan with staff paying a portion of the premium. Recent changes to laws regulating the bidding and procurement of health insurance may change the way insurance is provided to the bargaining units.

- Recent months have seen a lot of legislative activity in the areas of teacher tenure, seniority and layoffs, teacher and administrator evaluations, student achievement and employee contributions to health insurance. The District is determined to keep up with all the changes even with a reduction in the administrative work force.

- As the District continues to face the budget challenges of the current and upcoming school years, operating efficiencies and balanced budgets will be necessary. The ability to continue to operate an adequate educational system with continued less revenue and increasing expenditures is the challenge of the future. The Board of Education is currently working on strategic plan goals that include fiscal oversight, fiscal responsibility, and financial planning.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Rudyard Area Schools, 11185 West 2nd Street, Rudyard, 49780.

BASIC FINANCIAL STATEMENTS

RUDYARD AREA SCHOOLS
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash	$ 581
Cash equivalents, deposits and investments (Note B)	4,540,410
Accounts receivable	9,840
Due from other governmental units (Note C)	1,277,325
Inventory	30,672
Prepaid expenses	31,773
Capital assets not being depreciated (Note E)	1,121,302
Capital assets being depreciated, net (Note E)	4,379,278
Total Assets	11,391,181
Deferred Outflows of Resources	
Deferred pension amounts	1,222,874
Liabilities	
Accounts payable	433,412
State aid loan payable (Note F)	1,250,000
Due to other governmental units	203,005
Payroll withholdings payable	28,782
Accrued interest payable	46,006
Salaries payable	358,188
Unearned revenue	328,045
Long-term liabilities (Note G):	
Due within one year	803,198
Due in more than one year	6,562,701
Net pension liability	8,689,186
Total Liabilities	18,702,523
Deferred Inflows of Resources	
Deferred pension amounts	475,658
Net Position	
Net investment in capital assets	616,315
Restricted for:	
Capital outlay	252,727
Debt service	117,526
Food service	92,320
Unrestricted	(7,643,014)
Total Net Position	$ (6,564,126)

See accompanying notes to basic financial statements.

RUDYARD AREA SCHOOLS
Statement of Activities
For the year ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes In Net Position
Governmental Activities				
Instruction	$ 4,194,909	$ -	$ 1,749,683	$ (2,445,226)
Supporting services	2,778,405	62,632	184,350	(2,531,423)
Community services	7,009	-	-	(7,009)
Food service	382,776	51,295	363,901	32,420
Other	239,812	-	-	(239,812)
Interest on long-term debt	205,468	-	44,378	(161,090)
Depreciation - unallocated*	357,184	-	-	(357,184)
Total Governmental Activities	$ 8,165,563	$ 113,927	$ 2,342,312	(5,709,324)
General Revenues				
Taxes:				
Property taxes, levied for general operations				1,089,871
Property taxes, levied for debt service				587,829
State school aid, unrestricted				4,040,727
Impact aid				282,994
Schools and roads grant				120,484
Interest and investment earnings				27,587
Other				32,096
Total General Revenues				6,181,588
Change in Net Position				472,264
Net Position - Beginning of Year				(7,036,390)
Net Position - End of Year				$ (6,564,126)

* This amount excludes direct depreciation expenses of the various programs.

See accompanying notes to basic financial statements.

RUDYARD AREA SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2017

	General	2016 Construction	Nonmajor	Total
Assets				
Cash	$ 581	$ -	$ -	$ 581
Cash equivalents, deposits and investments (Note B)	2,245,845	1,802,467	492,098	4,540,410
Accounts receivable	-	-	9,840	9,840
Due from other governmental units (Note C)	1,274,945	-	2,380	1,277,325
Inventory	27,899	-	2,773	30,672
Prepaid expenditures	22,700	-	9,073	31,773
Total Assets	$ 3,571,970	$ 1,802,467	$ 516,164	$ 5,890,601
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 125,881	$ 304,755	$ 2,776	$ 433,412
State aid anticipation loan payable (Note F)	1,250,000	-	-	1,250,000
Due to other governmental units	200,325	-	2,680	203,005
Payroll withholdings payable	28,782	-	-	28,782
Accrued interest payable	13,762	-	-	13,762
Salaries payable	352,137	-	6,051	358,188
Unearned revenue	318,205	-	9,840	328,045
Total Liabilities	2,289,092	304,755	21,347	2,615,194
Fund Balances (Note A)				
Nonspendable	50,599	-	11,846	62,445
Restricted	-	1,497,712	482,971	1,980,683
Unassigned	1,232,279	-	-	1,232,279
Total Fund Balances	1,282,878	1,497,712	494,817	3,275,407
Total Liabilities and Fund Balances	$ 3,571,970	$ 1,802,467	$ 516,164	$ 5,890,601

See accompanying notes to basic financial statements.

RUDYARD AREA SCHOOLS
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities
June 30, 2017

Total governmental fund balances		$ 3,275,407
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is $16,175,312 and accumulated depreciation is $10,674,732.		5,500,580
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	$ (6,269,074)	
Bond premium, unamortized	(112,903)	
Early retirement incentive	(32,000)	
Accumulated sick leave	(951,922)	(7,365,899)
Accrued interest on long-term debt is not included as a liability in governmental funds.		(32,244)
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(8,689,186)	
Deferred outflows	1,222,874	
Deferred inflows	(475,658)	(7,941,970)
Total net position - governmental activities		$ (6,564,126)

See accompanying notes to basic financial statements.

RUDYARD AREA SCHOOLS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2017

	General	2016 Construction	Nonmajor	Total
Revenues				
Local sources	$ 1,186,842	$ 12,864	$ 641,340	$ 1,841,046
Non-educational entity sources	35,176	-	-	35,176
State sources	5,032,336	13,731	24,130	5,070,197
Federal sources	976,634	-	346,609	1,323,243
Interdistrict sources	357,901	-	-	357,901
Total Revenues	7,588,889	26,595	1,012,079	8,627,563
Expenditures				
Current:				
Instruction	4,346,763	-	-	4,346,763
Supporting services	2,575,233	164,978	-	2,740,211
Community services	7,120	-	-	7,120
Pupil transportation	-	-	-	-
Facilities improvements	-	2,211,864	20,971	2,232,835
Food service	-	-	388,006	388,006
Debt service:				
Principal repayment	60,382	-	440,000	500,382
Interest and fiscal charges	44,627	-	147,764	192,391
Bond issuance costs	-	63,741	-	63,741
Underwriter's discount	-	46,763	-	46,763
Total Expenditures	7,034,125	2,487,346	996,741	10,518,212
Excess (Deficiency) of Revenues Over Expenditures	554,764	(2,460,751)	15,338	(1,890,649)
Other Financing Sources (Uses)				
Bonds issued	-	3,900,000	-	3,900,000
Bond premium	-	123,167	-	123,167
Transfers in	-	-	264,704	264,704
Transfers out	(200,000)	(64,704)	-	(264,704)
Total Other Financing Sources (Uses)	(200,000)	3,958,463	264,704	4,023,167
Net Change in Fund Balances	354,764	1,497,712	280,042	2,132,518
Fund Balances, Beginning of Year	928,114	-	214,775	1,142,889
Fund Balances, End of Year	$ 1,282,878	$ 1,497,712	$ 494,817	$ 3,275,407

See accompanying notes to basic financial statements.

RUDYARD AREA 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			$ 2,132,518
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:			
	Capital outlays	$ 2,147,946	
	Depreciation expense	(357,184)	1,790,762
In the Statement of Activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the assets sold/retired.			(129,308)
Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position.			(3,900,000)
Bond Premium is amortized over the life of the new bond issue on the Statement of Activities.			(112,903)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not effect the Statement of Activities:			
Repayment of general obligation bonds			500,382
Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid.			(13,077)
In the Statement of Net Position, early retirement incentive and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid ($227,996) exceeded the amounts earned ($147,550).			84,446
The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.			119,444
Total changes in net position - governmental activities			$ 472,264

See accompanying notes to basic financial statements.

RUDYARD AREA SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2017

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local sources	$ 1,193,971	$ 1,191,858	$ 1,186,842	$ (5,016)
Non-educational entity sources	25,000	41,733	35,176	(6,557)
State sources	4,973,255	5,116,727	5,032,336	(84,391)
Federal sources	975,697	1,072,970	976,634	(96,336)
Interdistrict sources	486,584	337,635	357,901	20,266
Total Revenues	7,654,507	7,760,923	7,588,889	(172,034)
Expenditures				
Current:				
Instruction:				
Basic programs	3,118,816	3,072,825	3,017,541	55,284
Added needs	1,645,381	1,424,288	1,329,222	95,066
Supporting services:				
Pupil services	366,852	457,449	417,180	40,269
Instructional staff services	63,393	96,014	70,567	25,447
General administrative services	308,137	311,137	258,252	52,885
School administrative services	347,632	352,439	326,127	26,312
Business services	211,898	198,490	197,287	1,203
Operation and maintenance services	374,735	374,404	373,737	667
Pupil transportation services	638,166	630,286	575,425	54,861
Central services	232,125	257,996	222,942	35,054
Other supporting services	111,817	127,817	133,716	(5,899)
Community services	11,441	10,171	7,120	3,051
Debt service	20,696	105,011	105,009	2
Total Expenditures	7,451,089	7,418,327	7,034,125	384,202
Excess of Revenues Over Expenditures	203,418	342,596	554,764	212,168
Other Financing Sources (Uses)				
Transfers out	(200,000)	(200,000)	(200,000)	-
Net Change in Fund Balances	3,418	142,596	354,764	212,168
Fund Balances, Beginning of Year	928,114	928,114	928,114	-
Fund Balances, End of Year	$ 931,532	$ 1,070,710	$ 1,282,878	$ 212,168

See accompanying notes to basic financial statements.

RUDYARD AREA SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2017

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash equivalents, deposits and investments	$ 84,050	$ 123,863
Liabilities		
Accounts payable	$ -	$ 6,492
Due to student groups	-	117,371
Total Liabilities	-	$ 123,863
Net Position		
Held in trust for:		
Individuals and organizations	$ 84,050	

See accompanying notes to basic financial statements.

RUDYARD AREA SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the year ended June 30, 2017

	Private Purpose Trust Fund
Additions	
Interest earnings	$ 342
Deductions	
Endowment activities - scholarships	3,200
Change In Net Position	(2,858)
Net Position, Beginning of Year	86,908
Net Position, End of Year	$ 84,050

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies

Rudyard Area Schools was organized under the School Code of the State of Michigan, and services a population of approximately 661 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Rudyard Area Schools (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-wide and Fund Financial Statements

District-wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the non-fiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of inter-fund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District's net position is reported in three parts: net investment in capital assets, restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental 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. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with State law and accounting principles generally accepted in the United States of America.

Governmental Funds

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

Major Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

The *2016 Construction Fund* is used to record the bond proceeds, investment earnings and the disbursement of the monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The 2016 Construction Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code

Nonmajor Funds:

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.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Fund maintained by the District is the Food Service Special Revenue Fund.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record the bond proceeds, investment earnings and the disbursement of the monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Trust Funds—Trust Fund net position and results of operations are not included in the district-wide financial statements. Trust funds are reported using the economic resources measurement focus.

Agency Funds—Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

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

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Rudyard Area Schools has also adopted budgets for its Special Revenue Funds. A school district's Budget Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Rudyard Area Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Business Manager to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory/Prepaid Expenditures

Inventories are valued at cost (first-in, first-out), and are accounted for using the consumption method. Inventories of the General Fund consist of teaching and custodial supplies, while inventories of the Food Service Fund consist of food, and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at fair value at the date of donation.

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

Land improvements, buildings and additions, furniture and equipment, and vehicles are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	20-50 years
Buildings and additions	30-50 years
Furniture and equipment	5-20 years
Vehicles	5-10 years

9. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. 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, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

10. Early Retirement Incentive/Accumulated Sick Leave

Early retirement incentive and accumulated sick leave at June 30, 2017 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2017, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to $32,000 and $951,922, respectively.

11. Retirement Plan

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

12. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has only one type of item that qualifies for reporting in this category: the deferred outflows relating to the recognition of net pension liability on the financial statements.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as in inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements.

13. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

14. Fund Balance

The District had adopted Governmental Accounting Standards Board (GASB) Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.
- Assigned – resources that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes. Assigned fund balance does not lapse at year end.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As of June 30, 2017, Rudyard Area Schools had not established a policy for its use of unrestricted fund balance amounts; it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used , but reserves the right to selectively spend unassigned resources first to defer the use of other classified funds.

15. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

16. Estimates

The preparation of the 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 amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.

- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally charted bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.

- Securities issued or guaranteed by agencies or instrumentalities of the United States government.

- United States government or Federal agency obligation repurchase agreements.

- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.

- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.

- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2017 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	$ 4,540,410
Fiduciary Funds:	
Trust and Agency Funds	207,913
	$ 4,748,323

Cash Equivalents and Deposits

Depositories actively used by the District during the year are detailed as follows:

1. Central Savings Bank
2. Old Mission Bank

Cash equivalents consist of bank public funds checking and savings accounts, and deposits consist of certificates of deposit.

June 30, 2017 balances are detailed as follows:

Cash equivalents	$ 3,501,164
Deposits	37,000
	$ 3,538,164

Custodial Credit Risk Related to Cash Equivalents
Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits were $3,538,164, and the bank balance was $3,880,601. Of the bank balance, $270,260 was covered by federal depository insurance, $2,094,876 was fully collateralized by Central Savings Bank, and $1,515,465 was uninsured.

Investments

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

Michigan Liquid Asset Fund and MAX Class	$ 1,186,375
Jackson National Life Investment Annuity	23,784
	$ 1,210,159

The Michigan Liquid Asset Fund Plus (MILAF) is an external pooled investment fund that includes qualified investments in accordance with the applicable sections of the School Code. MILAF is not regulated or registered with the Securities Exchange Commission and reported the same value of the pool shares as the fair value of the District's investments at June 30, 2017. The MILAF Fund is rated AAAm by Standard and Poor's. The District is also a beneficiary of a Single Life 10 Year Period Certain Annuity with Jackson National Life Insurance Company. The annuity benefit is $491.40 per month, and is certain to go through April 20, 2021. Jackson National Life Insurance Company has a Standard and Poor's rating of AA.

Custodial Credit Risk Related to Investments
Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business. At June 30, 2017, the District had no investments that were subject to custodial credit risk.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District's investment policy does not specifically address credit risk, but minimizes its credit risk by limiting investments to the types allowed by the State.

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

Concentration of Credit Risk
The District minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District’s investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

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

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a “blended count” of District pupil membership in February 2016 and October 2016. The 2016-17 "Foundation Allowance" for Rudyard Area Schools was $7,511 for 686 “Full Time Equivalent" students, generating $4,839,632 in state aid payments to the District of which $881,790 was paid to the District in July and August 2017 and included in “Due From Other Governmental Units” of the General and Food Service Funds of the District.

Property taxes for the District are levied December 1 (the tax lien date) by the City of St. Ignace, the Charter Township of Kinross, and the Townships of Brevort, Dafter, Rudyard, Marquette, and Trout Lake, and are due 75 days after levy dates. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Chippewa and Mackinac, through their Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill “Local Enhancement Millage” which must be shared between all local districts in each respective county intermediate district.

As Rudyard Area Schools' electors had previously (May, 2013) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2016. The District also levied 4.62 mills for debt service purposes in 2016, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted “Local Enhancement Millage” nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

The District is subject to tax abatements granted by the Counties of Chippewa and Mackinac with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assists in the building of new facilities, and promotes the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term up to 12 years as determined by the local unit of government. The agreements entered into by each local unit include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. The tax abated property taxes are calculated by applying half the local property tax millage rate on the total IFT taxable value. This amounts to a reduction in property tax revenue of approximately 50%.

For the year ended June 30, 2017, the District’s property tax revenues were reduced by approximately $2,344 under these agreements.

Note D – Interfund Transfers

Operating transfers between funds to allocate expenditures during the year ended June 30, 2017 were as follows:

	Transfers In	Transfers Out
Major Funds		
General Fund:		
Capital Projects Fund:		
Capital Improvement Fund	$ —	$ 200,000
Capital Projects Fund:		
2016 Construction Fund:		
2016 Debt Service Fund		64,704
Total Major Funds	—	264,704
Nonmajor Funds		
Capital Projects Fund:		
Capital Improvement Fund:		
General Fund	200,000	—
Debt Service Fund:		
2016 Debt Service Fund:		
2016 Construction Fund	64,704	—
Total Nonmajor Funds	264,704	—
Total All Funds	$ 264,704	$ 264,704

The transfer out of the General Fund to the Capital Improvement Fund was made to set aside funding to support the future improvement projects in the District. The transfer out of the 2016 Construction Fund to the 2016 Debt Service Fund was to assist with cash flow needs to make the required debt service payment.

Note E – Capital Assets

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

	Balances July 1, 2016	Additions	Deductions	Balances June 30, 2017
Capital assets not being depreciated:				
Land	$ 1,367	$ -	$ -	$ 1,367
Construction in process	-	1,119,935		1,119,935
Total capital assets not being depreciated	1,367	$ 1,119,935	$ -	1,121,302
Capital assets being depreciated:				
Land improvements	141,225	$ -	$ -	141,225
Buildings and improvements	12,370,126	827,612	456,015	12,741,723
Furniture and equipment	1,308,243	35,421	-	1,343,664
Vehicles	662,420	164,978	-	827,398
Total capital assets being depreciated	14,482,014	$ 1,028,011	$ 456,015	15,054,010
Less accumulated depreciation for:				
Land improvements	90,358	$ 7,061	$ -	97,419
Buildings and improvements	8,891,134	266,543	326,707	8,830,970
Furniture and equipment	1,146,372	35,580	-	1,181,952
Vehicles	516,391	48,000	-	564,391
Total accumulated depreciation	10,644,255	$ 357,184	$ 326,707	10,674,732
Total capital assets being depreciated, net	3,837,759			4,379,278
Net Capital Assets	$ 3,839,126			$ 5,500,580

Depreciation expense for the District was $357,184. The District determined that is was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note F – Short-term Debt

On August 20, 2015, the District borrowed $1,885,000 in anticipation of State aid at .78% which was repaid on August 18, 2016. On August 22, 2016, the District borrowed $1,250,000 (due on August 21, 2017) in anticipation of State aid (interest at .92%). Interest expense on the loans for the year was $13,762.

	Debt Outstanding July 1, 2016	Debt Added	Debt Retired	Debt Outstanding June 30, 2017
State Aid Anticipation Loans	$ 1,885,000	$ 1,250,000	$ 1,885,000	$ 1,250,000

Note G – Long-term Debt

Changes in long-term debt for the year ended June 30, 2017 are summarized as follows:

	Debt Outstanding July 1, 2016	Debt Added	Debt Retired	Debt Outstanding June 30, 2017
General obligation bonds:				
2010 Refunding Bonds	$ 2,110,000	$ —	$ 395,000	$ 1,715,000
2011 Building and Site QZAB Bonds	759,456	—	60,382	699,074
2016 Building and Site Bonds	—	3,900,000	45,000	3,855,000
Bond premium	—	123,167	10,264	112,903
Early retirement incentive	36,000	25,000	29,000	32,000
Accumulated sick leave	1,032,368	147,550	227,996	951,922
	$ 3,937,824	$ 4,195,717	$ 767,642	$ 7,365,899

Long-term debt outstanding at June 30, 2017 is comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
$4,230K 2010 General Obligation Refunding:				
Annual maturities of $410K to $440K	May 1, 2021	3.50 – 4.00	$ 1,715,000	$ 410,000
$1,037,555 2011 Building and Site QZAB Bonds:				
Annual maturities of $62,934 to $93,550	May 1, 2026	5.30 – 6.40	699,074	62,934
$3,900,000 2016 Building and Site:				
Annual maturities of $60,000 to $515,000	May 1, 2028	1.00 – 3.00	3,855,000	60,000
Bond premium			112,903	10,264
Other Obligations				
Early retirement incentive			32,000	30,000
Accumulated sick leave			951,922	230,000
			$ 7,365,899	$ 803,198

The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 532,934	$ 193,464	$ 726,398
2019	565,485	175,180	740,665
2020	593,887	153,583	747,470
2021	616,438	132,378	748,816
2022	564,092	110,297	674,389

Year Ending June 30	Principal	Interest	Total
2023	$ 572,494	$ 98,830	$ 671,324
2024	585,896	83,750	669,646
2025	599,298	68,252	667,550
2026	608,550	52,338	660,888
2027	515,000	30,900	545,900
2028	515,000	15,450	530,450
	$ 6,269,074	$ 1,114,422	$ 7,383,496

Note H – Retirement Plan

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (the "System"), is a cost sharing, multiple employer, state-wide, defined benefit public employee retirement system 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 the ex-officio member.

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

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

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

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

Membership

At September 30, 2016, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	187,546
Survivor benefits	17,274
Disability benefits	6,187
Total	**211,007**
Inactive plan members entitled to but not yet receiving benefits:	**17,868**
Active plan members:	
Vested	104,159
Non-vested	103,486
Total	**207,645**
Total plan members	**436,520**

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, 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 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.

Pension Reform 2010

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

Pension Reform 2012

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

Option 1 members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members; 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Deferred Compensation plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in the 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Deferred Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012 and is shown below:

Option 1: FAC x total years of service x 1.5%
Option 2: FAC x 30 years of service x 1.5% + FAC x years of service beyond 30 x 1.25%
Option 3: FAC x years of service as of transition date x 1.5% + FAC x years of service after transition date x 1.25%
Option 4: FAC as of transition date x years of service as of transition date x 1.5%

A MIP member who became a member of MPSERS prior to July 1, 2010 may retire at:

- age 46 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service; or
- age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Pension Plus member who became a member of MPSERS after June 30, 2010 may retire at age 60 with 10 or more years of credited service.

A Basic Plan member may retire at:

- age 55 with 30 or more years of service; or
- age 60 with 10 or more years of service.

There is no mandatory retirement age.

Early Retirement

A member may retire with an early permanently reduced pension:

- after completing at least 15 but less than 30 years of credited service; and
- after attaining age 55; and
- with credited service in each of the 5 school years immediately preceding the pension effective date.

Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired; first year 100%, next year 102%, etc.).

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Forms of Payment

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An application may select only one of the following options.

Straight Life Pension – the Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of the retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiary.

Survivor Options - Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary predeceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision). If, however, a retiree was single at the time of retirement and subsequently married, the retiree can request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

100% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

50% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

Equated Plan – The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

Post-Retirement Adjustments

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

On January 1, 1990, pre-October 1, 1981 retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement benefits.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

Contributions and Funded Status

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided". Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB) (See Note I). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 21 year period for the 2015 fiscal year.

Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 10.53% to 11.70% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State Aid payments equal to the amounts actually billed by the Office of Retirement Services (ORS). Employer contribution requirements for pension and retiree healthcare, including the MPSERS UAAL Stabilization and one-time prepayment rates, ranged from 20.96% to 25.78% of covered payroll. Plan member contribution rates range from 0.0% to 7.0% of covered payroll.

The District's contributions to MPSERS under all pension plans for the year ended June 30, 2017, inclusive of the MSPERS UAAL Stabilization, totaled $927,365.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2016, there were 11,113 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2016. The average remaining length of a contract was approximately 5.7 years for 2016. The short-term receivable was $20.7 million and the discounted long-term receivable was $52.8 million at September 30, 2016.

MPSERS Plan Net Pension Liability (in thousands)

Total Pension Liability	$	68,970,001
Plan Fiduciary Net Position		43,460,579
Net Pension Liability	$	25,509,422
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		63.01%
Net Pension Liability as a Percentage of Covered Employee Payroll		299.75%
Total Covered Payroll	$	8,510,200

Proportionate Share of Reporting Unit's Net Pension Liability

At June 30, 2017, the District reported a liability of $8,689,186 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. The District's proportion was .03511045% at September 30, 2015, and .03482754% at September 30, 2016.

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

For the year ended June 30, 2017, the District recognized pension expense of $667,944. At June 30, 2017, the 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**
Difference between expected and actual experience	$ 108,290	$ 20,594
Changes of assumptions	135,849	—
Net difference between projected and actual earnings on pension plan investment earnings	144,414	—
Changes in proportion and differences between District contributions and proportionate share of contributions	—	455,064
District contributions subsequent to the measurement date*	834,321	—
Total	$ 1,222,874	$ 475,658

*This amount, reported as deferred outflows of resources related to pensions resulting from Reporting Unit contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year ended June 30	Amount
2018	$ (91,818)
2019	(103,162)
2020	88,136
2021	19,739

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 Return:	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5% - 12.3%, including wage inflation of 3.5%
Cost-of-Living Adjustments:	3% annual non-compounded for MIP members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males, and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2015 valuation. The total pension liability as of September 30, 2016 is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.

- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.6273 for non-university employers, 1.2456 for university employers].

- Recognition period for assets in years is 5.000.

- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Investments

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

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine the 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 those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	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%
District's proportionate share of the net pension liability	$ 11,189,485	$ 8,689,186	$ 6,581,194

Michigan Public School Employees Retirement System (MPSERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System September 30, 2016 Comprehensive Annual Financial Report, available here: (www.michigan.gov/documents.orsschools/MPSERS_CAFR_2016_Final_510211_7.pdf).

Payables to the Michigan Public School Employee Retirement System (MPSERS)

Payables to the pension plan totaling $125,428 at June 30, 2017 arise from the normal legally required contributions based on the accrued salaries payable at year-end, expected to be liquidated with expendable available financial resources.

Note I – Other Postemployment Benefits

Plan Description and Employee Contributions

Benefit provisions of the post-employment healthcare plan are established by State statute which may be amended. Retirees have the option of health coverage, which, through 2016, is currently funded on a cash disbursement basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

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

Public Act 300 of 2012 granted all active members of MPSERS a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their Section 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) account no later than their first pay date after February 1, 2013.

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare.

Members who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the healthcare funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet the eligibility requirements may request a refund of their contributions.

Under Public Act 300 of 2012, the State no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2% employee contribution into a Section 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years of age at termination or $1,000 for participants who are less than 60 years of age at termination.

Employer contributions

Required contributions for post-employment health care benefits ranged from 6.40% to 8.78% of covered payroll for the fiscal year ended June 30, 2017. The District's required and actual contributions to the Plan for retiree health care benefits for the fiscal years ending June 30, 2017, 2016, and 2015 were $175,092, $184,786, and $91,332 respectively.

Post-employment Plan Status

At September 30, 2016, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole was $12.8 billion. The MPSERS net assets available for these benefits were $3.5 billion leaving an unfunded actuarial accrued liability of $9.3 billion. The funded ratio of actuarial liability was 27.5%; covered payroll totaled $8.3 billion, and unfunded actuarial liability was 112.6% of covered payroll.

Note J – Risk Management and Benefits

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for property loss, errors and omissions, workers' compensation, health benefits, and dental and vision benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

There were no significant reductions in insurance coverage in fiscal 2016-17, and as of year ended June 30, 2017, there were no material pending claims against the District.

Note K – Stewardship, Compliance and Accountability

The District has an unrestricted net position deficit of $7,643,014 and a total net position deficit of $6,564,126, as of June 30, 2017. These deficit net positions result primarily from the net pension liability of $7,941,970 (net of deferred outflows and inflows of resources related to the pension plan).

Note L – Commitments

On July 19, 2016, the District sold $3,900,000 of school building and site bonds. At June 30, 2017, unspent balances committed to these construction projects totaled $1,497,712, which are expected to be fully expended by the year ended June 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

RUDYARD AREA SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2017

	Year Ended June 30, 2015	Year Ended June 30, 2016	Year Ended June 30, 2017
District's proportion of the net pension liability	0.03786923%	0.03511045%	0.03482754%
District's proportionate share of the net pension liabilty	$ 8,341,267	$ 8,575,737	$ 8,689,186
District's covered-employee payroll	$ 3,216,921	$ 2,812,738	$ 2,928,067
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	259.29%	304.89%	296.76%
Plan fiduciary net position as a percentage of the total pension liability	66.15%	62.92%	63.01%

The amounts presented for each fiscal year were determined as of Setember 30 of the preceding year.

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

RUDYARD AREA SCHOOLS
Required Supplementary Information
Schedule of District Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2017

	Year Ended June 30, 2015	Year Ended June 30, 2016	Year Ended June 30, 2017
Contractually required contribution	$ 952,317	$ 857,375	$ 927,365
Contributions in relation to the contractually required contribution	952,317	857,375	927,365
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 2,907,078	$ 2,817,142	$ 2,929,128
Contributions as a percentage of covered employee payroll	32.76%	30.43%	31.66%

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2016-17.

Changes of assumptions: There were no changes of benefit assumptions in 2016-17.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

RUDYARD AREA SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2017

	Special Revenue	Debt Service
	Food Service	2010
Assets		
Cash equivalents, deposits and investments	$ 87,296	$ 79,025
Accounts receivable	9,840	-
Due from other governmental units	2,380	-
Inventory	2,773	-
Prepaid expenditures	9,073	-
Total Assets	$ 111,362	$ 79,025
Liabilities and Fund Balances		
Liabilities		
Accounts payable	$ 471	$ 123
Due to other governmental units	2,680	-
Salaries payable	6,051	-
Unearned revenue	9,840	-
Total Liabilities	19,042	123
Fund Balances		
Nonspendable	11,846	-
Restricted	80,474	78,902
Total Fund Balances	92,320	78,902
Total Liabilities and Fund Balances	$ 111,362	$ 79,025

2016	Capital Projects Capital Improvement	Total
$ 70,900	$ 254,877	$ 492,098
-	-	9,840
-	-	2,380
-	-	2,773
-	-	9,073
$ 70,900	$ 254,877	$ 516,164
$ 32	$ 2,150	$ 2,776
-	-	2,680
-	-	6,051
-	-	9,840
32	2,150	21,347
-	-	11,846
70,868	252,727	482,971
70,868	252,727	494,817
$ 70,900	$ 254,877	$ 516,164

RUDYARD AREA SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2017

	Special Revenue	Debt Service
	Food Service	2010
Revenues		
Local sources:		
Property taxes	$ -	$ 467,024
Interest earnings	6	1,639
Food sales	51,295	-
Total local sources	51,301	468,663
State sources	17,292	6,838
Federal sources	346,609	-
Total Revenues	415,202	475,501
Expenditures		
Current:		
Food service	388,006	-
Facilities improvements	-	-
Support services business	-	-
Pupil transportation	-	-
Debt service:		
Principal repayment	-	395,000
Interest and fiscal charges	-	77,725
Total Expenditures	388,006	472,725
Excess (Deficiency) of Revenues Over Over Expenditures	27,196	2,776
Other Financing Sources (Uses)		
Transfers in	-	-
Net Change in Fund Balances	27,196	2,776
Fund Balances, Beginning of Year	65,124	76,126
Fund Balances, End of Year	$ 92,320	$ 78,902

	Capital Projects	
2016	Capital Improvement	Total
$ 120,805	$ -	$ 587,829
398	173	2,216
-	-	51,295
121,203	173	641,340
-	-	24,130
-	-	346,609
121,203	173	1,012,079
-	-	388,006
-	20,971	20,971
-	-	-
-	-	-
45,000	-	440,000
70,039	-	147,764
115,039	20,971	996,741
6,164	(20,798)	15,338
64,704	200,000	264,704
70,868	179,202	280,042
-	73,525	214,775
$ 70,868	$ 252,727	$ 494,817

RUDYARD AREA SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2017

	Budget	Actual	Variance
Revenues			
Local sources	$ 46,450	$ 51,301	$ 4,851
State sources	17,251	17,292	41
Federal sources	344,871	346,609	1,738
Total Revenues	408,572	415,202	6,630
Expenditures			
Current:			
Food service	420,624	388,006	32,618
Net Change in Fund Balances	(12,052)	27,196	39,248
Fund Balances, Beginning of Year	65,124	65,124	-
Fund Balances, End of Year	$ 53,072	$ 92,320	$ 39,248

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

RUDYARD AREA SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2017

	Balances July 1, 2016	Additions	Deductions	Balances June 30, 2017
Assets				
Cash equivalents, deposits and investments	$ 118,611	$ 169,396	$ 164,144	$ 123,863
Liabilities				
Accounts payable	$ 3,637	$ 2,855	$ -	$ 6,492
Due to student groups	114,974	166,541	164,144	117,371
Total Liabilities	$ 118,611	$ 169,396	$ 164,144	$ 123,863