

**SAND CREEK COMMUNITY SCHOOLS
SAND CREEK, MICHIGAN**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**WITH
INDEPENDENT AUDITORS' REPORT**

CONTENTS

	<u>PAGE</u>
Management's Discussion and Analysis	i – xv
Independent Auditors' Report	1 – 3
Basic Financial Statements:	
Government-wide Financial Statements	
Statements of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Balance Sheet – Governmental Funds	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Fiduciary Net Position – Fiduciary Funds	10
Statements of Changes in Fiduciary Net Position – Fiduciary Funds	11
Notes to Financial Statements	12 – 31
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	33
Schedule of the Reporting Unit's Contributions	34
Schedule of Reporting Unit's Proportionate Share of Net Pension Liability	35
Notes to the Required Supplementary Information Related to Net Pension Liability	36
Other Additional Information	
Capital Projects Fund	
Balance Sheet	38
Statement of Revenues, Expenditures and Change in Fund Balance	39
Nonmajor Governmental Funds	
Combining Balance Sheet	40
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	41

CONTENTS

	<u>PAGE</u>
Special Revenue Funds	
Combining Balance Sheet	42
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	43
Debt Service Fund	
Combining Balance Sheet	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	45
Nonexpendable Trust Funds	
Combining Balance Sheet	46
Combining Statement of Revenues, Expenses and Changes in Net Position	47
Expendable Trust and Agency Fund	
Combining Balance Sheet	48
Combining Statement of Revenues, Expenses and Changes in Net Position	49
Agency Fund	
Statement of Changes in Assets and Liabilities	50
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	51 – 53

Sand Creek Community Schools is a K-12 school district located in Lenawee County, Michigan. The Management's Discussion and Analysis, a requirement of the Governmental Accounting Standards Board Statement 34 (GASB 34), is intended to be the Sand Creek Community School Districts' Management's discussion and analysis of the financial results for the fiscal year ended June 30, 2016. This reporting model provides detailed explanation of specific items included in the financial statements. A comparative analysis of fiscal year ended June 30, 2015 to the prior year has been included in this discussion.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

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

The statements report the District's net position, which is the difference between assets and liabilities, and changes in them. The change in net assets (or its net position) provides the reader a tool to assist in determining the District's financial health. Over time, increases or decreases in the School District's net position – as reported in the Statement of Activities – are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. The reader will need to consider other nonfinancial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

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

Fund Financial Statements

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

For the period ended June 30, 2016, the District utilized the General Fund and the Building and Site Sinking Fund for reporting of operational and capital improvements. The Debt Service Fund was used to report the districts two debt retirement funds for the 2000 Bond and the 2012 Tech and Bus Bond. Principal and interest payments for both of these bonds are being made with tax levy dollars and will be paid off in 2020 and 2019, respectively. One Special Revenue Fund (non-major fund) the District is reporting is the School Lunch Fund which reports the food service activities.

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

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

As discussed above, the statement of net position provides the perspective of the District as a Whole. Table 1 provides a summary of the District's Net Position as of June 30, 2016. The School District's net position was \$6,025,636 at June 30, 2016, excluding the GASB 68 net position liability effect. Capital assets, net of related debt totaling \$4,956,893 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of some of these assets. Most of this long-term debt will be repaid with voter approved bond millage revenue by May 2020.

The District had an unrestricted fund balance of \$954,396 (excluding GASB 68), which represents the accumulated results of all past year's operations. Restricted funds are reported separately because the School District is limited in their ability to use these net assets for day-to-day operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2016

GASB 68 – Net Pension Liability

GASB Statement No. 68 requires all Michigan school districts to record their proportionate share of the state's net pension liability on their government-wide statements. The details of the GASB 68 requirement and how this figure was calculated is covered in more detail in the footnotes of this audit report. However, the net pension liability that must be recorded on the government-wide statements for Sand Creek Community Schools is \$12,674,557. This figure drastically changed the statements for the District putting them into a negative net position of (\$5,403,853). This is an estimated liability figure as it is calculated in part based on annual investment earnings. Dependent on market activity, this figure could increase or decrease every year. The GASB 68 effect with the net pension liability figure is included in the statements below.

Table 1

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Assets		
Current Assets	\$ 2,550,611	\$2,677,457
Noncurrent Assets	<u>6,052,034</u>	<u>6,235,082</u>
Total Assets	<u>\$ 8,602,645</u>	<u>\$8,912,539</u>
<u>Deferred Outflows of Resources</u>		
Contributions to pension plan	\$ 1,321,052	\$ 1,360,050
<u>Liabilities</u>		
Current Liabilities	\$ 1,547,212	\$ 1,660,166
Noncurrent Liabilities	<u>13,689,287*</u>	<u>12,884,302*</u>
Total Liabilities	<u>\$15,236,499</u>	<u>\$14,544,468</u>
Deferred Inflows of Resources:		
Unearned revenue	15,067	4,149
Deferred inflows of pension resources	<u>75,984</u>	<u>1,268,120</u>
Total Deferred Inflows	91,051	1,272,269
<u>Net Position</u>		
Invested in capital assets, net of related debt	4,956,893	4,783,828
Restricted for debt service	68,769	120,549
Restricted for Food Service	19,765	43,556
Unrestricted	<u>(10,475,093)</u>	<u>(10,492,080)</u>
Total Net Position	<u>(\$ 5,403,853)</u>	<u>(\$ 5,544,148)</u>

*Noncurrent Liability balance reflects \$12,674,557 (2015/16) and \$11,470,024 (2014/2015) in recorded net pension liability, as required by GASB 68.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2016

Table 2

Statement of Activities:

For the fiscal year ended June 30, 2016, the District wide results of operations as compared to June 30, 2015, were:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Revenues:		
General Revenues:		
Property taxes levied for general operations	\$ 242,895	\$ 232,557
Property taxes levied for debt service	378,414	377,054
Property taxes levied for capital projects	220,240	219,460
Investment earnings	2,811	3,355
Intermediate Sources	427,541	404,236
State of Michigan unrestricted foundation aid	7,013,614	7,031,493
Contributions	50	6,700
Other general revenues	<u>3,189</u>	<u>37,932</u>
Total General Revenues	<u>8,288,754</u>	<u>8,312,786</u>
Program Revenues:		
Operating Grants:		
Federal	398,846	405,071
State of Michigan	229,389	186,705
Other operating grants	<u>0</u>	<u>0</u>
Total Operating Grants	<u>628,235</u>	<u>591,776</u>
Charges for Services:		
Food service	171,262	184,096
Athletics	53,396	52,794
Instruction	68,966	48,565
Other	<u>13,144</u>	<u>9,486</u>
Total Charges for Services	<u>306,768</u>	<u>294,941</u>
Capital Grants:		
Transportation	<u>0</u>	<u>0</u>
Total Capital Grants	-0-	-0-
Total Revenues	<u>9,223,757</u>	<u>9,199,503</u>

SAND CREEK COMMUNITY SCHOOLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2016**

Expenses:

Instruction	5,448,312	5,546,982
Support services	2,373,533	2,485,185
Food service	487,210	502,017
Athletics	268,794	277,278
Interest Expense	-0-	-0-
Interest on long-term debt including amortization of discount	59,600	71,810
Capital Outlay	37,534	65,298
Unallocated Depreciation	400,736	385,158
Other	<u>7,743</u>	<u>2,490</u>
Total Expenses	9,083,462	9,336,218

Change in Net Assets	140,295	(136,715)
Beginning Net Assets	<u>(5,544,148)</u>	<u>(5,407,433)</u>
Ending Net Assets	<u>(\$5,403,853)</u>	<u>(\$ 5,544,148)</u>

*See Note 8 for further explanation and detail on the Deferred Inflows/Outflows for Pension Cost and the Net Pension Liability.

As shown in Table 2 above, the cost of all of *the District activities as a whole* this year was \$9,083,462. This figure includes the net cost of the Deferred Inflows and Outflows of Resources which was \$1,245,068, part of the GASB 68 effect. (More about these figures are included in the footnotes.) The total net position for this year was \$140,295. Certain activities received partial funding from those who benefited from the programs, or by other grants or categorical. The remaining costs were paid by a combination of the \$841,549 in levied property taxes and \$7,013,614 in unrestricted state aid, along with other additional revenue such as interest and miscellaneous contributions.

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

Analysis of Financial Position

During the fiscal year ended June 30, 2016 the District's total governmental activities had a combined fund balance of \$1,330,369, a decrease from last year's combined fund balance of \$8,995. This combined fund balance consists of the District's major funds: General Fund, Capital Project Sinking Fund; and the District's non-major funds: Debt Service Fund and the Food Service Fund. The Food Service Fund is considered a Special Revenue Fund, and is combined into one Non-major Governmental Fund on the District's statements.

- In the General Fund, which is the District's principal operating fund, the fund balance increased by \$61,112 and had an ending fund balance of \$1,010,400, or 12.50% of expenditures. Of this balance, \$38,049 are prepaid expenses for the 2016/2017 fiscal year and are therefore considered non-spendable funds and not available for general education operations. If you exclude these funds, the district's unassigned fund balance is \$972,351 or 12.09%.

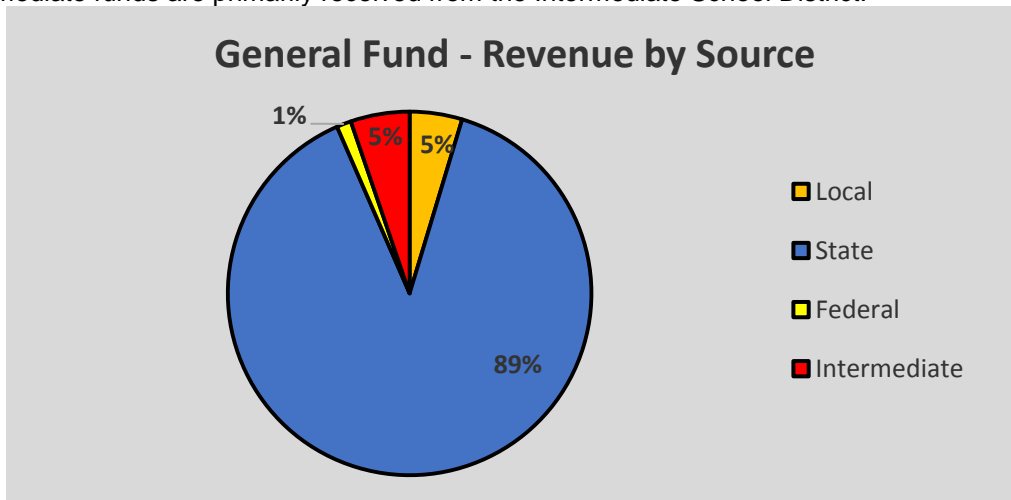
**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2016**

- The Non-major Fund ending fund balance decreased by a total of \$96,221; a \$23,844 decrease in the Special Revenue Fund (food service) and a \$72,377 decrease in the Debt Service Fund. The final balance of the Food Service Fund was \$19,776 and the final balance of the Debt Service Fund was \$60,334. The Debt Service fund balance consists of tax revenue to pay off two separate voter approved bonds which is detailed later within these statements. The goal of the Food Service program at the District continues to be to maintain a fund balance and be self-supporting. Over half of the decrease in the Food Service Fund balance was due to indirect costs of \$15,000 paid to the General Fund.
- The Districts' Capital Project Sinking Fund had an ending balance of \$232,570, an increase of \$26,088 for the fiscal year. This sinking fund levy was approved by voters through the 2018 and is used to pay for capital improvements and major repairs/upgrades to the district's buildings and grounds. These annual projects are discussed and recommended to the board by the district's building committee.

It is the district management's goal to protect the fund balance while providing effective ongoing educational operations. The District's goal is to maintain at least an 8% fund balance. The board and management have done very well at maintaining and even growing its fund balance over the last few years. However, a declining enrollment, which is representative of the state-wide decline in enrollment, is beginning to effect the district's bottom line. In the last 15 years, the District enrollment has declined by close to 85 students. This represents over \$600,000 in lost revenue for just the 2015/2016 fiscal year alone. The cumulative effect of this loss in revenue year after year amounts to millions of dollars in lost revenue. Declining enrollment is just one of the significant financial events that will continue to have an effect on the District's fund balance if this trend does not turn around.

Revenues

As illustrated in the following graph, The State of Michigan is the primary source of funds for the District. The State provides districts with a per pupil foundation grant, which is used for the overall operation of the district. During the 2015-2016 fiscal year, the District received \$7,391 per pupil. In addition to this per pupil funding, the State also provides other grants and categorical grants that are restricted to specific purposes. Property taxes collected on non-residential homes are received by the District and are included in Local Sources. Federal funds are restricted for specific purposes. Intermediate funds are primarily received from the Intermediate School District.



Foundation Allowance (State Aid)

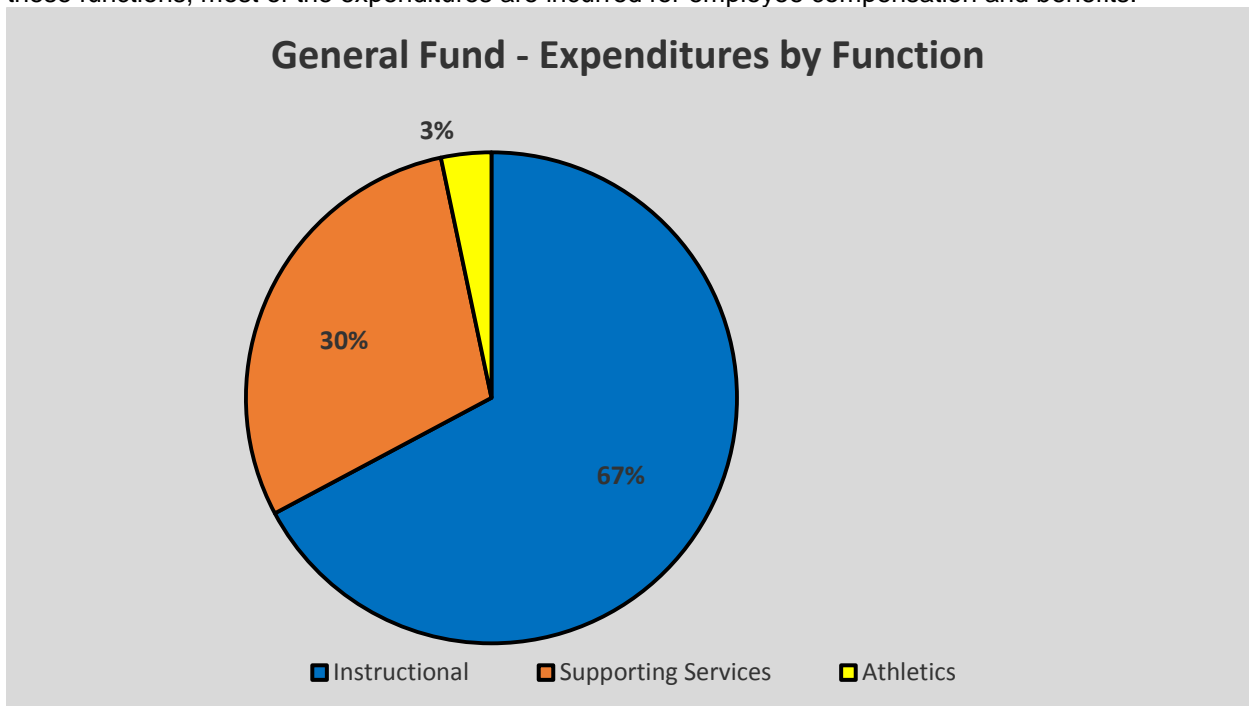
**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2016**

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

As stated earlier, Sand Creek Community Schools has been experiencing an enrollment decline over the last 15 years. The preliminary enrollment number for the coming 2016/17 year is 880, down another 14 students and another \$105,000 in lost revenue. The overall reduction in student count and the state funding that goes with it continues to put a financial strain on the district budget. As shown in the chart above, 89% of the districts revenue comes from the state, with much of that in the form of per-pupil funding. Therefore, the enrollment decline is a huge concern for the district board and management. The district has been extremely careful and cautious with budget planning, spending and negotiations and this diligence has allowed the fund balance to grow in the most recent years. The diligence paid off again this past fiscal year as another \$61,112 was added to our general fund balance. If the enrollment projections for the coming year hold true, the district will have to once again sharpen its pencil tin order to maintain its current fund balance. This will be a topic of discussion and planning in the coming months for the District management and board.

Expenses

As illustrated in the graph below, the majority of the district's expenditures is in instructional services and the second highest area in the various functions that support the instructional staff. Within these functions, most of the expenditures are incurred for employee compensation and benefits.



The District's current agreement with the Sand Creek Education Association (teacher's union) expires August 2017. Both the teacher's salary system and the extracurricular pay schedule have now eliminated the step salary system and replaced it with a new, leading edge salary agreement. These new salary agreements include performance pay schedules that are based on proposed raises and noncumulative (off-schedule) stipends based on a combination of fund balance level,

MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2016

current salary level and performance evaluations. We are very excited and proud of the success we have experienced with our new, ground-breaking salary agreement. With this performance pay system, the district's teachers have a performance goal to strive for that is linked to a financial reward. This provides personal satisfaction and accomplishment as well provides a direct benefit to our students in the classroom.

As teachers that have been grandfathered in with higher salaries from the previous contract retire, they are replaced with teachers placed into our new salary agreement. This has a cumulative positive effect on the district's budget. The district had two teachers retire at the end of the 2014/2015 year with only one of these positions being replaced due to enrollment needs. This change resulted in a savings to the district of approximately \$140,000. MESSA health insurance premium rates increased by almost 13% this past fiscal year. The district continues to save money by paying only 80% of the total health costs, with the employee paying the other 20%. The state retirement system has undergone many changes with the addition of new plans for newer members, resulting in varying rates. The state legislature continues to help districts by reducing the cost effect of increasing rates by using state funds to stabilize these rates. While this controls our retirement costs, it also uses state funds that could have otherwise been used for revenue increases.

The district did not make any major capital purchases within the general fund during the 2015/2016 school year. The purchase of a bus was delayed and is currently not budgeted for the 2016/2017 school year either. Sand Creek Community Schools is a rural district with all students being either transported by personal vehicles or on one of the district's 12 bus routes. The district management understands the necessity of keeping up the bus fleet and spreading out the cost of purchasing and replacing buses. A two-year pause in a bus purchase is the limit to how long the District can put off this expenditure. Therefore, the 2016-17 budget and enrollment will be watched closely in hopes of adding a bus purchase amendment during the year. Energy costs dropped this year also. Fuel costs decreased by 30%, or \$16,000, from the 2014/2015 fiscal year which was reflective of the lower prices at the pump. Utility costs also decreased substantially from the 2014/2015 year, by almost 42% or \$28,000! This past winter was a fairly mild one which resulted in this overall decrease to the district's heat and electric costs. The district entered into a new Business Services Cooperative Agreement with the Lenawee Intermediate School district this past year, saving close to \$70,000 in costs. This cooperative agreement involves sharing the district's Chief Financial Officer with another local county district thereby splitting this cost in half. The cost savings achieved through retirements, energy and utility cost reductions and the new cooperative business services agreement were imperative in the district ending the 2015/2016 year with a balanced budget. Even more so, when you consider the fact that the district's overall revenue was down by 25 students or almost \$185,000 this past year.

The District continues to make every effort to contain and reduce costs through attrition, efficiency and cooperative service agreements while maintaining a competitive educational program to draw more students. However, with an overall decrease in the number of students both state-wide and county-wide, the efforts to increase enrollment in the district continues to be a struggle. The net results of the 2015/2016 school year was an increase in the general fund balance of \$61,112.

Excluding the effect of GASB 68 on its statements, the School District had a government-wide net position increase of \$191,690. The assets of the School District exceeded its liabilities at the close of the fiscal year by \$6,025,636 (net position), excluding the effect of GASB 68.

General Fund and Special Revenue Fund Operations

The district's revenues from General Fund operations exceeded expenses by \$61,112 for the fiscal year ended June 30, 2016. This increase to the general fund balance was better than had been predicted in the final amended budget, which called for a \$22,836 decrease. The original budget

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2016**

adopted by the board in June 2015 showed a \$245,425 hit to the fund balance. The positive ending can be attributed to savings achieved by retirements, cooperative service agreements, lower energy costs and an overall effort by the board and administration to halt spending wherever possible to maintain the district's fund balance. District management has always maintained that to operate at its capacity and best efficiency it needs 1,000 students. As the enrollment decreases and gets further away from this goal, the district's struggles to make ends meet will increase.

The district was very pleased to end the year with this small increase, considering the district's enrollment drop of 25 students. At the end of the fiscal year, the fund balance for the School District's General Fund was \$1,010,400, or 12.50%.

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

The Lunch Fund (Food Service program) continues to support itself. The fund had a net decrease at the end of the 2015/16 school year of \$23,791. Of this decrease amount, \$15,000 was transferred to the district's general fund to recognize the indirect costs that support the food service program. Enrollment declines have an effect on the overall food sales and new nutrition guidelines continue to increase food costs. The district's free and reduced eligibility percentage stands near 45% and looks to be closer to 50% district wide for the 2016/17 year. The Universal Free Breakfast program in our elementary program continues to be very successful, providing a free nutritious breakfast to over 80% of our elementary students. Lunch prices were increased for the 2016/17 school year to help offset these costs.

Our food service management group works hard to use government commodities to provide nutritional and appetizing meals for our students and staff and keep costs down, while now abiding by federal regulations that limit choices and challenge staff to create menu choices that appeal to students. Food and labor costs have both increased since the inception of these new federal nutrition requirements. Healthy food is more expensive (as the saying goes) and more labor intensive to prepare and this has proven true for our food service staff. The district's food and milk sales to students and adults amounted to \$171,468 for the fiscal year, down almost \$13,000 from the prior year. The state and federal meal funding totaled \$313,091, an increase of \$6,831 from the prior year and reflective of an overall increase free and reduced rate and poverty level within the district.

The food service program had an overall decrease to the fund balance of \$23,791.

Long-Term Bonded Debt and Long-Term Notes

The District had \$1,335,000 in long-term debt as of June 30, 2016. During the fiscal year ended June 30, 2016, total principal payments on long-term debt were \$330,000. All of the district's long-term debt is covered below and in the following pages of this report in further detail.

	Principal Balance	Additions	Principal Payments	Principal Balance
	<u>June 30, 2015</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
2009 Refunding Bonds	\$1,055,000		190,000	\$ 865,000
2012 Bond	<u>610,000</u>	<u> </u>	<u>140,000</u>	<u>470,000</u>
Total long-term bond obligations	\$1,665,000	\$ 0	\$330,000	\$1,335,000

VOTED BOND DEBT

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

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2000 Voted Bond for the High School Addition and Renovation, is based on the taxable valuation of all properties: homestead and non-homestead. The School District levied 2.9 mills on a taxable value of almost \$75 million in the 2000 tax roll. Between 2001 and 2008, the rate was reduced to 2.4 mills because of a sufficient increase in the taxable value of the school district. The District's taxable valuation has maintained and even increased slightly over the last few years, which has allowed us to continue to decrease this rate. In 2014, the millage rate was further reduced to 1.95 mills. During the fiscal year ended 2016, this 1.95 mills levied on a taxable valuation of \$119,680,317 generated revenue of \$232,815.

In September 2009, the district refunded these 2000 School Building and Site Voted Bonds. The district anticipates passing on a total reduced millage of .57 mills, and total net savings of \$87,660, to its constituent taxpayers over the remaining years of the bond.

TECHNOLOGY AND BUS BONDS

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

SAND CREEK COMMUNITY SCHOOLS

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2016**

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2012 School Technology and Bus Bonds, is based on the taxable valuation of all properties: homestead and non-homestead. The district levied 1.22 mills beginning with the 2012 tax roll and continues to levy this same amount of mills. Final bond maturity is May 1, 2019.

During the fiscal year ended 2016, this 1.22 mills levied on a taxable valuation of \$119,680,317 generated revenue of \$145,598.

Net Investment in Capital Assets

At the end of fiscal year 2016, the School District had \$12,196,069 invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, 6,144,035 in depreciation and amortization have been taken over the years. Our capital assets currently have a net book value of \$6,052,034.

	<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>
Capital assets	\$11,978,381	\$217,688	-0-	\$12,196,069
Less: Accumulated depreciation and amortization	<u>(5,743,299)</u>	<u>(400,736)</u>	<u>-0-</u>	<u>(6,144,035)</u>
Net investment capital outlay	<u>\$ 6,235,082</u>	<u>(\$183,048)</u>	<u>-0-</u>	<u>\$6,052,034</u>

Economic Factors, Enrollment and Budget Comparisons

The two main factors affecting the School District's revenue picture during the 2015-2016 fiscal year, and any fiscal year, were the State Foundation Allowance and Student Enrollment. Another important revenue factor is the Property Tax levied for General Operations on the District's non-homestead property value. These three revenue areas, and the effect they had on the District's fiscal year ended 2016, are explained in more detail below.

State of Michigan Unrestricted Aid (Net State Foundation Grant)

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

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

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. For the 2015-2016 fiscal year, the Sand Creek Community School's foundation allowance was \$7,391, an increase of \$140 per student from the prior year. This increase was the result of a minimum foundation increase approved as part of the 2015/16 School Aid Package. Sand Creek Schools is at the minimum funding level. The state legislature also continues to fund the MPSERS Cost Offset funding to help with the cost burden of the retirement rates paid by the district. This additional funding amounted to \$61,552 this past year.

Student Enrollment:

The District's student enrollment for the fall count of 2015-16 was 894 students. The school district has experienced an overall decline in enrollment. In September 2005 the enrollment was 975 and in September 2008 it had fallen to 913. Overall enrollment had remained fairly steady until this past year, when the district experienced a drop of 25 students from the fall 2014 count of 919. The following summarizes fall student enrollments in the past thirteen years:

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

A preliminary enrollment figure of 885 for the 2016-2017 school year shows another decrease of 9 students. At the close of the 2015/2016 school year, the district graduated a class of 78 seniors and enrolled a 2016-17 kindergarten class of 68. The enrollment decline is a concern for the district, but is reflective of the overall state enrollment decline.

The district continues to be a very popular school of choice district within the county. In the 2015-2016 school year, 423 guest students from other county school districts were accepted for enrollment at Sand Creek Schools. This amounts to 47% of the district's total enrollment in 2015-2016. In the past 15 years since "Schools of Choice" began at the school district, the number of choice students has continued to grow each year. However, the number of resident students has decreased.

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

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

The District's non-homestead property revenue for the 2015-16 fiscal year was \$242,895.

Original vs. Final Budget:

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

As a matter of practice, Sand Creek Community Schools amends its budget periodically during the school year. The June 27, 2016 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

General Fund Revenues:

Total Revenues - Original Budget	\$ 7,599,397
Total Revenues - Final Budget	<u>8,161,602</u>
Increase in Budgeted Revenues	\$ 562,205

The District's final, actual general fund revenue was \$8,135,052; which was less than the final budget by \$26,550, a difference of only .03% percent from final budget. This difference came mainly from \$23,882 in federal revenue that was carried over into the 2016-17 school year and therefore not reflected in this year's actual revenue.

The final revenue budget was more than originally projected by \$562,205. Actual revenues were larger than budgeted due to the recording of the UAAL Rate Stabilization revenue for 2015/2016. The District does not include these MPERS 147c UAAL funds in the original budget. Because this categorical line item is an "in and out"; meaning it comes in as a revenue line item on our State Aid Status report and then is paid back out to ORS the following month, the District waits to adjust both the revenue and expenditures for this same amount in the final budget amendment of the year. The amount of the 147c UAAL funding for 2015/2016 was \$497,141, making up almost all of the difference between the original and final approved budgets. Another change was the increase in special education funding from the Lenawee Intermediate School district amounting to a \$69,000 increase in budgeted revenue.

General Fund Expenditures:

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

Total Expenditures Original Budget	\$ 7,835,938
Total Expenditures Final Budget	<u>8,165,454</u>
Increase in Budgeted Expenditures	\$ 329,516

The final expenditure budget was more than originally projected by \$329,516. As previously stated above in the revenue section, the district did not originally budget for the effect of the UAAL Rate Stabilization 147c on either revenue or expense. As directed by the Michigan Department of Education, the district amended its revenue and expenditure budget to account for this state aid line item. The effect on the expenditure budget was an increase of \$497,141. Offsetting decreases in the budgets were due to one retirement not replaced, amounting to savings of around \$85,000. The district takes a conservative approach to preparing a budget based on what we know at that time. Often the first amendment to the budget includes many changes and the net effect is usually a gain to fund balance based on the conservative approach to the original budget.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2016**

The School District's final, actual expenditures were \$8,083,760, less than final budget by \$81,694, or 1%. With the decreasing enrollment across the state and uncertain state aid revenue, the district has been very conservative with its spending. The district will continue this careful watch of spending through the upcoming fiscal year. A final budget revision was done in June. The philosophy of the district is to be conservative with the budgeting while being as accurate as possible, but also allowing room in the budget for the unknowns. We came in very close to accurate with being only 1% off the final budget figure.

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

The General Fund had total revenues of \$8,135,052 and total expenditures of \$8,083,760 with an ending fund balance of \$1,010,400, with an unassigned fund balance of \$972,351. The unassigned ending fund balance was 12.09%.

**NEXT YEAR'S BUDGETS
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

For the 2016/2017 school year the non-homestead millage remained at 18.00 mills. Levying the full amount on these properties is crucial in order for the district to receive the full Foundation Allowance per pupil. The non-homestead millage was renewed by the District's voters in November 2013 for seven years and a Headlee rollback is not expected in the current economic climate.

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

Under state law, the District cannot assess additional property tax revenue for general operations. As a results, District funding is heavily dependent on the State's ability to fund local school operations and on its total student enrollment. Since over 80% of the total General Fund revenues are from the foundation allowance, school districts are in a position to compete for its share of a dwindling enrollment base. Since Sand Creek Community Schools has an enrollment that has been declining, and is projected to decline again in the 2016/2017 school year, this is a matter of concern for the District.

In summary, the overall financial strength of the District increased during the 2015/2016 school year by \$62,112. Decreasing enrollment and the unpredictability of state funding are concerns for the district. Management will continue to exercise caution with all decisions having an impact on the financial position of the District. Management will focus their attention on maintaining and improving the quality of the educational programs and atmosphere of the district to retrain and attract families and students to the district. At the same time, careful evaluation of all expenditures over the next year will be a priority by management while seeking to reduce expenditures where possible. New revenues from local sources such as the formation of endowments, grants and other sources ill continue to be a goal of Management going forward. In spite of these challenging obstacles, Management remains committed to excellence in serving our students and community.

Contacting the District's Financial Management

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

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



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sand Creek Community Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the schools district's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Sand Creek Community Schools, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through xi and page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Prior-Year Comparative Information

We have previously audited Sand Creek Community Schools 2015 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information in our report dated October 15, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2016 on our consideration of Sand Creek Community School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Sand Creek Community School's internal control over financial reporting and compliance.

***Baker, Eaton, & Owen
Adrian, Michigan***

October 17, 2016

**SAND CREEK COMMUNITY SCHOOLS
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

	Governmental Activities	
	2016	2015
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 1,096,225	\$ 1,214,524
Accounts receivable	17,427	18,459
Due from other governmental units	1,396,125	1,388,243
Inventory	2,785	2,826
Prepaid expenses	38,049	53,405
	2,550,611	2,677,457
Non Current Assets		
Capital assets	12,196,069	11,978,381
Less: Accumulated depreciation	(6,144,035)	(5,743,299)
	6,052,034	6,235,082
Total assets	\$ 8,602,645	\$ 8,912,539
Deferred outflows of resources:		
Deferred outflows for pension cost	\$ 1,321,052	\$ 1,360,050
LIABILITIES:		
Accounts payable	\$ 13,422	\$ 12,840
State aid loan payable	114,354	271,452
Interest payable	8,135	12,162
Salaries payable	600,183	616,280
Accrued expenses	427,100	382,306
Current portion of long term obligations	355,000	330,000
Current portion of compensated absences	29,018	35,126
	1,547,212	1,660,166
Noncurrent liabilities:		
Noncurrent portion of long term obligations	980,000	1,335,000
Net pension liability	12,674,557	11,470,024
Compensated absences	34,730	79,278
	13,689,287	12,884,302
Total liabilities	15,236,499	14,544,468
Deferred inflows of resources:		
Unearned revenue	15,067	4,149
Deferred inflows of pension resources	75,984	1,268,120
Total deferred inflows	91,051	1,272,269
NET POSITION:		
Invested in capital assets, net of related debt	4,956,893	4,783,827
Restricted for:		
Debt service	68,469	120,549
Food Service	19,765	43,556
Unrestricted	(10,475,093)	(10,492,080)
Total net position	\$ (5,403,853)	\$ (5,544,148)

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

**SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

Functions/programs	Expenses	Program Revenues		Total Governmental Activities	
		Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Position	
				2016	2015
Governmental activities:					
Instruction	\$ 5,448,312	\$ 68,966	\$ 315,144	\$ (5,064,202)	\$ (5,263,225)
Support services	2,373,533	-	-	(2,373,533)	(2,483,426)
Food services	487,210	171,262	313,091	(2,857)	(11,661)
Athletics	268,794	53,396	-	(215,398)	(224,484)
Interest on long term debt including amortization of discount and costs of issuance of bonds	59,600	-	-	(59,600)	(71,810)
Capital outlay	37,534	-	-	(37,534)	(65,298)
Unallocated depreciation	400,736	-	-	(400,736)	(385,158)
Other	7,743	13,144	-	5,401	55,561
Total governmental activities	<u>\$ 9,083,462</u>	<u>\$ 306,768</u>	<u>\$ 628,235</u>	<u>\$ (8,148,459)</u>	<u>\$ (8,449,501)</u>
General revenues:					
Property taxes, levied for general purposes				\$ 242,895	\$ 232,557
Property taxes, levied for debt service				378,414	377,053
Property taxes, levied for capital projects				220,240	219,460
Investment earnings				2,811	3,356
Intermediate Sources				427,541	404,235
State sources				7,013,614	7,031,493
Contributions				50	6,700
Other				3,189	37,932
Total general revenues				<u>8,288,754</u>	<u>8,312,786</u>
Change in net position				140,295	(136,715)
Net position, beginning of year				<u>(5,544,148)</u>	<u>(5,407,433)</u>
Net position, end of year				<u>\$ (5,403,853)</u>	<u>\$ (5,544,148)</u>

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

**SAND CREEK COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

	General Fund	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds 2016	Total Governmental Funds 2015
ASSETS:					
Cash and cash equivalents	\$ 751,618	\$ 239,565	\$ 105,042	\$ 1,096,225	\$ 1,214,524
Accounts receivable	1,250	-	-	1,250	17,775
Due from other funds	23,048	323	-	23,371	367
Due from other governmental units	1,342,909	-	3,100	1,346,009	1,339,066
Due from other fiduciary funds	16,177	-	-	16,177	684
Inventory	-	-	2,785	2,785	2,826
Prepaid expenditures	38,049	-	-	38,049	53,405
Total assets	<u>\$ 2,173,051</u>	<u>\$ 239,888</u>	<u>\$ 110,927</u>	<u>\$ 2,523,866</u>	<u>\$ 2,628,647</u>
LIABILITIES:					
Accounts payable	\$ 13,422	\$ -	\$ -	\$ 13,422	\$ 9,173
State aid loan payable	114,354	-	-	114,354	271,452
Due to other funds	294	29	23,048	23,371	367
Due to other fiduciary funds	-	-	-	-	3,667
Interest payable	-	-	-	-	1,889
Salaries payable	600,183	-	-	600,183	616,280
Accrued expenditures	422,801	-	4,299	427,100	382,306
Total liabilities	<u>1,151,054</u>	<u>29</u>	<u>27,347</u>	<u>1,178,430</u>	<u>1,285,134</u>
Deferred inflows of resources:					
Unearned revenue	11,597	-	3,470	15,067	4,149
Total deferred inflows	<u>11,597</u>	<u>-</u>	<u>3,470</u>	<u>15,067</u>	<u>4,149</u>
FUND BALANCES:					
Nonspendable					
Inventory	-	-	2,785	2,785	2,826
Prepaid expenditures	38,049	-	-	38,049	53,405
Restricted					
School lunch program	-	-	16,980	16,980	40,730
Capital projects	-	239,859	-	239,859	213,745
Debt service	-	-	60,334	60,334	132,711
Assigned					
Community service	-	-	11	11	64
Unassigned					
General fund	972,351	-	-	972,351	895,883
Total fund balance	<u>1,010,400</u>	<u>239,859</u>	<u>80,110</u>	<u>1,330,369</u>	<u>1,339,364</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 2,173,051</u>	<u>\$ 239,888</u>	<u>\$ 110,927</u>	<u>\$ 2,523,866</u>	<u>\$ 2,628,647</u>

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

**SAND CREEK COMMUNITY SCHOOLS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

	2016	2015
Total governmental fund balances	\$ 1,330,369	\$ 1,339,364
Amount reported for governmental activities in the statement of net position are different because:		
Capital assets used in the governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital asset is	12,196,069	11,978,381
The accumulated depreciation is	(6,144,035)	(5,743,299)
Deferred outflows of pension resources restatement	1,321,052	1,360,050
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
	50,116	49,177
Deferred inflows of pension resources	(75,984)	(1,268,120)
Net proportionate share of pension liability	(12,674,557)	(11,470,024)
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable	(1,335,000)	(1,665,000)
Interest payable on long term debt	(8,135)	(10,273)
Compensated absences	(63,748)	(114,404)
Net position of governmental activities	<u>\$ (5,403,853)</u>	<u>\$ (5,544,148)</u>

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

SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds 2016	Total Governmental Funds 2015
REVENUES:					
Local sources:					
Property taxes	\$ 242,895	\$ 220,240	\$ 378,414	\$ 841,549	\$ 829,070
Investment earnings	967	802	1,042	2,811	3,356
Contributions	50	-	-	50	6,700
Food sales	-	-	171,262	171,262	184,096
Athletics	53,396	-	-	53,396	52,794
Other	82,384	294	2,622	85,300	81,207
Total local sources	379,692	221,336	553,340	1,154,368	1,157,223
State sources	7,223,560	-	19,443	7,243,003	7,218,198
Federal sources	105,198	-	293,648	398,846	405,071
Intermediate sources	426,602	-	-	426,602	418,364
Total revenues	8,135,052	221,336	866,431	9,222,819	9,198,856
EXPENDITURES:					
Current:					
Instruction	5,432,594	-	-	5,432,594	5,484,117
Support services	2,383,915	-	-	2,383,915	2,453,717
Food service activities	-	-	493,350	493,350	498,777
Athletic activities	267,251	-	-	267,251	274,473
Other expenditures	-	-	2,564	2,564	2,490
Capital outlay	-	255,222	-	255,222	241,456
Debt service:					
Interest	-	-	61,738	61,738	73,825
Total expenditures	8,083,760	255,222	557,652	8,896,634	9,028,855
Excess (deficiency) of revenues over (under) expenditures	51,292	(33,886)	308,779	326,185	170,001
Other financing sources (uses):					
Prior period adjustments	(5,180)	-	-	(5,180)	14,696
Sale of school property	-	-	-	-	80
Redemption of principal	-	-	(330,000)	(330,000)	(310,000)
Transfers in	15,000	60,000	-	75,000	-
Transfers out	-	-	(75,000)	(75,000)	-
Total other financing sources	9,820	60,000	(405,000)	(335,180)	(295,224)
Change in fund balances	61,112	26,114	(96,221)	(8,995)	(125,223)
Fund balances:					
Beginning of year	949,288	213,745	176,331	1,339,364	1,464,587
End of year	<u>\$ 1,010,400</u>	<u>\$ 239,859</u>	<u>\$ 80,110</u>	<u>\$ 1,330,369</u>	<u>\$ 1,339,364</u>

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

**SAND CREEK COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
Change in fund balances total governmental funds	\$ (8,995)	\$ (125,223)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures in the statement of revenues, expenditures and changes in fund balances. These costs are allocated over their estimated useful lives as depreciation in the statement of activities:		
Depreciation expense	(400,736)	(385,158)
Capital outlay	217,688	176,158
Accrued interest on bonds and other long term obligations is recorded in the statement of activities when incurred; it is not recorded in the governmental funds until it is paid:		
Accrued interest payable - beginning of year	10,273	12,288
Accrued interest payable - end of year	(8,135)	(10,273)
Pension resources restatement		
Deferred outflows of pension resources restatement - end of year	1,321,052	1,360,050
Deferred outflows of pension resources restatement - beginning of year	(1,360,050)	(916,336)
Deferred inflows of pension resources - end of year	(75,984)	(1,268,120)
Deferred inflows of pension resources - beginning of year	1,268,120	-
Net proportionate share of pension liability - beginning of year	11,470,024	12,200,946
Net proportionate share of pension liability - end of year	(12,674,557)	(11,470,024)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		
Special education revenue from the Lenawee Intermediate School - end of year	50,116	49,177
Special education revenue from the Lenawee Intermediate School - beginning of year	(49,177)	(63,306)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.		
	330,000	310,000
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in governmental funds:		
Accrued compensated absences - beginning of year	114,404	107,510
Accrued compensated absences - end of year	(63,748)	(114,404)
Change in net position of governmental activities	\$ 140,295	\$ (136,715)

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

**SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
ASSETS:				
Cash and cash equivalents	\$ 166,257	\$ 146,852	\$ 313,109	\$ 289,623
Investments	27,600	-	27,600	27,395
Due from governmental funds	-	-	-	3,667
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 193,857</u>	<u>\$ 146,852</u>	<u>\$ 340,709</u>	<u>\$ 320,685</u>
LIABILITIES AND NET POSITION:				
LIABILITIES:				
Due to student groups	\$ -	\$ 130,675	\$ 130,675	\$ 121,082
Due to governmental funds	-	16,177	16,177	684
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	-	146,852	146,852	121,766
NET POSITION:				
Unrestricted	(42)	-	(42)	-
Reserved for:				
Scholarships - expendable	6,387	-	6,387	7,473
Scholarships - nonexpendable	187,512	-	187,512	191,446
	<hr/>	<hr/>	<hr/>	<hr/>
Total net position	<u>\$ 193,857</u>	<u>\$ -</u>	<u>\$ 193,857</u>	<u>\$ 198,919</u>

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

**SAND CREEK COMMUNITY SCHOOLS
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	Private Purpose Trust Funds	
	2016	2015
ADDITIONS:		
Contributions	\$ 5,937	\$ 6,337
Investment earnings	1,151	1,067
	7,088	7,404
DEDUCTIONS:		
Scholarships awarded	12,150	12,475
	12,150	12,475
Change in net position	(5,062)	(5,071)
NET POSITION:		
Beginning of year	198,919	203,990
End of year	\$ 193,857	\$ 198,919

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-Wide And Fund Financial Statements

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

Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the Statement of Net Position. Amounts reported in the funds as receivable from or payable to Fiduciary Funds are included in the Statement of Net Position as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The District first utilizes restricted resources to finance qualifying activities.

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

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

The District does not allocate indirect costs.

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

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

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

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

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

This policy and the procedures promulgated under it supersede all previous regulations regarding the District's fund balances and reserve policies.

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

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

Special revenue funds are used to account and report the proceeds of *specific revenue sources* that are *restricted or committed* to expenditure for *specific purposes* other than debt service or capital projects.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the District's purposes.

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

Nonspendable fund balance

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

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

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Restricted fund balance

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

Committed fund balance

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

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

Assigned fund balance

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

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

Unassigned fund balance

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

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

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

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The District reports the following major governmental funds:

The *General Fund*

The *Capital Projects Fund*

Other Non-major Funds

The *Special Revenue Fund*

The *Debt Service Fund*

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

Expendable Trust and Agency Fund

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

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

Nonexpendable Trust Fund

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Accrual Method

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

Modified Accrual Method

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

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

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on pupil membership counts taken in February and September of 2015.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Other Accounting Policies

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

The District reports its investments in accordance with GASB Codification I50 Para 105-119, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

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

The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District has adopted a deposit and investment policy in accordance with GASB Codification I50 Para 105-119.

2. Property Taxes

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

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund (Non-homestead)	18.0000
Capital Projects (Homestead & Non-homestead)	1.8454
Capital Projects (Homestead & Non-homestead)	1.2200
Debt Fund (Homestead & Non-homestead)	2.0000

3. Accounts Receivable

Accounts receivable at June 30, 2016 have been determined to be collectible in full.

4. Inventories and Prepaid Expenditures

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

5. Capital Assets

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

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

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

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

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

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Use of Estimates

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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unearned revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source; receipts that exceeded 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Pension

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds.

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

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Two functions in the General Fund had actual expenditures exceeding budget but expenditures overall did not exceed appropriations.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2016. The District does not consider these amendments to be significant.
7. The following schedule displays the expenditure functions exceeding budgeted amounts:

General Fund	Appropriations	Actual	Budget Variance
Athletics	\$ 255,517	\$ 267,251	\$ (11,734)

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 3. DEPOSITS AND INVESTMENTS – CREDIT RISK

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, \$1,297,224 of the District's bank balance of \$1,547,224 was exposed to custodial credit risk.

Investments

The District's investment is a certificate of deposit with Old National Bank of \$27,600 at June 30, 2016.

Interest Rate Risk: The District will minimize interest rate risk, which is the risk that the market value of securities invested will fall due to changes in market interest rates, by: structuring the investments so that they mature to meet cash requirements for ongoing operations and thus avoiding the need to sell in the open market; and by investing in shorter-term securities.

NOTE 4. INTERGOVERNMENTAL RECEIVABLES

Due from governmental units June 30, 2016 consist of the following:

<u>Intergovernmental:</u>	
State Aid	\$ 1,317,616
Federal Revenue	19,421
Lenawee Intermediate School District	8,972
	<u>\$ 1,346,009</u>

NOTE 5. CAPITAL ASSETS

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

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Assets not being depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Total assets not being depreciated	50,000	-	-	50,000
Land improvements	514,741	21,304	-	536,045
Buildings and improvements	9,059,630	190,911	-	9,250,541
Machinery and equipment	1,007,806	5,473	-	1,013,279
Transportation equipment	1,346,204	-	-	1,346,204
Depreciable capital assets	11,928,381	217,688	-	12,146,069
Less accumulated depreciation for:				
Land improvements	127,604	30,057	-	157,661
Buildings and improvements	4,026,240	209,224	-	4,235,464
Machinery and equipment	699,069	70,839	-	769,908
Transportation equipment	890,386	90,616	-	981,002
Total accumulated depreciation	5,743,299	400,736	-	6,144,035
Governmental activities capital assets, net	<u>\$ 6,235,082</u>	<u>\$ (183,048)</u>	<u>\$ -</u>	<u>\$ 6,052,034</u>

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 5. CAPITAL ASSETS (continued)

Depreciation is computed by the straight line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2016 and 2015 amounted to \$400,736 and \$385,158, respectively. The District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

NOTE 6. LONG-TERM DEBT

In September 2009, the school district issued 2009 Sand Creek Community Schools, County of Lenawee, State of Michigan Refunding Bonds in the amount of \$1,865,000 (General Obligation-Unlimited Tax) to be used to refund the 2000 School Building and Site Bonds outstanding of \$1,925,000. The net interest savings is estimated at \$87,660 over the life of the Refunding Bonds. A schedule of the bonds and the representative interest payments due from 2016 through 2020 is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due May 1	Interest Due November 1	Total
2016	5.00	-	-	18,725	18,725
2017	4.00	205,000	18,725	14,625	238,350
2018	4.00	210,000	14,625	10,425	235,050
2019	4.25	220,000	10,425	5,750	236,175
2020	5.00	230,000	5,750	-	235,750
		<u>\$ 865,000</u>	<u>\$ 49,525</u>	<u>\$ 49,525</u>	<u>\$ 964,050</u>

The School District has issued a general obligation bond issue, dated July 17, 2012, for the purpose of renovating existing school facilities for technology, purchase of computers and purchase of new buses. The bond issue for \$970,000 has an interest rate of 2.375% to 2.5%.

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due May 1	Interest Due November 1	Total
2016	2.375	-	-	5,681	5,681
2017	2.375	150,000	5,681	3,900	159,581
2018	2.375	160,000	3,900	2,000	165,900
2019	2.500	160,000	2,000	-	162,000
		<u>\$ 470,000</u>	<u>\$ 11,581</u>	<u>\$ 11,581</u>	<u>\$ 493,162</u>

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 6. LONG-TERM DEBT (Continued)

The following is a schedule of the governmental long term obligations for the District for the year ended June 30, 2016:

	<u>2009 Bond</u>	<u>2012 Bond</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance July 1, 2015	\$ 1,055,000	\$ 610,000	\$ 114,404	\$ 1,779,404
Additions	-	-	-	-
Deletions	(190,000)	(140,000)	(50,656)	(380,656)
Balance June 30, 2016	865,000	470,000	63,748	1,398,748
Less: current portion	205,000	150,000	29,018	384,018
Total due after one year	<u>\$ 660,000</u>	<u>\$ 320,000</u>	<u>\$ 34,730</u>	<u>\$ 1,014,730</u>

The debt service requirements of governmental activities at June 30, 2016 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	355,000	48,812	403,812
2018	370,000	37,050	407,050
2019	380,000	24,850	404,850
2020	230,000	11,500	241,500
Compensated	63,748	-	63,748
	<u>\$ 1,398,748</u>	<u>\$ 122,212</u>	<u>\$ 1,520,960</u>

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 7. SHORT TERM DEBT

State school aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The District has pledged its State aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the District.

The District issued a state aid anticipation note in the 2015-16 fiscal year in the amount of \$800,000. Note Series C-1 is in the amount of \$543,655, with an interest rate of 0.760%; note Series C-4 is \$256,345, with an interest rate of 0.640%. Both notes have a maturity date of July 20, 2016.

Short-term debt activity for the fiscal year ended June 30, 2016, is as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
State aid anticipation note	\$ 271,452	\$ 800,000	\$ 957,098	\$ 114,354

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description

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

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

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

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	22.52 - 23.07 %
Member Investment Plan	3.0 - 7.0	22.52 - 23.07
Pension Plus	3.0 - 6.4	21.99
Defined Contribution	0.0	17.72 - 18.76

Required contributions to the pension plan from the District were \$1,001,058 for the year ended September 30, 2015.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

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

At June 30, 2016, the District reported a liability of \$12,674,557 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was 0.05189 percent, which was a decrease of .0018 percent from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$1,067,185. At June 30, 2016, 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
Differences between expected and actual experience	\$ -	\$ 41,982
Changes of assumptions	312,074	-
Net difference between projected and actual earnings on pension plan investments	64,693	-
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	18,840	34,002
Reporting Unit contributions subsequent to the measurement date	925,445	-
Total	\$ 1,321,052	\$ 75,984

\$925,445 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year ended September 30	
2016	\$ 31,479
2017	31,479
2018	14,562
2019	242,103

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Actuarial Assumptions

Wage Inflation Rate:	3.50%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.00%
- Pension Plus Plan (Hybrid):	7.00%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. 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, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, 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: [4.7158 for non-university employers 1.3923 for university employers]*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2015 MPERS Comprehensive Annual Financial Report (www.michigan.gov/mpers-cafr).*

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	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	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	-
TOTAL	100.00 %	

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

Discount Rate

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

Sensitivity of the 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% (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 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%
\$ 16,340,753	\$ 12,674,557	\$ 9,583,803

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Michigan Public School Employees' Retirement System (MPERS) Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 MPERS CAFR (www.michigan.gov/documents/orsschools/MPERS_CAFR_2015_Final_510211_7.pdf).

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are accrued based on the ultimate cost of the experience to date of participating members. The District cannot estimate any losses from reported and unreported claims at June 30, 2016. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2016 or any of the prior three years.

NOTE 10. INTERFUND BALANCES

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

A schedule of interfund balances follows:

Fund	Due From	Fund	Due To
Capital projects	\$ 5,000	General	\$ 5,000
Nonmajor	18,048	General	18,048
General	294	Capital projects	294
Totals	\$ 23,342		\$ 23,342

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2016**

NOTE 11. INTERFUND TRANSFERS

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The following is a schedule of interfund transfers for the year ending June 30, 2016:

Fund	Transfers In	Fund	Transfers Out
General	\$ 15,000	Nonmajor	\$ 15,000
Capital	60,000	Nonmajor	60,000
Totals	\$ 75,000		\$ 75,000

NOTE 12. NET POSITION RESTRICTED BY ENABLING LEGISLATION

Net position

The government-wide statement of net position reports \$88,234 of restricted net position at June 30, 2016, all of which is restricted by enabling legislation.

NOTE 13. SUBSEQUENT EVENTS

The School District has reviewed subsequent events from June 30, 2016 to the date that the financial statements were available on October 17, 2016 and determined that no additional disclosures need be made.

REQUIRED SUPPLEMENTARY INFORMATION

**SAND CREEK COMMUNITY SCHOOLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES:				
Local sources	\$ 344,180	\$ 380,957	\$ 379,692	\$ (1,265)
State sources	6,771,151	7,222,001	7,223,560	1,559
Federal sources	118,091	129,080	105,198	(23,882)
Intermediate sources	365,975	429,564	426,602	(2,962)
Total revenues	<u>7,599,397</u>	<u>8,161,602</u>	<u>8,135,052</u>	<u>(26,550)</u>
EXPENDITURES:				
Instruction:				
Basic programs	4,035,572	4,346,671	4,336,431	10,240
Added needs	1,217,174	1,128,635	1,096,163	32,472
Total instruction	<u>5,252,746</u>	<u>5,475,306</u>	<u>5,432,594</u>	<u>42,712</u>
Support services:				
Pupil	201,955	215,644	212,752	2,892
Instructional staff	86,756	87,706	86,290	1,416
General administration	342,904	375,590	371,188	4,402
School administration	472,678	515,641	507,148	8,493
Business	17,800	31,600	17,616	13,984
Operation & maintenance	712,412	709,501	702,226	7,275
Transportation	433,970	428,849	426,653	2,196
Central	17,900	21,200	21,136	64
Athletics	255,517	255,517	267,251	(11,734)
Other	41,300	48,900	38,906	9,994
Total support services	<u>2,583,192</u>	<u>2,690,148</u>	<u>2,651,166</u>	<u>38,982</u>
Total expenditures	<u>7,835,938</u>	<u>8,165,454</u>	<u>8,083,760</u>	<u>81,694</u>
Excess of revenues over expenditures	<u>(236,541)</u>	<u>(3,852)</u>	<u>51,292</u>	<u>55,144</u>
Other financing sources (uses):				
Transfers in	-	-	15,000	15,000
Prior period adjustments	-	-	(5,180)	(5,180)
Total other financing sources	<u>-</u>	<u>-</u>	<u>9,820</u>	<u>9,820</u>
Change in fund balance	(236,541)	(3,852)	61,112	64,964
Fund balance:				
Beginning of year			<u>949,288</u>	
End of year			<u>\$ 1,010,400</u>	

**SAND CREEK COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOLS EMPLOYEES RETIREMENT PLAN
LAST 10 REPORTING UNIT FISCAL YEARS (AMOUNT DETERMINED AS OF 6/30 OF EACH YEAR)**

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions									\$ 1,239,765	\$ 1,253,480
B. Contribution in relations to statutorily required contributions									1,239,765	1,253,480
C. Contribution deficiency (excess)									\$ -	\$ -
D. Reporting unit's covered-employee payroll									\$ 4,391,545	\$ 4,477,369
E. Contributions as a percentage of covered-employee payroll									<u>28.2%</u>	<u>28.0%</u>

**SAND CREEK COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOLS EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNT DETERMINED AS OF 9/30 OF EACH YEAR)**

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
A. Reporting unit's proportion of net pension liability (%)									0.05189%	0.05207%
B. Reporting unit's proportionate share of net pension liability									\$ 12,674,557	\$ 11,470,024
C. Reporting unit's covered employee payroll									4,391,545	4,477,369
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)									288.61%	256.18%
E. Plan fiduciary net position as a percentage of total pension liability									63.17%	66.20%

SAND CREEK COMMUNITY SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

NOTE 1: CHANGES OF BENEFIT TERMS

There were no changes of benefit terms in 2015.

NOTE 2: CHANGES OF ASSUMPTIONS

There were no changes of benefit assumptions in 2015.

COMBINING FUND FINANCIAL STATEMENTS

**SAND CREEK COMMUNITY SCHOOLS
BALANCE SHEET
CAPITAL PROJECTS FUND
JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

	.5 Mill Capital Project Fund	Other Capital Project Fund	2012 Bus/ Tech Capital Project Fund	Totals	
				2016	2015
ASSETS:					
Cash and cash equivalents	\$ 232,305	\$ 3,792	\$ 3,468	\$ 239,565	\$ 213,745
Due from other funds	<u>294</u>	<u>-</u>	<u>29</u>	<u>323</u>	<u>29</u>
Total assets	<u>\$ 232,599</u>	<u>\$ 3,792</u>	<u>\$ 3,497</u>	<u>\$ 239,888</u>	<u>\$ 213,774</u>
LIABILITIES AND FUND BALANCE:					
LIABILITIES:					
Due to other funds	\$ 29	\$ -	\$ -	\$ 29	\$ 29
FUND BALANCE:					
Restricted:					
Capital projects	<u>232,570</u>	<u>3,792</u>	<u>3,497</u>	<u>239,859</u>	<u>213,745</u>
Total liabilities and fund balance	<u>\$ 232,599</u>	<u>\$ 3,792</u>	<u>\$ 3,497</u>	<u>\$ 239,888</u>	<u>\$ 213,774</u>

**SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	.5 Mill Capital Project Fund	Other Capital Project Fund	2012 Bus/ Tech Capital Project Fund	Totals	
				2016	2015
REVENUES:					
Local sources:					
Property taxes	\$ 220,240	\$ -	\$ -	\$ 220,240	\$ 219,460
Investment earnings	776	-	26	802	971
Contributions	-	-	-	-	1,700
Other	294	-	-	294	-
Total revenues	<u>221,310</u>	<u>-</u>	<u>26</u>	<u>221,336</u>	<u>222,131</u>
EXPENDITURES:					
Capital outlay	<u>255,222</u>	<u>-</u>	<u>-</u>	<u>255,222</u>	<u>241,456</u>
Total expenditures	<u>255,222</u>	<u>-</u>	<u>-</u>	<u>255,222</u>	<u>241,456</u>
Excess of revenues over expenditures	<u>(33,912)</u>	<u>-</u>	<u>26</u>	<u>(33,886)</u>	<u>(19,325)</u>
Other financing sources (uses):					
Transfers in	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>60,000</u>	<u>-</u>
Total other financing sources (uses):	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>60,000</u>	<u>-</u>
Change in fund balance	26,088	-	26	26,114	(19,325)
FUND BALANCE:					
Beginning of year	<u>206,482</u>	<u>3,792</u>	<u>3,471</u>	<u>213,745</u>	<u>233,070</u>
End of year	<u>\$ 232,570</u>	<u>\$ 3,792</u>	<u>\$ 3,497</u>	<u>\$ 239,859</u>	<u>\$ 213,745</u>

**SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

	Special Revenue	Debt Service	Total Nonmajor Governmental Funds	
			2016	2015
ASSETS:				
Cash and cash equivalents	\$ 39,708	\$ 65,334	\$ 105,042	\$ 178,700
Due from other governmental units	3,100	-	3,100	2,664
Inventory	2,785	-	2,785	2,826
	<u>2,785</u>	<u>-</u>	<u>2,785</u>	<u>2,826</u>
Total assets	<u>\$ 45,593</u>	<u>\$ 65,334</u>	<u>\$ 110,927</u>	<u>\$ 184,190</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ -	\$ -	\$ -	\$ 787
Accrued expenditures	4,299	-	4,299	3,874
Due to other funds	18,048	5,000	23,048	338
	<u>18,048</u>	<u>5,000</u>	<u>23,048</u>	<u>338</u>
Total liabilities	<u>22,347</u>	<u>5,000</u>	<u>27,347</u>	<u>4,999</u>
Deferred inflows of resources:				
Unearned income	3,470		3,470	2,860
	<u>3,470</u>		<u>3,470</u>	<u>2,860</u>
FUND BALANCES:				
Nonspendable				
Inventory	2,785	-	2,785	2,826
	<u>2,785</u>	<u>-</u>	<u>2,785</u>	<u>2,826</u>
Restricted				
School lunch program	16,980	-	16,980	40,730
Debt service	-	60,334	60,334	132,711
	<u>16,980</u>	<u>60,334</u>	<u>77,314</u>	<u>173,441</u>
Assigned				
Community service	11	-	11	64
	<u>11</u>	<u>-</u>	<u>11</u>	<u>64</u>
Total fund balances	<u>19,776</u>	<u>60,334</u>	<u>80,110</u>	<u>176,331</u>
Total liabilities & fund balances	<u>\$ 45,593</u>	<u>\$ 65,334</u>	<u>\$ 110,927</u>	<u>\$ 184,190</u>

**SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN
FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	Special Revenue	Debt Service	Total Nonmajor Governmental Funds	
			2016	2015
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 378,414	\$ 378,414	\$ 377,053
Investment earnings	95	947	1,042	1,274
Food sales	171,262	-	171,262	184,096
Other	2,622	-	2,622	6,648
Total local sources	173,979	379,361	553,340	569,071
State sources	19,443	-	19,443	14,643
Federal sources	293,648	-	293,648	291,617
Total revenues	487,070	379,361	866,431	875,331
EXPENDITURES:				
Current:				
Food service activities	493,350	-	493,350	498,777
Other expenditures	2,564	-	2,564	2,490
Debt service:				
Interest	-	61,738	61,738	73,825
Total expenditures	495,914	61,738	557,652	575,092
Excess (deficiency) of revenues over (under) expenditures	(8,844)	317,623	308,779	300,239
Other financing sources (uses):				
Redemption of principal	-	(330,000)	(330,000)	(310,000)
Contributed capital	-	-	-	-
Transfers out	(15,000)	(60,000)	(75,000)	-
Total other financing sources (uses)	(15,000)	(390,000)	(405,000)	(310,000)
Change in fund balances	(23,844)	(72,377)	(96,221)	(9,761)
Fund balances:				
Beginning of year	43,620	132,711	176,331	186,092
End of year	\$ 19,776	\$ 60,334	\$ 80,110	\$ 176,331

See notes to financial statements

**SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
SPECIAL REVENUES FUNDS
JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

	<u>School Lunch</u>	<u>Community Service</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
ASSETS				
Cash and cash equivalents	\$ 39,697	\$ 11	\$ 39,708	\$ 45,989
Due from other governmental units	3,100	-	3,100	2,664
Inventory	2,785	-	2,785	2,826
	<u>2,785</u>	<u>-</u>	<u>2,785</u>	<u>2,826</u>
Total assets	<u>\$ 45,582</u>	<u>\$ 11</u>	<u>\$ 45,593</u>	<u>\$ 51,479</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 787
Accrued expenditures	4,299	-	4,299	3,874
Due to other funds	18,048	-	18,048	338
	<u>18,048</u>	<u>-</u>	<u>18,048</u>	<u>338</u>
Total liabilities	<u>22,347</u>	<u>-</u>	<u>22,347</u>	<u>4,999</u>
Deferred inflows of resources:				
Unearned income	3,470	-	3,470	2,860
Total deferred inflows	<u>3,470</u>	<u>-</u>	<u>3,470</u>	<u>2,860</u>
Fund Balances:				
Nonspendable				
Inventory	2,785	-	2,785	2,826
Restricted				
School lunch program	16,980	-	16,980	40,730
Assigned				
Community service	-	11	11	64
	<u>-</u>	<u>11</u>	<u>11</u>	<u>64</u>
Total fund balances	<u>19,765</u>	<u>11</u>	<u>19,776</u>	<u>43,620</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 45,582</u>	<u>\$ 11</u>	<u>\$ 45,593</u>	<u>\$ 51,479</u>

See notes to financial statements

SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN
FUND BALANCE
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	<u>School Lunch</u>	<u>Community Service</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
REVENUES:				
Local sources:				
Food sales	\$ 171,262	\$ -	\$ 171,262	\$ 184,096
Investment earnings	95	-	95	209
Other	111	2,511	2,622	6,648
Total local sources	171,468	2,511	173,979	190,953
State sources	19,443	-	19,443	14,643
Federal sources	293,648	-	293,648	291,617
Total revenues	484,559	2,511	487,070	497,213
EXPENDITURES:				
Cost of goods sold - net	250,348	-	250,348	253,170
Salaries and wages	135,048	-	135,048	140,820
Employee benefits	77,059	-	77,059	76,920
Contracted services	8,556	-	8,556	7,216
Travel, workshops and conferences	311	-	311	19
Materials and supplies	17,862	-	17,862	17,884
Capital outlay	2,283	-	2,283	1,378
Miscellaneous	1,883	2,564	4,447	3,860
Total expenditures	493,350	2,564	495,914	501,267
Excess (deficiency) of revenues over (under) expenditures	(8,791)	(53)	(8,844)	(4,054)
Other financing sources:				
Transfers out	(15,000)	-	(15,000)	-
Total other financing sources	(15,000)	-	(15,000)	-
Change in fund balances	(23,791)	(53)	(23,844)	(4,054)
Fund balances:				
Beginning of year	43,556	64	43,620	47,674
End of year	<u>\$ 19,765</u>	<u>\$ 11</u>	<u>\$ 19,776</u>	<u>\$ 43,620</u>

See notes to financial statements

**SAND CREEK COMMUNITY SCHOOLS
 COMBINING BALANCE SHEET
 DEBT SERVICE FUNDS
 JUNE 30, 2016
 WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

	<u>2000</u> <u>Debt</u> <u>Service</u>	<u>2006</u> <u>Debt</u> <u>Service</u>	<u>2012</u> <u>Debt</u> <u>Service</u>	<u>Totals</u>	
				<u>2016</u>	<u>2015</u>
ASSETS:					
Cash and cash equivalents	\$ 46,107	\$ 9,345	\$ 9,882	\$ 65,334	\$ 132,711
Total assets	<u>\$ 46,107</u>	<u>\$ 9,345</u>	<u>\$ 9,882</u>	<u>\$ 65,334</u>	<u>\$ 132,711</u>
FUND BALANCE:					
Liabilities:					
Due to other funds	\$ -	\$ -	\$ 5,000	\$ 5,000	\$ -
Fund Balance:					
Restricted					
Debt Service	46,107	9,345	4,882	60,334	132,711
Total liabilities and fund balance	<u>\$ 46,107</u>	<u>\$ 9,345</u>	<u>\$ 9,882</u>	<u>\$ 65,334</u>	<u>\$ 132,711</u>

See notes to financial statements

SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND
BALANCE
DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2000</u> <u>Debt</u> <u>Service</u>	<u>2006</u> <u>Debt</u> <u>Service</u>	<u>2012</u> <u>Debt</u> <u>Service</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
REVENUES:					
Local sources:					
Property taxes	\$ 232,816	\$ -	\$ 145,598	\$ 378,414	\$ 377,053
Investment earnings	513	189	245	947	1,065
Total revenues	<u>233,329</u>	<u>189</u>	<u>145,843</u>	<u>379,361</u>	<u>378,118</u>
EXPENDITURES:					
Debt service:					
Interest	46,950	-	14,788	61,738	73,825
Total expenditures	<u>46,950</u>	<u>-</u>	<u>14,788</u>	<u>61,738</u>	<u>73,825</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>186,379</u>	<u>189</u>	<u>131,055</u>	<u>317,623</u>	<u>304,293</u>
Other financing sources (uses):					
Redemption of principal	(190,000)	-	(140,000)	(330,000)	(310,000)
Transfers in	-	-	-	-	-
Transfers out	-	(60,000)	-	(60,000)	-
Total other financing sources (uses)	<u>(190,000)</u>	<u>(60,000)</u>	<u>(140,000)</u>	<u>(390,000)</u>	<u>(310,000)</u>
Change in fund balance	(3,621)	(59,811)	(8,945)	(72,377)	(5,707)
FUND BALANCES:					
Beginning of year	<u>49,728</u>	<u>69,156</u>	<u>13,827</u>	<u>132,711</u>	<u>138,418</u>
End of year	<u>\$ 46,107</u>	<u>\$ 9,345</u>	<u>\$ 4,882</u>	<u>\$ 60,334</u>	<u>\$ 132,711</u>

See notes to financial statements

**SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONEXPENDABLE TRUST FUNDS
JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Bailey/Ries Scholarship</u>	<u>Keenan Scholarship</u>	<u>Sand Creek Communications Scholarship</u>	<u>Margaret Poucher Scholarship</u>	<u>Total 2016</u>	<u>2015</u>
ASSETS:						
Cash and cash equivalents	\$ -	\$ 1,348	\$ 152,024	\$ 34,098	\$ 187,470	\$ 191,446
Due from other scholarship fund	-	-	42	-	42	-
Total Assets	<u>\$ -</u>	<u>\$ 1,348</u>	<u>\$ 152,066</u>	<u>\$ 34,098</u>	<u>\$ 187,512</u>	<u>\$ 191,446</u>
LIABILITIES AND NET POSITION:						
Due to other scholarship fund	\$ 42	\$ -	\$ -	\$ -	\$ 42	\$ -
NET POSITION:						
Unrestricted	(42)	-	-	-	(42)	-
Reserved for:						
Scholarships-nonexpendable	-	1,348	152,066	34,098	187,512	191,446
Total fund balance	(42)	1,348	152,066	34,098	187,470	191,446
Total Liabilities and Net Position	<u>\$ -</u>	<u>\$ 1,348</u>	<u>\$ 152,066</u>	<u>\$ 68,196</u>	<u>\$ 187,512</u>	<u>\$ 191,446</u>

See notes to financial statements

**SAND CREEK COMMUNITY SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
 NONEXPENDABLE TRUST FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Bailey/Ries Scholarship</u>	<u>Keenan Scholarship</u>	<u>Sand Creek Communications Scholarship</u>	<u>Margaret Poucher Scholarship</u>	<u>Totals 2016</u>	<u>2015</u>
REVENUES:						
Investment earnings	\$ -	\$ 36	\$ 877	\$ 61	\$ 974	\$ 951
Total revenues	-	36	877	61	974	951
EXPENSES:						
Scholarships paid	240	1,000	3,210	500	4,950	2,125
Total expenses	240	1,000	3,210	500	4,950	2,125
Change in net position	(240)	(964)	(2,333)	(439)	(3,976)	(1,174)
NET POSITION:						
Beginning of year	198	2,312	154,399	34,537	191,446	192,620
End of year	<u>\$ (42)</u>	<u>\$ 1,348</u>	<u>\$ 152,066</u>	<u>\$ 34,098</u>	<u>\$ 187,470</u>	<u>\$ 191,446</u>

See notes to financial statements

**SAND CREEK COMMUNITY SCHOOLS
 COMBINING BALANCE SHEET
 EXPENDABLE TRUST AND AGENCY FUNDS
 JUNE 30, 2016
 WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

	<u>Expendable Trust</u>	<u>Agency</u>	<u>Totals</u>	
			<u>2016</u>	<u>2015</u>
ASSETS:				
Cash and cash equivalents	\$ 6,387	\$ 146,852	\$ 153,239	\$ 130,637
Due from other funds	-	-	-	350
	<u>6,387</u>	<u>146,852</u>	<u>153,239</u>	<u>130,987</u>
Total assets	<u>\$ 6,387</u>	<u>\$ 146,852</u>	<u>\$ 153,239</u>	<u>\$ 130,987</u>
LIABILITIES AND NET POSITION:				
LIABILITIES:				
Due to other funds	\$ -	\$ 16,177	\$ 16,177	\$ -
Due to student groups	-	130,675	130,675	119,617
	<u>-</u>	<u>130,675</u>	<u>130,675</u>	<u>119,617</u>
Total liabilities	<u>-</u>	<u>146,852</u>	<u>146,852</u>	<u>119,617</u>
NET POSITION:				
Reserved for:				
Scholarships-expendable	6,387	-	6,387	11,370
	<u>6,387</u>	<u>-</u>	<u>6,387</u>	<u>11,370</u>
Total liabilities and net position	<u>\$ 6,387</u>	<u>\$ 146,852</u>	<u>\$ 153,239</u>	<u>\$ 130,987</u>

See notes to financial statements

**SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015**

	Sand Creek Communication Scholarship	Clark Scholarship	Class of 2011	Petrulio Scholarship	Wilt/ Horner/Isley Scholarship	Barnes Scholarship	Kelly Scholarship	Richards Family	Craft Show	Ondrovick Scholarship	Morenci Sportsman Club	Totals 2016	2015
REVENUES:													
Contributions	\$ 2,260	\$ -	\$ -	\$ -	\$ -	\$ 1,600	\$ -	\$ 500	\$ 1,077	\$ -	\$ 500	\$ 5,937	\$ 6,337
Investment earnings	90	-	9	-	-	11	-	3	3	61	-	177	116
Total revenues	2,350	-	9	-	-	1,611	-	503	1,080	61	500	6,114	6,453
EXPENSES:													
Scholarships paid	2,000	250	600	-	500	1,850	750	500	-	750	-	7,200	10,350
Total expenses	2,000	250	600	-	500	1,850	750	500	-	750	-	7,200	10,350
Other financing sources (uses):													
Transfers in	-	-	-	-	-	-	-	-	-	-	-	-	200
Transfers out	-	-	-	-	-	-	-	-	-	-	-	-	(200)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in net position	350	(250)	(591)	-	(500)	(239)	(750)	3	1,080	(689)	500	(1,086)	(3,897)
NET POSITION:													
Beginning of year	2,364	276	658	58	274	309	(92)	500	1,437	1,689	-	7,473	11,370
End of year	\$ 2,714	\$ 26	\$ 67	\$ 58	\$ (226)	\$ 70	\$ (842)	\$ 503	\$ 2,517	\$ 1,000	\$ 500	\$ 6,387	\$ 7,473

See notes to financial statements

**SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
ASSETS:				
Cash and cash equivalents	\$ 118,099	\$ 287,790	\$ 259,037	\$ 146,852
Due from governmental funds	3,667	-	3,667	-
Total assets	\$ 121,766	\$ 287,790	\$ 262,704	\$ 146,852
LIABILITIES:				
Due to governmental funds	\$ 684	\$ 16,177	\$ 684	\$ 16,177
Due to student groups	121,082	271,613	262,020	130,675
Total liabilities	\$ 121,766	\$ 287,790	\$ 262,704	\$ 146,852

See notes to financial statements

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sand Creek Community Schools (the "School District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 17, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

2016-1

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

2016 – 2

Criteria: Adequate design of internal control over the complete preparation of the financial statements and footnotes being audited.

Cause: The District does not have personnel with level of knowledge to update the footnotes completely.

Effect: The District's design uses a template to prepare the financial statements, and prepares the footnotes with the best available information, however, may not be able to detect and correct misstatements timely.

Recommendation: From information gleaned from various seminars attended, consider gathering information on footnotes that will fit the School's needs, and apply appropriately.

Management's Response: The School District has evaluated the manner in which they prepare the financial statements and footnotes to those financial statements and will attempt to follow the recommendation made. However, the cost associated with this is not justified by the expected benefits.

COMPLIANCE AND OTHER MATTERS

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

Page 3

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

PURPOSE OF THIS REPORT

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

Baker, Eaton & Owen
Adrian, Michigan

October 17, 2016