

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
Peck, Michigan

REPORT ON FINANCIAL STATEMENTS  
(with required supplementary and  
additional supplementary information)

YEAR ENDED JUNE 30, 2017

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## Independent Auditor's Report

To the Board of Education  
Sanilac Intermediate School District  
Peck, 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 Sanilac Intermediate School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

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

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sanilac Intermediate School District's basic financial statements. The additional supplementary information as identified in the table of contents including the schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017 on our consideration of Sanilac Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Sanilac Intermediate School District's 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 Sanilac Intermediate School District's internal control over financial reporting and compliance.

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CARO, MICHIGAN

October 13, 2017

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

Sanilac Intermediate School District, located in Peck, Michigan, is one of 57 Intermediate School Districts in the State of Michigan and services seven local schools districts in Sanilac County.

Generally accepted accounting principles (GAAP) according to GASB 34, require the reporting of two types of financial statements: Fund Financial Statements and District Wide Financial Statements.

**FINANCIAL HIGHLIGHTS**

The liabilities of Sanilac Intermediate School District exceeded its assets at the close of Fiscal Year 2017 by \$2,775,942 (net position). This is due to the required implementation of GASB 68 which requires the District to record its proportionate share of the net pension liability of the Michigan Public School Employers' Retirement System (MPERS). Net position increased by \$290,566.

At the end of the current fiscal year, the aggregated fund balance for the District's operating funds (general fund, special education fund, career technical preparation fund, and other nonmajor funds) was \$3,654,887.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction of the district's basic financial statements. The district's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary and other supplementary information in addition to the basic financial statements themselves.

**Fund Financial Statements:**

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Special Education and Career Technical Preparation Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are - available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

**District Wide Financial Statements:**

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Position of the District wide financial statements.

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

One of the most important questions asked about the School District is, “As a whole, what is the School District’s financial condition as a result of the year’s activities?” The statement of net position and the statement of activities, which appear first in the School District’s financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Sanilac Intermediate School District net position – the difference between assets plus deferred outflows and liabilities plus deferred inflows, as reported in the statement of net position – as one way to measure the School District’s financial health or financial position. Over time, changes in the School District’s net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services. Property taxes, unrestricted State aid, and State and federal grants finance most of these activities.

The district wide financial statements can be found on pages 11 & 12.

**The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities**

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

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

**SUMMARY OF NET POSITION:**

The following summarizes the net position for the fiscal years ended June 30, 2017 and 2016:

	<u>District's Net Position</u>	2017	2016
<u>ASSETS</u>			
Current Assets		\$4,975,960	\$4,982,091
Non-Current Assets		4,414,733	4,356,323
<b>TOTAL ASSETS</b>		<u>9,390,693</u>	<u>9,338,414</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Related to pensions		1,688,159	1,332,841
<u>LIABILITIES</u>			
Current Liabilities		1,328,140	1,640,643
Long-Term Liabilities		693,349	735,209
Net Pension Liability		11,444,127	11,025,254
<b>Total Liabilities</b>		<u>13,465,616</u>	<u>13,401,106</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Related to State aid funding for pension		355,691	300,138
Related to pensions		33,487	36,519
<b>Total Deferred Inflows of Resources</b>		<u>389,178</u>	<u>336,657</u>
<u>NET POSITION</u>			
Net investment in capital assets		3,766,214	3,673,565
Unrestricted		(6,542,156)	(6,740,073)
<b>Total Net Position</b>		<u><u>(\$2,775,942)</u></u>	<u><u>(\$3,066,508)</u></u>

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

**RESULTS OF OPERATIONS:** For the fiscal years ended June 30, 2017 and 2016, the District's changes in net position were as follows:

	2017	2016
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$312,282	\$307,302
Property Taxes Levied for Special Education Operations	1,124,883	1,109,147
Property Taxes Levied for Career Technical Preparation Operations	2,500,817	2,466,765
State of Michigan Foundation Aid	4,307,315	4,218,558
Other General Revenues	603,698	509,182
Total General Revenues	8,848,995	8,610,954
 <u>Operating Grants:</u>		
Federal and State	2,161,229	2,067,388
Total Operating Grants	2,161,229	2,067,388
 <u>Charges for Services:</u>		
Hot Lunch	9,980	10,837
Special Education Fund	352,520	461,873
Career Technical Preparation Fund	174,585	148,788
Total Charges for Services	537,085	621,498
Total Revenues	11,547,309	11,299,840
 <u>EXPENSES</u>		
Instruction & Instructional Support	3,732,752	3,597,303
Support Services	4,553,196	4,480,226
Community Services	617,804	564,421
Food Service	9,762	9,372
Capital Projects	0	0
Transfers to other governmental units	2,016,762	2,016,942
Interest on Long-Term Debt	15,613	18,864
Unallocated Depreciation	310,854	280,736
Total Expenses	11,256,743	10,967,864
 CHANGE IN NET POSITION	 \$290,566	 \$331,976
 BEGINNING NET POSITION	 (3,066,508)	 (3,398,484)
 ENDING NET POSITION	 (\$2,775,942)	 (\$3,066,508)



SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2017, the District's total net position increased by \$290,566 to a total of (\$2,775,942). This increase is a result of the implementation of GASB 68 and its reporting requirements. GASB 68 went into effect for the 6/30/2015 year end. It required recording the proportionate share of pension expense as defined by the Governmental Accounting Standards Board (GASB) on the district-wide reconciliations. Sanilac ISD's net pension liability is \$11,444,127; the largest liability on the Statement of Net Position, putting our district in the red. It does not directly impact the fund statements, or the retirement rates—the expense on the fund statements continues to be handled as previously. GASB 68 requires additional note disclosures and additional required supplementary information schedules.

**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS**

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. The fund balance for the general fund increased by \$88,946 during the year.

Revenues were actually \$2.63 million. This amount is above the original budget of \$3.1 million and the final budget of \$2.62 million. A portion of the Great Start Readiness Program (GSRP) was reclassified from current revenue to deferred revenue. Sanilac ISD acts as the fiscal agent for GSRP funding which is flowed through to the Local Education Agencies (LEA'S) and NEMSCA (Northeast MI Community Service Agency). LEA's and NEMSCA have until September 30, 2017 to spend all of their allocation. Sanilac ISD has seven districts that will submit expenses through September 30, 2017. This results in additional revenue and expense being recognized in 2017-18.

Expenditures and transfer out were actually \$2.54 million. That amount is above the original budget of \$3.1 million and below the final budget of \$2.58 million. The actual expenditures were above the budget due to GSRP, GSC (Great Start Collaborative), and preschool scholarships. This all plays into the above explanation of deferring revenue.

The major source of general fund revenues is state aid and taxes. An analysis of the major revenue sources is as follows:

1. State of Michigan Aid (Section 81)

The State of Michigan aid provided under Section 81 of the State Aid Act provides the majority of state aid to the District's General Fund. Funding to the District under Section 81 is provided to comply with the requirements of the State Aid Act and to provide technical assistance to local districts as authorized by the intermediate school board.

2. Property Taxes Levied For General Operations (General Fund Homestead and Non-Homestead Taxes)

The District levies .2026 mills of property taxes for operations (General Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's property tax revenue for the 2016-17 fiscal year was \$312,282; an increase of \$4,980 from the prior year due to total tax collections received at year end.

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

Special Education Fund

Fund balance for the special education fund increased by \$42,786 during the year. The actual revenue was \$4.61 million. That amount is under the original budget of \$4.74 million and the final budget of \$4.64 million. Special Ed has the same situation as General Fund does with GSRP funding. Special Ed receives \$1.7 million from IDEA Flowthrough. The Sanilac ISD flows a portion of IDEA funding to their LEA'S based on student count and a fixed amount per student. The IDEA grant is on a two year cycle. Depending on when the LEA's submit their reimbursements, reflects directly on how much federal revenue can be requested and booked.

Expenditures and transfers were actually \$4.57 million. The original budget was \$4.74 million and the final budget \$4.64 million. The final expenditures were less due to conservative budgeting practices and lower than anticipated costs for self-funded dental and IDEA carry over.

The major source of special education revenues is federal grants, state aid and taxes. An analysis of the major revenue sources is as follows:

1. State of Michigan Aid (Section 51)

The State of Michigan aid provided under Section 51 of the State Aid Act provides the majority of state aid to the District's Special Education Fund. Funding to the District under Section 51 is provided to reimburse the District for unreimbursed costs of special education programs, services and special education personnel.

2. Property Taxes Levied For Special Education

The District levies .7298 mills of property taxes for operations (Special Education Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's property tax revenue for the 2016-17 was \$1,124,883, an increase of \$15,736 from the prior year due to total tax collections received at year end.

Career Technical Preparation Fund

Fund balance for the career technical preparation fund increased by \$173,550 during the year. The actual revenue was \$4.02 million. That amount is above the original budget of \$3.80 million and the final budget of \$4.01 million.

Expenditures and transfers out were actually \$3.85 million. The original budget was \$3.76 million and the final budget \$3.88 million. The final expenditures were less due to conservative budgeting practices and lower than anticipated costs for self-funded dental.

The major source of career technical preparation revenues is taxes. An analysis of the major revenue sources is as follows:

1. State of Michigan Aid (Sections 61 and 62)

The State of Michigan aid provided under Sections 61 and 62 of the State Aid Act provides the majority of state aid to the District's Career Technical Preparation Fund. Funding to the District under Sections 61 and 62 is provided to reimburse, on an added cost basis, the District for unreimbursed costs of its career technical education center and career technical programs and services.

2. Property Taxes Levied For Career Technical Preparation

The District levies 1.6227 mills of property taxes for operations (Career Technical Preparation Fund) on Homestead and Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

The District's non-homestead property tax revenue for the 2016-17 fiscal year was \$2,500,817, an increase of \$34,052 from the prior year due to total tax collections received at year end.

**GENERAL FUND BUDGETARY HIGHLIGHTS:**

**GENERAL FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final <u>Budget %</u>	Variance Actual & Final <u>Budget %</u>
Revenue	\$3,081,278	\$2,619,308	\$2,633,940	14.99	0.56
Expenditures	955,454	1,096,869	1,087,413	(14.80)	(0.86)
Other financing sources	(2,104,166)	(1,479,830)	(1,457,581)	29.67	(1.50)
<b><u>TOTAL</u></b>	<b><u>\$21,658</u></b>	<b><u>\$42,609</u></b>	<b><u>\$88,946</u></b>		

**SPECIAL EDUCATION FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final <u>Budget %</u>	Variance Actual & Final <u>Budget %</u>
Revenue	\$4,743,964	\$4,642,196	\$4,609,969	2.15	(0.69)
Expenditures	4,609,333	4,437,986	4,400,804	3.72	0.84
Other financing sources	(130,367)	(197,781)	(166,379)	(51.71)	15.88
<b><u>TOTAL</u></b>	<b><u>\$4,264</u></b>	<b><u>\$6,429</u></b>	<b><u>\$42,786</u></b>		

**CAREER TECHNICAL PREPARATION FUND BUDGET VS. ACTUAL**

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Original & Final <u>Budget %</u>	Variance Actual & Final <u>Budget %</u>
Revenue	\$3,802,354	\$4,013,906	\$4,019,878	(5.56)	0.15
Expenditures	3,637,011	3,740,213	3,712,820	(2.84)	0.73
Other financing sources	(126,938)	(135,509)	(133,508)	(6.75)	1.48
<b><u>TOTAL</u></b>	<b><u>\$38,405</u></b>	<b><u>\$138,184</u></b>	<b><u>\$173,550</u></b>		

**ANALYSIS OF BUDGETS:**

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, Sanilac Intermediate School District amends its budget twice during the school year. The June 2017 budget amendment was the final budget for the fiscal year.

SANILAC INTERMEDIATE SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

The district's net investment in capital assets increased by \$58,410 during the fiscal year. At the end of the fiscal year 2016-17, the district had \$10.1 million invested in land, building, office, instructional, and transportation equipment. Of this amount, \$5.7 million in depreciation has been recognized over the years. The district's net investment capital outlay is \$4.4 million. This can be summarized as follows:

	Balance 7/1/2016	Additions	Deductions	Balance 06/30/17
Capital Assets	\$10,260,424	\$372,436	(\$517,795)	10,115,065
Less: Accumulated Depreciation	(5,904,101)	(310,854)	514,623	(5,700,332)
Net Investment Capital Outlay	<u>\$4,356,323</u>	<u>\$61,582</u>	<u>(\$3,172)</u>	<u>\$4,414,733</u>

Long-Term Debt

At the end of the 2016-17 year, the district had a total of \$693,349 in long-term debt of which \$134,555 was due within one year and \$558,794 was due in more than one year.

	Principal Balance 6-30-16	Adjustments	Deductions	Principal Balance 6-30-17
Bonds Payable	\$682,758	\$0	\$98,084	\$584,674
Bus Loan	0	97,149	33,304	63,845
Unpaid Sick & Vacation Payable	52,451		7,621	44,830
Total Long-Term Obligations	<u>\$735,209</u>	<u>\$97,149</u>	<u>\$139,009</u>	<u>\$693,349</u>

The District issued bonds on March 8, 2005 in the amount of \$425,000. The bonds mature serially through May 1, 2019, at varying principal amounts. Interest rates on the bonds range from 3.95% to 4.25% per annum. The balance of the bonds at June 30, 2017 was \$80,000.

**CLOSING STATEMENT**

The overall financial condition of all funds remains very stable for the Sanilac Intermediate School District. The district continues to partner with local districts and neighboring ISD's in attempt to reduce cost while maintaining and in some cases expanding programs and services. The district's fund equity in each of its three funds has continued to grow each of the last several years. The district is committed to adopting budgets that are structurally sound where the annual revenues exceed the reoccurring expenses. Fund Equity will only be used to address one-time expenses to address equipment maintenance needs.

**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 Business Office, Sanilac Intermediate School District at 175 E. Aitken Road, Peck, MI 48466.

## **BASIC FINANCIAL STATEMENTS**

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,774,746
Accounts receivable	45,848
Intergovernmental receivables	1,143,351
Prepaid expenses	12,015
Capital assets not being depreciated	62,155
Capital assets, net of accumulated depreciation	4,352,578
<b>TOTAL ASSETS</b>	<b>9,390,693</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Related to pensions	1,688,159
<b>LIABILITIES</b>	
Accounts payable	61,062
Salaries payable	437,747
Accrued retirement	188,762
Accrued expenses	112,185
Unearned revenue	528,384
Noncurrent liabilities:	
Due within one year	134,555
Due in more than one year	558,794
Net pension liability	11,444,127
<b>TOTAL LIABILITIES</b>	<b>13,465,616</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	33,487
Related to state aid funding for pension	355,691
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>389,178</b>
<b>NET POSITION</b>	
Net investment in capital assets	3,766,214
Unrestricted	(6,542,156)
<b>TOTAL NET POSITION</b>	<b>\$ (2,775,942)</b>

See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2017**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<b>Governmental Activities</b>
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:				
Instruction	\$ 3,732,752		\$ 648,369	\$ (3,084,383)
Support services	4,553,196	\$ 537,085	1,512,860	(2,503,251)
Community services	617,804			(617,804)
Food service	9,762			(9,762)
Transfers to other governmental units	2,016,762			(2,016,762)
Interest on long-term debt	15,613			(15,613)
Unallocated depreciation	310,854			(310,854)
<b>Total governmental activities</b>	<b><u>\$ 11,256,743</u></b>	<b><u>\$ 537,085</u></b>	<b><u>\$ 2,161,229</u></b>	<b><u>(8,558,429)</u></b>
General revenues:				
Property taxes				3,936,297
State sources - unrestricted				4,307,315
Investment revenue				2,032
Transfers from other governmental units				372,658
Miscellaneous				230,693
<b>Total general revenue</b>				<b><u>8,848,995</u></b>
Change in net position				290,566
Net position, beginning of year				<u>(3,066,508)</u>
Net position, end of year				<b><u>\$ (2,775,942)</u></b>

See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
June 30, 2017

	<u>SPECIAL REVENUE</u>			<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
	<u>GENERAL FUND</u>	<u>SPECIAL EDUCATION</u>	<u>CAREER TECHNICAL PREPARATION</u>		
<b><u>ASSETS</u></b>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 765,365	\$ 1,141,873	\$ 1,867,165	\$ 343	\$ 3,774,746
Accounts receivable	905	29	44,914	-	45,848
Due from other funds	-	3,268	-	-	3,268
Due from other governmental units	385,951	638,231	119,169	-	1,143,351
Prepaid expenditures	-	1,395	10,620	-	12,015
<b>TOTAL ASSETS</b>	<b><u>\$ 1,152,221</u></b>	<b><u>\$ 1,784,796</u></b>	<b><u>\$ 2,041,868</u></b>	<b><u>\$ 343</u></b>	<b><u>\$ 4,979,228</u></b>
 <b><u>LIABILITIES AND FUND BALANCES</u></b>					
LIABILITIES:					
Accounts payable	\$ 12,376	\$ 33,062	\$ 15,624	\$ -	\$ 61,062
Due to other funds	1,507	-	1,761	-	3,268
Salaries payable	23	272,257	165,467	-	437,747
Accrued payroll liabilities	1,122	60,295	43,685	16	105,118
Accrued retirement	5,093	110,120	73,549	-	188,762
Unearned revenue	506,603	10,676	11,105	-	528,384
<b>TOTAL LIABILITIES</b>	<b><u>526,724</u></b>	<b><u>486,410</u></b>	<b><u>311,191</u></b>	<b><u>16</u></b>	<b><u>1,324,341</u></b>
FUND BALANCES:					
Nonspendable:					
Prepaid expenditures	-	1,395	10,620	-	12,015
Restricted for:					
Special education	-	1,198,760	-	-	1,198,760
Vocational education	-	-	1,700,312	-	1,700,312
Hot lunch	-	-	-	327	327
Assigned for:					
Compensated absences	6,855	18,231	19,745	-	44,831
Medicaid obligation	-	80,000	-	-	80,000
Unassigned	618,642	-	-	-	618,642
<b>TOTAL FUND BALANCES</b>	<b><u>625,497</u></b>	<b><u>1,298,386</u></b>	<b><u>1,730,677</u></b>	<b><u>327</u></b>	<b><u>3,654,887</u></b>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<b><u>\$ 1,152,221</u></b>	<b><u>\$ 1,784,796</u></b>	<b><u>\$ 2,041,868</u></b>	<b><u>\$ 343</u></b>	<b><u>\$ 4,979,228</u></b>

See notes to financial statements.



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

Total Fund Balances - Governmental Funds	\$ 3,654,887
Amounts reported for governmental activities in the statement of net position are different because:	
Deferred outflows of resources-related to pensions	1,688,159
Deferred inflows of resources-related to pensions	(33,487)
Deferred inflows of resources-related to state pension funding	(355,691)
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
Cost of capital assets	10,115,065
Accumulated depreciation	(5,700,332)
Long term liabilities are not due and payable in the current period and are not reported in the funds	
Bonds payable	(648,519)
Accrued interest on long-term debt	(7,067)
Compensated absences	(44,830)
Net pension liability	<u>(11,444,127)</u>
Net Position of Governmental Activities	<u><u>\$ (2,775,942)</u></u>

See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2017**

	<u>SPECIAL REVENUE</u>			<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
	<u>GENERAL FUND</u>	<u>SPECIAL EDUCATION</u>	<u>CAREER TECHNICAL PREPARATION</u>		
<b>REVENUES:</b>					
Local sources					
Property taxes	\$ 312,282	\$ 1,124,883	\$ 2,500,817	\$ -	\$ 3,937,982
Medicaid		361,543			361,543
Other local revenues	24,550	53,000	409,779	991	488,320
Total local sources	<u>336,832</u>	<u>1,539,426</u>	<u>2,910,596</u>	<u>991</u>	<u>4,787,845</u>
State sources	2,296,186	1,356,542	654,728	(141)	4,307,315
Federal sources	-	1,702,758	449,341	9,130	2,161,229
Incoming transfers and other	70,171	308,689	11,176		390,036
<b>TOTAL REVENUES</b>	<u>2,703,189</u>	<u>4,907,415</u>	<u>4,025,841</u>	<u>9,980</u>	<u>11,646,425</u>
<b>EXPENDITURES:</b>					
Instruction	-	1,698,286	2,042,087	9,762	3,750,135
Student services		1,273,929	4,727		1,278,656
Instructional support	224,797	488,128	141,032		853,957
General administration	154,092	5,360	191,958		351,410
School administration		222,402	129,300		351,702
Business administration	145,998	6,873	71,396		224,267
Operation and maintenance	182,923	183,103	420,456		786,482
Transportation		483,818			483,818
Other support services	219,663	1,217	171,172		392,052
Community services	159,940	4,384	453,480		617,804
Transfers to other governmental units	1,526,399	465,030	25,333	-	2,016,762
Debt service:					
Principal repayment		33,304		98,084	131,388
Interest and fees		-		16,654	16,654
Capital outlay			87,212		87,212
<b>TOTAL EXPENDITURES</b>	<u>2,613,812</u>	<u>4,865,834</u>	<u>3,738,153</u>	<u>124,500</u>	<u>11,342,299</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>89,377</u>	<u>41,581</u>	<u>287,688</u>	<u>(114,520)</u>	<u>304,126</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds from sale of assets	-	1,205	-	-	1,205
Operating transfers in	-	-	600	115,169	115,769
Operating transfers out	(431)	-	(114,738)	(600)	(115,769)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(431)</u>	<u>1,205</u>	<u>(114,138)</u>	<u>114,569</u>	<u>1,205</u>
<b>CHANGE IN FUND BALANCES</b>	88,946	42,786	173,550	49	305,331
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>536,551</u>	<u>1,255,600</u>	<u>1,557,127</u>	<u>278</u>	<u>3,349,556</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 625,497</u>	<u>\$ 1,298,386</u>	<u>\$ 1,730,677</u>	<u>\$ 327</u>	<u>\$ 3,654,887</u>

See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2017**

Total change in fund balances--governmental funds	\$305,331
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(310,854)
Capital outlay	372,436
Book value of disposed assets	(3,172)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	8,108
Accrued interest payable at the end of the year	(7,067)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effect of premium, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items is as follows:

Payments on debt	131,388
Proceeds from bus loan	(97,149)

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

Accrued absences at the beginning of the year	52,451
Accrued absences at the end of the year	(44,830)

Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds.

Pension related items	239,615
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Restricted revenue reported in governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period.

State aid funding for pension	<u>(355,691)</u>
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Change in net position of governmental activities	<u><u>\$290,566</u></u>
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See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**JUNE 30, 2017**

	<u><b>AGENCY FUND</b></u>
<u><b>ASSETS</b></u>	
Cash and cash equivalents	<u><u>\$ 101,728</u></u>
<u><b>LIABILITIES</b></u>	
Liabilities:	
Due to student groups	<u><u>\$ 101,728</u></u>

See notes to financial statements.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**DESCRIPTION OF GOVERNMENT-WIDE 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 nonfiduciary activities of the District. All fiduciary activities are reported only in the fund statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

**REPORTING ENTITY:**

The Sanilac Intermediate School District (the "District") is governed by the Sanilac Intermediate School District Board of Education (the "Board"), 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 the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. 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 Statements.

**BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS:**

While separate government-wide and fund financial statements are presented, they are interrelated. The government activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

**BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS:**

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – government and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its *special education fund* and the *career technical preparation fund* in the special revenue funds.

**OTHER NON-MAJOR FUNDS:**

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The nonmajor special revenue fund consists of the food service fund.

The Debt Service Funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:**

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

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

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

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

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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

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

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

**BUDGETARY INFORMATION:**

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Capital projects funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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, or in excess of the amount appropriated. Violations, if any, in the major funds are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to the year ended. The District does not consider these amendments to be significant.

**ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:**

1. Cash and equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and certificates of deposit.

2. Investments

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

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

3. Inventories and prepaid items

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

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

4. Capital assets

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

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

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

Buildings and additions	50 years
Land improvements	10 – 20 years
Furniture and other equipment	5 – 15 years
Vehicles	5 – 15 years

5. Defined Benefit Plan

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (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.

6. Deferred outflows/inflows of resources

Deferred outflows:

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is the pension related items reported in the government-wide statement of net position. These amounts are expensed in the plan year in which they apply.

Deferred inflows:

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualifies for reporting in this category. The first is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary. The second is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

7. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to reported as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of the resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification 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. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**REVENUES AND EXPENDITURES/EXPENSES:**

1. Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements for a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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 July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due date is September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

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

<u>FUND</u>	<u>MILLS</u>
General Fund	0.2026
Special Revenue Funds:	
Special Education Fund	0.7298
Career Technical Preparation Fund	1.6227

3. Compensated absences

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

4. Long-term obligations

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

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

**NOTE 2 - DEPOSITS AND INVESTMENTS:**

As of June 30, 2017, the District had no investments as defined by generally accepted accounting principles.

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

**Credit risk.** State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, the District did not have investments in commercial paper and corporate bonds.

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

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2017, \$3,913,566 of the District's bank balance of \$4,163,566 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. The carrying value on the books for deposits at the end of the year was \$3,876,474.

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

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

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

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

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

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

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

The District does not have any investments subject to the fair value measurement.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Foreign currency risk.** The District is not authorized to invest in investments which have this type of risk.

The above amounts are reported in the financial statements as follows:

Cash Agency Fund	\$ 101,728
Cash - District wide	<u>3,774,746</u>
	<u><u>\$ 3,876,474</u></u>

**NOTE 3 – INTERGOVERNMENTAL RECEIVABLES:**

Intergovernmental receivables at June 30, 2017 consist of the following:

Governmental Units:	
State Aid	\$ 747,127
Federal Revenue	268,105
Other	<u>128,119</u>
	<u><u>\$ 1,143,351</u></u>

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs. No allowance for doubtful accounts is considered necessary based on previous experience.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

**NOTE 4 – CAPITAL ASSETS:**

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

<b><u>Governmental Activities</u></b>	<b>Balance July 1, 2016</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2017</b>
Assets not being depreciated-land	\$ 62,155	\$ -	\$ -	\$ 62,155
Assets being depreciated:				
Building and Improvements	8,242,588	\$ 218,414	\$ (10,574)	8,450,428
Land Improvements	17,246	-	-	17,246
Equipment and Furniture	1,478,629	32,074	(421,337)	1,089,366
Vehicles	459,806	121,948	(85,884)	495,870
Total assets being depreciated	10,198,269	372,436	(517,795)	10,052,910
Accumulated depreciation:				
Building and Improvements	(4,207,881)	(216,517)	7,402	(4,416,996)
Land Improvements	(15,246)	(500)	-	(15,746)
Equipment and Furniture	(1,313,140)	(39,821)	421,337	(931,624)
Vehicles	(367,834)	(54,016)	85,884	(335,966)
Total accumulated depreciation	(5,904,101)	(310,854)	514,623	(5,700,332)
Net depreciated capital assets	4,294,168	61,582	(3,172)	4,352,578
Governmental activities capital assets, net	\$ 4,356,323	\$ 61,582	\$ (3,172)	\$ 4,414,733

Depreciation for the fiscal year ended June 30, 2017 amounted to \$310,854. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

**NOTE 5 - RISK MANAGEMENT:**

The District is exposed to various risk 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 a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the 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 pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2017 or any of the prior three years.

**NOTE 6 – LONG-TERM DEBT:**

**2005 School Building and Site Bonds (General Obligation - Limited Tax)**

The bonds were issued March 8, 2005 in the amount of \$425,000. The bonds mature serially through May 1, 2019, at varying principal amounts. Interest rates on the bonds range from 2.90% to 4.25% per annum. \$ 80,000

**2009 School Building and Site Qualified Zone Academy Bonds**

The bonds were issued on October 15, 2009 in the amount of \$946,262 for the purpose of making energy efficient improvements to the school facilities. The bonds mature serially through October 15, 2024, with annual principal payments in the amount of \$63,084. Interest rates on the bonds are 1.95% per annum. 504,674

**School Bus Loan**

Sanilac Intermediate School District purchased a new school bus on August 1, 2016 for \$97,149 with an interest rate of 2.837%. The note matures in August 2018. 63,845

Total bonds	648,519
Compensated absences	44,830
Total long-term debt	\$ 693,349

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**Annual Principal Requirements**

The annual principal requirements for all debts outstanding as of June 30, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2018	\$ 134,555	\$ 15,053	\$ 149,608
June 30, 2019	135,458	12,143	147,601
June 30, 2020	63,084	7,381	70,465
June 30, 2021	63,084	6,151	69,235
June 30, 2022	63,084	4,920	68,004
June 30, 2023-2025	189,254	7,381	196,635
	<u>648,519</u>	<u>\$ 68,932</u>	<u>\$ 815,535</u>
Compensated absences	<u>44,830</u>		
Total long-term debt	<u>\$ 693,349</u>		

The payment dates for sick days payable is undeterminable. The interest expense on long-term obligations for the year was \$15,613.

**Changes in General Long-Term Debt**

<u>Governmental Activities:</u>	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Due Within</u> <u>One Year</u>	<u>Due In More</u> <u>Than One Year</u>
General Obligation	\$ 682,758	\$ -	\$ 98,084	\$ 584,674	\$ 103,084	\$ 481,590
Bus Loan	-	97,149	33,304	63,845	31,471	32,374
Compensated absences	52,451		7,621	44,830		44,830
Total Governmental Activities	<u>\$ 735,209</u>	<u>\$ 97,149</u>	<u>\$ 139,009</u>	<u>\$ 693,349</u>	<u>\$ 134,555</u>	<u>\$ 558,794</u>

**NOTE 7 – INTERFUND RECEIVABLES AND PAYABLES:**

A recap of the interfund receivables and payables that exist at June 30, 2017 is as follows:

<u>Interfund Receivable</u>	<u>Amount</u>	<u>Interfund Payable</u>	<u>Amount</u>
General Fund		General Fund	\$ 1,507
Special Education	\$ 3,268	Vocational Education	1,761
Total	<u>\$ 3,268</u>		<u>\$ 3,268</u>

The outstanding balances between funds result mainly 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 systems, and (3) payments between funds are made.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

**NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS:**

**Plan Description** - The Michigan Public School Employees' Retirement System (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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpsers-cafr>.

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 of the system.

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

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

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

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

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

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



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

**Regular Retirement (no reduction factor for age)**

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

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

**Pension Plus**

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

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

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

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

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

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

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

**Member Contributions**

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

**Employer Contributions**

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). 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 September 30, 2016 valuation will be amortized over a 20 year period for fiscal year 2016.

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

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$1,104,000, with \$1,086,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

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

**Pension Liabilities**

At June 30, 2017, the District reported a liability of \$11,444,127 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled forward using generally accepted actuarial procedures. The Reporting Unit's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the Reporting Unit's proportion was 0.04587 and 0.04514 percent.

<b><u>MPSERS (Plan) Non-university employers:</u></b>	<b><u>September 30, 2016</u></b>	<b><u>September 30, 2015</u></b>
Total Pension Liability	\$ 67,917,445,078	\$ 66,312,041,902
Plan Fiduciary Net Position	\$ 42,968,263,308	\$ 41,887,015,147
Net Pension Liability	\$ 24,949,181,770	\$ 24,425,026,755
Proportionate share	0.04587	0.04514
Net Pension liability for the District	\$ 11,444,127	\$ 11,025,254

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

For the year ended June 30, 2017, the Reporting Unit recognized pension expense of \$982,968.

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

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred (Inflows) of Resources</u></b>
Change of assumptions	\$ 178,920	
Net difference between projected and actual earnings on pension plan investments	190,201	
Difference between expected and actual experience	142,624	\$ (27,123)
Change in proportion and differences between employer contributions and proportionate share of contributions	203,760	(6,364)
Reporting Unit contributions subsequent to the measurement date	<u>972,654</u>	
Total	<u>\$ 1,688,159</u>	<u>\$ (33,487)</u>

\$972,654 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the next year.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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Other amounts reported as deferred outflows of resources and (deferred inflows) of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	Amount
2017	\$ 150,833
2018	135,864
2019	328,828
2020	66,493

**Actuarial Assumptions**

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

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

Inflation - 2.5%

Mortality assumptions -RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2025 using projection scale BB for men and women were used.

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

The long-term expected rate of return on pension plan investments - The rate was 8% (7% Pension Plus Plan) net of investment and administrative expenses was determined using a 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.

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

<b>Investment Category</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0%	5.9%
Alternate 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%	0.00%
<b>Total</b>	<b>100.0%</b>	

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

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

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

**Sensitivity of the net pension liability to changes in the discount rate**

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus Plan), as well as what the Reporting Unit's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	<b>1% Decrease</b> <b><u>(6.0% - 7.0%)</u></b>	<b>Discount Rate</b> <b><u>(7.0% - 8.0%)</u></b>	<b>1% Increase</b> <b><u>(8.0% - 9.0%)</u></b>
Reporting Unit's proportionate share of the net pension liability	<u>\$14,737,155</u>	<u>\$11,444,127</u>	<u>\$8,667,788</u>

**Pension Plan Fiduciary Net Position**

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

**Payable to the Pension Plus Plan**

At year end the School District is current on all required pension plan payments. amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payment for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**Other Information**

***Discount Rate - Assumed Rate of Return***

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

**Pension Reform 2017**

Senate Bill 401, amends the Public School Employees Retirement Act (PA 300 of 1980, as amended).

The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new option revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
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**YEAR ENDED JUNE 30, 2017**

**Benefit Provisions - Other Postemployment**

***Introduction***

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

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

***Retiree Healthcare Reform of 2012***

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

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

***Employer Contributions***

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to September 30, 2014, 2.2% to 2.71% of covered payroll for the period from October 1, 2014 to September 30, 2015, from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016, 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the year ended June 30, 2017, 2016, and 2015 were approximately \$370,193, \$350,045, and \$464,315.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

**NOTE 9 – TRANSFERS:**

<u>Transfer To</u>	<u>Transfer From</u>			<u>Total</u>
	<u>General Fund</u>	<u>Career Technical Preparation</u>	<u>Nonmajor Funds</u>	
Career Technical Preparation	\$ 431		\$ 114,738	\$ 115,169
Nonmajor Funds		\$ 600		600
<b>Total</b>	<b>\$ 431</b>	<b>\$ 600</b>	<b>\$ 114,738</b>	<b>\$ 115,769</b>

The transfers from the Career Technical Preparation Fund to the Debt Retirement Fund are for QZAB loan requirements. The transfer from General Fund to Food Service Fund is to reimburse for negative balances.

**NOTE 10 – TAX ABATEMENT:**

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

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

<u>Municipality</u>	<u>Taxes Abated</u>
Custer Township	\$ 1,322
Lexington Township	51
Watertown Township	380
Wheatland Township	16
Worth Township	891
City of Brown City	218
City of Croswell	2,005
City of Sandusky	1,035
City of Marlette	4,501
<b>Total</b>	<b>\$ 10,419</b>

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

There are no significant abatements made by the District.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2017**

**NOTE 11 – UPCOMING ACCOUNTING PRONOUNCEMENT:**

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year. The Statement requires governments that participate in defined benefit and other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

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

**REQUIRED SUPPLEMENTARY INFORMATION**



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**YEAR ENDED JUNE 30, 2017**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUE:				
Local sources				
Property taxes	\$ 311,627	\$ 311,885	\$ 312,282	\$ 397
Interest income	476	591	618	27
Other local revenues	8,140	23,323	23,932	609
State sources	2,761,035	2,282,587	2,296,186	13,599
Other	-	922	922	-
Transfers from other governmental units	51,726	70,433	69,249	(1,184)
<b>TOTAL REVENUE</b>	<u>3,133,004</u>	<u>2,689,741</u>	<u>2,703,189</u>	<u>13,448</u>
EXPENDITURES:				
Supporting services:				
Instructional staff	218,744	227,636	224,797	2,839
General administration	142,497	154,448	154,092	356
Business administration	149,297	147,112	145,998	1,114
Operation and maintenance	170,659	176,446	182,923	(6,477)
Other support services	42,410	221,063	219,663	1,400
Community services	231,847	170,164	159,940	10,224
Transfers to other governmental units	2,155,892	1,549,832	1,526,399	23,433
<b>TOTAL EXPENDITURES</b>	<u>3,111,346</u>	<u>2,646,701</u>	<u>2,613,812</u>	<u>32,889</u>
<b>EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>21,658</u>	<u>43,040</u>	<u>89,377</u>	<u>46,337</u>
OTHER FINANCING SOURCES (USES):				
Transfers to other funds	-	(431)	(431)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>(431)</u>	<u>(431)</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	<u>\$ 21,658</u>	<u>\$ 42,609</u>	88,946	<u>\$ 46,337</u>
FUND BALANCE - BEGINNING			<u>536,551</u>	
FUND BALANCE - ENDING			<u>\$ 625,497</u>	

**SANILAC INTERMEDIATE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
SPECIAL EDUCATION FUND  
YEAR ENDED JUNE 30, 2017**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUE:				
Local sources				
Property taxes	\$ 1,122,068	\$ 1,122,171	\$ 1,124,883	\$ 2,712
Medicaid	407,561	361,543	361,543	-
Other local revenues	57,498	52,922	53,000	78
State sources	1,419,560	1,392,982	1,356,542	(36,440)
Federal sources	1,726,034	1,701,335	1,702,758	1,423
Other	11,243	11,243	11,243	-
Transfers from other governmental units	294,983	304,808	297,446	(7,362)
<b>TOTAL REVENUE</b>	<u>5,038,947</u>	<u>4,947,004</u>	<u>4,907,415</u>	<u>(39,589)</u>
EXPENDITURES:				
Instruction	1,639,584	1,717,580	1,698,286	19,294
Supporting services				
Student services	1,229,151	1,283,760	1,273,929	9,831
Instructional support	467,582	490,570	488,128	2,442
General administration	-	5,361	5,360	1
School administration	282,632	223,285	222,402	883
Business administration	225,586	6,874	6,873	1
Operation & maintenance	189,430	184,440	183,103	1,337
Transportation	536,064	487,398	483,818	3,580
Other support services	-	1,028	1,217	(189)
Community services	6,000	4,386	4,384	2
Transfers to other governmental units	425,350	503,794	465,030	38,764
Debt service:				
Principal repayment	33,304	33,304	33,304	-
Interest and fees	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<u>5,034,683</u>	<u>4,941,780</u>	<u>4,865,834</u>	<u>75,946</u>
<b>EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>4,264</u>	<u>5,224</u>	<u>41,581</u>	<u>36,357</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of assets	-	1,205	1,205	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>1,205</u>	<u>1,205</u>	<u>-</u>
<b>CHANGE IN FUND BALANCE</b>	<u>\$ 4,264</u>	<u>\$ 6,429</u>	42,786	<u>\$ 36,357</u>
FUND BALANCE - BEGINNING			<u>1,255,600</u>	
FUND BALANCE - ENDING			<u>\$ 1,298,386</u>	

**SANILAC INTERMEDIATE SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
CAREER TECHNICAL PREPARATION FUND  
YEAR ENDED JUNE 30, 2017**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>REVENUE:</b>				
Local sources				
Property taxes	\$ 2,495,957	\$ 2,495,130	\$ 2,500,817	\$ 5,687
Program sales	120,000	174,832	174,564	(268)
Other local revenues	143,303	236,810	235,215	(1,595)
State sources	566,824	622,370	654,728	32,358
Federal sources	474,270	479,551	449,341	(30,210)
Other	2,000	5,213	5,213	-
Transfers from other governmental units	5,000	4,563	5,963	1,400
<b>TOTAL REVENUE</b>	<u>3,807,354</u>	<u>4,018,469</u>	<u>4,025,841</u>	<u>7,372</u>
<b>EXPENDITURES:</b>				
Instruction	2,057,568	2,054,797	2,042,087	12,710
Supporting services				
Student services	100	4,692	4,727	(35)
Instructional support	189,449	141,478	141,032	446
General administration	133,244	193,103	191,958	1,145
School administration	142,401	129,096	129,300	(204)
Business administration	60,385	71,769	71,396	373
Operation & maintenance	460,002	430,121	420,456	9,665
Other support services	142,096	175,263	171,172	4,091
Community services	421,766	454,194	453,480	714
Transfers to other governmental units	17,200	25,333	25,333	-
Capital outlay	30,000	85,700	87,212	(1,512)
<b>TOTAL EXPENDITURES</b>	<u>3,654,211</u>	<u>3,765,546</u>	<u>3,738,153</u>	<u>27,393</u>
<b>EXCESS (DEFICIT) OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>153,143</u>	<u>252,923</u>	<u>287,688</u>	<u>34,765</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers to other funds	(114,738)	(114,739)	(114,738)	1
Transfers from other funds	-	-	600	600
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(114,738)</u>	<u>(114,739)</u>	<u>(114,138)</u>	<u>601</u>
<b>CHANGE IN FUND BALANCE</b>	<u>\$ 38,405</u>	<u>\$ 138,184</u>	173,550	<u>\$ 35,366</u>
<b>FUND BALANCE - BEGINNING</b>			<u>1,557,127</u>	
<b>FUND BALANCE - ENDING</b>			<u>\$ 1,730,677</u>	

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE**  
**SHARE OF THE NET PENSION LIABILITY**  
**MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN**  
**LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED**  
**AS OF 9/30 OF EACH FISCAL YEAR)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.04587%	0.04514%	0.04465%
Reporting unit's proportionate share of net pension liability	\$ 11,444,127	\$ 11,025,254	\$ 9,834,845
Reporting unit's covered-employee payroll	\$ 3,866,540	\$ 3,729,254	\$ 3,812,895
Reporting unit's proportionate share of net pension liability as a percentage of it covered-employee payroll	295.98%	295.64%	257.94%
Plan fiduciary net position as a percentage of total pension liability (Non-university employers)	63.27%	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS**  
**MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN**  
**LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED**  
**AS OF 6/30 OF EACH FISCAL YEAR END)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,085,865	\$ 1,032,325	\$ 823,479
Contributions in relation to statutorily required contributions	<u>1,085,865</u>	<u>1,032,325</u>	<u>823,479</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered- employee payroll	\$ 3,858,598	\$ 3,694,784	\$ 3,759,096
Contributions as a percentage of covered-employee payroll	28.14%	27.94%	21.91%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**YEAR ENDED JUNE 30, 2017**

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

**Changes of assumptions:** There were no changes of benefit assumption in 2016.

**ADDITIONAL SUPPLEMENTARY INFORMATION**

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUND TYPES**  
**JUNE 30, 2017**

	<u>2009 QAZB DEBT RETIREMENT</u>	<u>2005 DEBT RETIREMENT</u>	<u>FOOD SERVICE</u>	<u>TOTAL</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 343	\$ 343
<b>TOTAL ASSETS</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343</u>	<u>\$ 343</u>
<b>LIABILITIES</b>				
Accrued liabilities	\$ -	\$ -	\$ 16	\$ 16
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>16</u>	<u>16</u>
<b>FUND BALANCES</b>				
Restricted for hot lunch	-	-	327	327
<b>TOTAL FUND BALANCES</b>	<u>-</u>	<u>-</u>	<u>327</u>	<u>327</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343</u>	<u>\$ 343</u>



**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE**  
**IN FUND BALANCES NONMAJOR GOVERNMENTAL FUND TYPES**  
**YEAR ENDED JUNE 30, 2017**

	<u>2009 QAZB DEBT RETIREMENT</u>	<u>2005 DEBT RETIREMENT</u>	<u>FOOD SERVICE</u>	<u>TOTAL</u>
REVENUES				
Local Sources				
Food sales	\$ -	\$ -	\$ 978	\$ 978
Earnings on investments and deposits	-	-	13	13
Total Local Sources	-	-	991	991
State Sources	-	-	(141)	(141)
Federal Sources	-	-	9,130	9,130
TOTAL REVENUES	-	-	9,980	9,980
EXPENDITURES				
Food Service	-	-	9,762	9,762
Debt Retirement				
Interest on bonded debt	11,071	4,833	-	15,904
Dues and fees	-	750	-	750
Principal payment	63,084	35,000	-	98,084
TOTAL EXPENDITURES	74,155	40,583	9,762	124,500
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(74,155)	(40,583)	218	(114,520)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	74,155	40,583	431	115,169
Transfers to other funds	-	-	(600)	(600)
TOTAL OTHER FINANCING SOURCES (USES)	74,155	40,583	(169)	114,569
CHANGE IN FUND BALANCES	-	-	49	49
FUND BALANCES - BEGINNING	-	-	278	278
FUND BALANCES - ENDING	\$ -	\$ -	\$ 327	\$ 327

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF BONDED DEBT**  
**YEAR ENDED JUNE 30, 2017**

2005 GENERAL OBLIGATION SCHOOL BUILDING & SITE BONDS

\$425,000 Bond issued on March 8, 2005

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>NOVEMBER INTEREST</u>	<u>MAY INTEREST</u>	<u>TOTAL</u>
2017-2018	\$ 40,000	4.20%	\$ 1,690	\$ 1,690	\$ 43,380
2018-2019	40,000	4.25%	850	850	41,700
<b>TOTAL</b>	<b>\$ 80,000</b>		<b>\$ 2,540</b>	<b>\$ 2,540</b>	<b>\$ 85,080</b>

2009 QZAB SCHOOL BUILDING & SITE BONDS

\$946,262 Bond issued on October 15, 2009

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>OCTOBER INTEREST</u>	<u>TOTAL</u>
2017-2018	\$ 63,084	1.95%	\$ 9,841	\$ 72,925
2018-2019	63,084	1.95%	8,611	71,695
2019-2020	63,084	1.95%	7,381	70,465
2020-2021	63,084	1.95%	6,151	69,235
2021-2022	63,084	1.95%	4,921	68,005
2022-2023	63,084	1.95%	3,690	66,774
2023-2024	63,085	1.95%	2,460	65,545
2024-2025	63,085	1.95%	1,230	64,315
<b>TOTAL</b>	<b>\$ 504,674</b>		<b>\$ 44,285</b>	<b>\$ 548,959</b>

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	AWARD AMOUNT	(MEMO ONLY) PRIOR YEAR EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2016	CURRENT YEAR RECEIPTS	CURRENT YEAR EXPENDITURES	ACCRUED (UNEARNED) REVENUE 6/30/2017	CURRENT YEAR CASH TRANSFERRED TO SUBRECIPIENT
U.S. DEPARTMENT OF EDUCATION:									
Passed through Michigan Dept. of Education:									
Special Education Cluster:	84.027								
Grants to State									
IDEA Flowthrough		150450-1415	\$ 1,498,913	\$ 376,440	\$ 89,962	\$ 94,297	\$ 4,335	\$ -	
IDEA Flowthrough		160450-1516	1,479,821	1,012,443	265,351	629,153	462,571	98,769	\$ 81,842
IDEA Flowthrough		170450-1617	1,514,226		-	840,639	983,180	142,541	294,800
State Initiated - EOSD		160480-1112	45,000	45,000	2,593	2,593		-	
State Initiated - EOSD		170480-1112	45,000		-	41,715	45,000	3,285	
Transition Services		170490-TC	50,000		-	45,916	50,000	4,084	
Transition Services		160490-TC	50,000	50,000	3,552	3,552		-	
			<u>4,682,960</u>	<u>1,483,883</u>	<u>361,458</u>	<u>1,657,865</u>	<u>1,545,086</u>	<u>248,679</u>	<u>376,642</u>
Preschool Grants	84.173								
Preschool Incentive		170460-1617	48,859		-	38,184	48,859	10,675	
Preschool Incentive		160460-1516	47,149	47,149	11,153	11,153		-	
			<u>96,008</u>	<u>47,149</u>	<u>11,153</u>	<u>49,337</u>	<u>48,859</u>	<u>10,675</u>	
Total Special Education Cluster			<u>4,778,968</u>	<u>1,531,032</u>	<u>372,611</u>	<u>1,707,202</u>	<u>1,593,945</u>	<u>259,354</u>	<u>376,642</u>
Vocational Education - Basic Grants to States	84.048								
Passed through Tuscola ISD:									
CTE Perkins		173520-171211	78,107			78,107	78,107	-	
		163520-161211	79,844	79,844	14,997	14,997		-	
			<u>157,951</u>	<u>79,844</u>	<u>14,997</u>	<u>93,104</u>	<u>78,107</u>	<u>-</u>	
Early On Cluster:									
Special Education - Grants for Infants & Families with Disabilities	84.181								
Early On									
Early On		171340-1617	89,374		-	69,849	78,600	8,751	
Total Early On Cluster:		161340-1516	93,472	75,470	18,763	19,095	332	-	
			<u>182,846</u>	<u>75,470</u>	<u>18,763</u>	<u>88,944</u>	<u>78,932</u>	<u>8,751</u>	
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>5,119,765</u>	<u>1,686,346</u>	<u>406,371</u>	<u>1,889,250</u>	<u>1,750,984</u>	<u>268,105</u>	<u>376,642</u>

The accompanying notes are an integral part of this schedule.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED JUNE 30, 2017**

<b>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</b>	<b>FEDERAL CFDA NUMBER</b>	<b>PASS- THROUGH GRANTOR'S NUMBER</b>	<b>AWARD AMOUNT</b>	<b>(MEMO ONLY) PRIOR YEAR EXPENDITURES</b>	<b>ACCRUED (UNEARNED) REVENUE 6/30/2016</b>	<b>CURRENT YEAR RECEIPTS</b>	<b>CURRENT YEAR EXPENDITURES</b>	<b>ACCRUED (UNEARNED) REVENUE 6/30/2017</b>	<b>CURRENT YEAR CASH TRANSFERRED TO SUBRECIPIENT</b>
U.S. EMPLOYMENT & TRAINING ADMINISTRATION									
Passed through Thumb Area - Michigan Works:									
MI Works Staffing Grant									
Unemployment Insurance	17.225	N/A	\$ 7,052	\$ -	\$ -	\$ 7,052	\$ 7,052	\$ -	\$ -
WIA Dislocated Workers National Emergency	17.277	N/A	6,896	-	-	6,896	6,896	-	-
Cluster:									
WIA Adult	17.258	N/A	52,908	-	27,491	80,399	52,908	-	-
WIA Youth Activities	17.259	N/A	154,642	-	-	154,642	154,642	-	-
WIA Dislocated Workers	17.278	N/A	37,412	-	-	37,412	37,412	-	-
Total Cluster			227,202	-	27,491	254,693	227,202	-	-
TOTAL U.S. EMPLOYMENT & TRAINING ADMINISTRATION			258,910	-	27,491	286,401	258,910	-	-
U.S. DEPARTMENT OF AGRICULTURE									
Passed through the Michigan Department of Education									
Child Nutrition Cluster:									
Cash Assistance:									
School Breakfast Program	10.553	171970	2,326	-	-	2,326	2,326	-	-
National School Lunch	10.555	171960	6,804	-	-	6,804	6,804	-	-
Total Child Nutrition Cluster			9,130	-	-	9,130	9,130	-	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			9,130	-	-	9,130	9,130	-	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
Passed through Thumb Area - Michigan Works									
Temporary Assistance for Needy Families	93.558	N/A	112,324	-	-	112,324	112,324	-	-
Passed through Michigan Department of Community Health									
Medicaid Administrative Outreach	93.778	N/A	29,881	-	-	29,881	29,881	-	-
			29,881	-	-	29,881	29,881	-	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			142,205	-	-	142,205	142,205	-	-
TOTAL FEDERAL AWARDS			\$ 5,530,010	\$ 1,686,346	\$ 433,862	\$ 2,326,986	\$ 2,161,229	\$ 268,105	\$ 376,642

The accompanying notes are an integral part of this schedule.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**PASS-THROUGH AMOUNTS**  
**YEAR ENDED JUNE 30, 2017**

	<u>FEDERAL CFDA NUMBER</u>	<u>STATE PASS- THROUGH NUMBER</u>	<u>SUBRECIPIENT AWARD AMOUNT</u>	<u>DUE TO (FROM) SUBRECIPIENT 6/30/2016</u>	<u>SUBRECIPIENT CURRENT YEAR EXPENDITURES</u>	<u>SUBRECIPIENT CURRENT YEAR CASH TRANSFERRED</u>	<u>DUE TO (FROM) SUBRECIPIENT 6/30/2017</u>
PASS-THROUGH GRANTEE							
SPECIAL EDUCATION - IDEA							
	84.027	1604501516					
CPS			\$ 43,200	\$ 22,400	\$ 20,800	\$ 43,200	\$ -
Croswell - Lexington			110,000	38,642		38,642	-
Total			<u>153,200</u>	<u>61,042</u>	<u>20,800</u>	<u>81,842</u>	<u>-</u>
SPECIAL EDUCATION - IDEA							
	84.027	1704501617					
Brown City			49,200	-	49,200	49,200	-
Croswell - Lexington			108,000	-	108,000	108,000	-
Deckerville			29,200	-	29,200	29,200	-
Marlette			45,600	-	45,600	45,600	-
Peck			16,400	-	16,400	16,400	-
Sandusky			46,400	-	46,400	46,400	-
Total			<u>294,800</u>	<u>-</u>	<u>294,800</u>	<u>294,800</u>	<u>-</u>
Total federal funds passed through to subrecipients			<u>\$ 448,000</u>	<u>\$ 61,042</u>	<u>\$ 315,600</u>	<u>\$ 376,642</u>	<u>\$ -</u>

The accompanying notes are an integral part of this schedule.

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2017

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Sanilac Intermediate School District programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Sanilac Intermediate School District, it is not intended to and does not present the financial position or changes in net position of Sanilac Intermediate School District.

The District qualifies for low-risk auditee status. Management has utilized the Cash Management System and the Grant Auditors' Report in preparing the Schedule of Expenditures of Federal Awards.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Grant Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 3 - RECONCILIATION WITH AUDITED FINANCIAL STATEMENTS**

Federal expenditures are reported as revenue in the following funds in the financial statements:

Special education fund	\$1,702,758
Career Technical Preparation fund	449,341
Other nonmajor governmental fund	<u>9,130</u>
Expenditures per schedule of expenditures of federal awards	<u>\$2,161,229</u>

**NOTE 4 - SUBRECIPIENTS**

Of the federal expenditures presented in the schedule of expenditures of federal awards, Sanilac Intermediate School District provided federal awards to subrecipients reported in the enclosed schedule of pass-through amounts.



Thomas B. Doran, CPA  
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**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  
Sanilac Intermediate School District  
Peck, MI

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sanilac Intermediate School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Sanilac Intermediate School District’s basic financial statements of the District’s primary government and have issued our report thereon dated October 13, 2017.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit, we considered Sanilac Intermediate School District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sanilac Intermediate School District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Sanilac Intermediate 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control over financial reporting, identified as item 2017-001 described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting.

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether Sanilac Intermediate 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*.

**SANILAC INTERMEDIATE SCHOOL DISTRICT'S RESPONSE TO FINDINGS**

Sanilac Intermediate School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Sanilac Intermediate School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**PURPOSE OF THIS REPORT**

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

*Anderson, Tuckey, Bernhardt & Doran, P.C.*

**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
CARO, MICHIGAN**

October 13, 2017





Thomas B. Doran, CPA  
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**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Education  
Sanilac Intermediate School District  
Peck, MI

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited Sanilac Intermediate School District’s compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Sanilac Intermediate School District’s major federal programs for the year ended June 30, 2017. Sanilac Intermediate School District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

**MANAGEMENT’S RESPONSIBILITY**

Management is responsible for compliance with the federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

**AUDITOR’S RESPONSIBILITY**

Our responsibility is to express an opinion on Sanilac Intermediate School District’s compliance based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Sanilac Intermediate School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our unmodified opinion on compliance for major federal programs. However, our audit does not provide a legal determination of Sanilac Intermediate School District’s compliance.

**OPINION ON EACH MAJOR FEDERAL PROGRAM**

In our opinion, Sanilac Intermediate School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of Sanilac Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit, we considered Sanilac Intermediate School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Sanilac Intermediate School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**CARO, MICHIGAN**

October 13, 2017

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2017**

**Section I – Summary of Auditor’s Results**

***Financial Statements***

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified: \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified:   X   Yes    \_\_\_\_\_ None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified: \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified: \_\_\_\_\_ Yes      X   None reported

Type of auditor’s report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR 200.516(a) \_\_\_\_\_ Yes      X   No

Identification of major programs:

<u><b>CFDA Number(s)</b></u>	<u><b>Name of Federal Program or Cluster</b></u>
84.027 & 84.173	Special Education Cluster

Dollar threshold used to distinguish between type A and Type B Programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2017**

**Section II – Financial Statement Findings**

**Finding 2017-001 Significant Deficiency**

Criteria:

Statement on Auditing Standards #115 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued October 2008), requires us to communicate in writing when a client has a small staff that limits the segregation of duties.

Condition:

Due to the limited number of staff, many critical duties are combined and given to the available staff and/or board members.

Context:

Internal controls are weakened due to the lack of segregation of duties.

Effect:

As a result of this condition, the government is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented, or detected and corrected by management on a timely basis. Other staff members and/or board members must be utilized in order to achieve good internal controls.

Cause:

The district doesn't have enough staff in the business office to have a proper segregation of duties.

Recommendation:

At this time, we recommend the district segregate the duties whenever possible and communicate this as required by professional standards. The correct process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

**Section III – Federal Award Findings and Questioned Costs**

None

**SANILAC INTERMEDIATE SCHOOL DISTRICT**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2017**

The following were the audit findings for the two prior years:

**Finding 2016-001 and 2015-001 Significant Deficiency**

Condition:

Due to the limited number of staff, many critical duties are combined and given to the available staff and/or board members.

Recommendation:

At this time, we recommend the district segregate the duties whenever possible and communicate this as required by professional standards. The correct process meets the definition of a significant deficiency as defined in Statement on Auditing Standards #115.

Current Status:

The District continues to segregate duties whenever possible among their existing staff. In addition, the school treasurer reviews all checks written and accounts for numerical sequence of all checks. This is expected to continue each year as part of a cost-benefit decision.



175 East Aitken Road  
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Phone: (810) 648-4700  
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**Central Office**

■ Duane Lange ext. 4241  
Superintendent  
dlange@sanilacisd.org

**Career-Technical Preparation**

■ Duane Lange ext. 4241  
Sanilac Career Center Principal  
dlange@sanilacisd.org

**Special Education**

46 North Jackson Street  
Sandusky, MI 48471  
Phone: (810) 648-2200  
Fax: (810) 648-2275

■ Emma Navarro ext. 4134  
Director  
enavarro@sanilacisd.org

■ Kim Alvarez ext. 4404  
Special Education Principal  
Phone: (810) 648-9020  
Fax: (810) 648-4984  
kalvarez@sanilacisd.org

**Board of Education**

- Louise Blasius, President
- Mike Wilson, Vice-President
- Vonda Zuhlke, Treasurer
- Cynthia Nunn, Secretary
- Amy Dumaw
- Candy Gerber
- Mike Kiley

**SISD Web Site:**

[www.sanilacisd.org](http://www.sanilacisd.org)

**SANILAC INTERMEDIATE SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
JUNE 30, 2017**

Certain matters were brought to our attention as a result of the audit process. These are described at length in the Schedule of Findings and Questioned Costs. We evaluated each of these matters as described below, and have described our planned actions as a result.

**2017-001 - Segregation of Duties**

**Planned Corrective Action:** We are aware of this deficiency and believe it is not cost beneficial in our situation to hire additional staff. We will continue to segregate duties in the business office based on available staff. We would expect this situation to be ongoing in future years.

**Responsible Party.** Duane Lange

**Date of Planned Corrective Action:** Ongoing

**Management Assessment.** We concur with the audit assessment regarding this matter.

*"Recognizing the value and needs of each person, the Mission of the Sanilac Intermediate School District is to provide leadership and deliver quality educational programs and services to local school districts resulting in improved learning for all."*

It is the policy of the Sanilac Intermediate School District that no person shall, on the basis of religion, race, color, national origin, gender, handicap, age, height, weight, marital status or disability, be excluded from participation in, be denied the benefits of, or be subject to discrimination during programs, activities, and employment. Inquiries regarding this policy should be directed to Emma Navarro, Special Education Director, 46 North Jackson Street, Sandusky, MI 48471 (810) 648-2200.



# ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

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To the Members of the Board  
***Sanilac Intermediate School District***

We have audited the financial statements of ***Sanilac Intermediate School District*** for the year ended **June 30, 2017** and have issued our report thereon dated October 13, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as well as certain information related to the planned scope and timing of our audit. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America, *Government Auditing Standards*, and OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered ***Sanilac Intermediate School District's*** internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether ***Sanilac Intermediate School District's*** financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about ***Sanilac Intermediate School District's*** compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on ***Sanilac Intermediate School District's*** compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on ***Sanilac Intermediate School District's*** compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by **Sanilac Intermediate School District** are described in Note 1 to the financial statements. The application of existing policies was not changed during 2017. We noted no transactions entered into by **Sanilac Intermediate School District** during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of the net pension liability is based on actuarial data. We evaluated the key factors and assumptions used to develop the balance of the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the payout of employee compensated absences upon their retirement is based on an expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management estimates the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

### *Difficulties Encountered in Performing the Audit*

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

### *Corrected and Uncorrected Misstatements*

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

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 13, 2017.



*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, other knowledge we obtained during the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Additional Supplementary Information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing this information to determine that the information complies with accounting principles general accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the additional supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the Members of the Board and management of **Sanilac Intermediate School District** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Anderson, Tuckey, Bernhardt, & Doran, P.C.  
Certified Public Accountants  
Caro, Michigan

October 13, 2017