

Manchester Community Schools

Financial Statements

June 30, 2017



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Manchester Community Schools
Members of the Board of Education and Administration
June 30, 2017

Members of the Board of Education

Chris Fegan	President
Mike Austin	Vice President
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Jim Wonnell	Business Manager



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Independent Auditors' Report

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters:

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017 on our consideration of Manchester Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Manchester Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Lansing, Michigan
October 16, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

This section of the Manchester Community Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2017. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Manchester Community Schools financially as a whole.

The *District-wide financial statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances.

The *fund financial statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund - the General Fund with all other funds presented in one column as non-major funds.

The *Fiduciary Fund statements* present financial information about activities for which the School District acts solely as an agent for the benefit of students and parents and present information about monies held in trust for scholarships.

The annual audit report is organized as follows:

Management's Discussion & Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

Reporting the School District as a Whole - District-wide Financial Statements

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 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 School District's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases 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 non-financial factors, such as the quality of the education provided and the safety of the schools, in order 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 encompass all of the School District's services, including instruction, supporting services, community services, capital projects, debt service, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - 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 Food Service and Community Service Fund are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like bond-funded construction funds used for voter- approved capital projects). The governmental funds of the School District use the following accounting approach:

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

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 that 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 reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for student activity funds and scholarship monies. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets and statement of changes of fiduciary net assets. 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.

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2017 and June 30, 2016:

	Governmental Activities 2017	Governmental Activities 2016
Assets		
Current and other assets	\$ 4,936,334	\$ 5,909,931
Capital assets	31,280,377	31,710,673
Total assets	36,216,711	37,620,604
Deferred Outflows of Resources		
Deferred amount of pension expense related to net pension liability	1,987,822	1,732,604
Deferred amount on debt refunding	891,164	851,460
Total assets and deferred outflows of resources	\$ 39,095,697	\$ 40,204,668
Liabilities		
Current liabilities	\$ 2,678,450	\$ 2,370,502
Noncurrent liabilities	54,888,576	57,616,089
Total liabilities	57,545,709	59,986,591
Deferred Inflows of Resources		
Deferred amount on net pension liability	1,459,040	921,976
Total liabilities and deferred inflows of resources	59,004,749	60,908,567
Net Position		
Net investment in capital assets	(4,437,040)	(5,398,843)
Restricted	185,073	647,307
Unrestricted	(15,678,402)	(15,952,363)
Total net position	\$ (19,930,369)	\$ (20,703,899)

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

The change in net assets of the School District's governmental activities is discussed below. The School District's net assets were \$(19,930,369) at June 30, 2017. Capital assets, net of related debt totaling \$ (4,437,040), compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets, \$ 185,073, are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$ (15,678,402), was unrestricted. This was affected by the following:

The unrestricted net assets of governmental activities represent the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year. As of June 30, 2017, the School district had a net pension liability of \$16,718,469 with a deferred amount on net pension liability of \$ 1,987,822.

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

The results of this year's operations for the School District as a whole are reported below, and show the changes in net position for fiscal years 2017 and 2016.

	Governmental Activities 2017	Governmental Activities 2016
	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues		
Charges for services	\$ 735,310	\$ 717,882
Operating grants and contributions	3,208,127	3,429,232
General revenues		
Property taxes	4,115,147	4,164,019
State school aid - unrestricted	6,417,906	6,519,320
Other	223,032	64,633
	<u>14,699,522</u>	<u>14,895,086</u>
Functions/ Program Expenses		
Instruction	5,817,337	6,505,490
Supporting services	5,185,334	5,077,969
Food service	343,684	379,994
Community services	468,546	469,011
Interest and fees on long-term debt	1,152,635	1,747,264
Unallocated depreciation	958,456	1,041,509
	<u>13,925,992</u>	<u>15,221,237</u>
Total expenses		
	<u>13,925,992</u>	<u>15,221,237</u>
Change in Net Position	<u>\$ 773,530</u>	<u>\$ (326,151)</u>

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$13,925,992. Certain activities were partially funded from those which benefited from the programs, \$735,310, or by other governments and organizations that subsidized certain programs with grants and contributions of \$3,208,127. We paid for the remaining "public benefit" portion of our governmental activities with \$4,115,147 in taxes, \$6,417,906 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements of \$223,032.

The School District experienced an increase in net assets of \$773,530. There has been an ongoing, concerted effort by the administration to minimize expenses for the past few fiscal years due to the continuing budget problems in the State of Michigan. Improvement has been made which is seen in the lower negative change in net position.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and Superintendent must continually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money. As the School District completed this year, the governmental funds reported a combined fund balance of approximately \$ 2.5 million, which is a decrease of approximately \$ 1.3 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, the fund balance increased approximately \$97,000 to \$ 897,000. The change was mainly due to:

- Declining enrollment
- Right-sizing the district staffing

In 2016-17, our enrollment continued to decline. A reduction of 39 students in State Membership for 2016-17, as compared to the final 2015-16 State Membership, equated lost revenue of approximately \$292,000. The reduction of State Membership FTEs since 2012-13 is 166 students; this is predominately from smaller incoming class sizes.

To offset this reduction of funding and prior year's deficits, administration capitalized on staff attrition and more efficient management of resources to right-size costs across the district. Savings from reduced wages and benefits totaled more than \$540,000, and an additional \$160,000 was saved with a reduction of costs from long term absences.

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

2017-18 surpluses in the Community Education Fund and the Food Service Fund benefit the General Fund by not creating the need to transfer funds to keep their balances from being in deficit. Currently they sit at \$31,711 and \$14,342, respectively.

The fund balance in the General Fund is available to fund costs related to allowable school operating purposes.

Combined, the Debt Service Funds showed a fund balance decrease of approximately \$808,000 from the prior year. Timing of tax revenues received versus debt payments made, always contributes to the debt fund balance fluctuations. However, due to refinancing of three debt funds over the last two years, we have switched from a repayment environment with the School Bond Loan Fund to a borrowing environment. Millage rates are levied at 8.5 mills and are allocated annually to all the bond issues to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are restricted, since they can only be used to pay debt service obligations.

The savings to the community for the 2017 Debt Fund refinancing will be over \$1,000,000. With an additional savings to the community anticipated to be over \$600,000 in reduced interest from the School Bond Loan Fund. The refinancing in 2015-16 saved the community \$2.600,000 in total.

The combined Capital Projects Funds fund balance decreased by just over \$ 950,000 due to purchases of technology and buses. All capital projects and expenditures fall within the scope of projects and expenditures approved in the original bond proposals.

General Fund Budgetary Highlights

Over the course of a school year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the School District had \$47,509,809 invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents an increase of approximately \$100,000 from last year.

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

	2017	2016
Land and improvements	\$ 2,333,629	\$ 2,322,756
Buildings and building improvements	39,145,481	39,118,697
Buses and other vehicles	1,924,641	1,813,901
Furnishings and equipment	4,106,058	4,154,160
Less: accumulated depreciation	(16,229,432)	(15,698,841)
Total capital assets	\$ 31,280,377	\$ 31,710,673

This year's additions were comprised of buses, safety, and technology. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the District had \$ 36,144,774 in bonds and other long-term debt outstanding and \$38,794,217 in the previous year. Those amounts consisted of the following:

	2017	2016
Government Oligation Bonds	\$ 34,630,000	\$ 38,790,000
School bond loan and interest	1,514,774	4,217
Total bonded debt	\$ 36,144,774	\$ 38,794,217

Other obligations include accrued vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2017-18 fiscal year budget. The two most important factors affecting the budget are the state foundation allowance and our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017-18 fiscal year is calculated using 10 percent of the February 2017 count and 90 percent of the October 2017 student count. The per-pupil foundation allowance for 2017-18 is \$7,631, an increase of \$120 per student. Preliminary pupil count information indicates a loss of 35 students, which is on target with projections. Once the final student count is validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

**Manchester Community Schools
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

Approximately 80 percent of total General Fund revenue comes from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, District funding is heavily dependent on the state's ability to fund local school operations.

Since the School District's revenue stream is heavily dependent on state funding and the health of the state's School Aid Fund, the actual revenue received depends on the state's ability to collect the revenues to fund its appropriation to school districts.

Our forecast for the 2017-18 budget anticipates a surplus of \$21,938 despite a student count reduction of 35. The district has worked diligently to reduce expenses and seeks to keep the unrestricted fund balance at or above 8%. The State of Michigan Treasury Department oversees district fund balances and has created an Early Warning System to identify financially stressed districts before they go into deficit. The Early Warning System used data from the schools at the state level to see if they may have financial difficulties in the future. Fund balance trends are one method that Treasury and maintaining a fund balance above 5% is recommended.

Right-sizing will continue throughout the 2017-18 school year for the benefit of our students, staff, and community. Our budgeted expenses are scheduled to decrease an additional \$450,000 due to staff attrition, building reconfiguration and efficiencies of staffing. These changes are necessitated due to enrollment decreases and significant reductions in Special Education funding.

Annually, the District's areas of continuing concern when budgeting are salaries, retirement contribution rates, health care premiums, and utility costs. When building our budget each year, we assume that costs will continue to rise in these areas (as they have for the past several years) and budget accordingly.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional information, please contact the Superintendent's office, located in Central Office, Manchester Community Schools, 410 City Road, Manchester, Michigan 48158.

BASIC FINANCIAL STATEMENTS

Manchester Community Schools
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 3,234,350
Accounts receivable	24,014
Due from other governmental units	1,598,789
Due from agency fund activities	38,251
Inventory	8,888
Prepaid items	32,042
Capital assets not being depreciated	2,333,629
Capital assets - net of accumulated depreciation	<u>28,946,748</u>
 Total assets	 <u>36,216,711</u>
 Deferred Outflows of Resources	
Deferred amount of pension expense related to net pension liability	1,987,822
Deferred amount on debt refunding	<u>891,164</u>
 Total deferred outflows of resources	 <u>2,878,986</u>
 Total assets and deferred outflows of resources	 <u>39,095,697</u>

See Accompanying Notes to the Financial Statements

Manchester Community Schools
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 115,861
State aid anticipation note payable	904,133
Accrued expenditures	554,724
Accrued salaries	1,062,499
Unearned revenue	41,233
Noncurrent liabilities	
Net pension liability	16,718,469
Debt due within one year	3,920,000
Debt due in more than one year	<u>34,250,107</u>
Total liabilities	57,567,026
Deferred Inflows of Resources	
Deferred amount on net pension liability	<u>1,459,040</u>
Total liabilities and deferred inflows of resources	<u>59,026,066</u>
Net Position	
Net investment in capital assets	(4,437,040)
Restricted for	
Debt service	185,073
Unrestricted (deficit)	<u>(15,678,402)</u>
Total net position	<u>\$ (19,930,369)</u>

See Accompanying Notes to the Financial Statements

Manchester Community Schools
Governmental Funds
Balance Sheet
June 30, 2017

	General Fund	2014 Capital Projects Fund	2017 Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 1,377,370	\$ 1,279,661	\$ 3,253	\$ 574,066	\$ 3,234,350
Accounts receivable	22,784	-	-	1,230	24,014
Due from other funds	873,696	-	172,858	367,758	1,414,312
Due from other governmental units	1,528,653	-	-	70,136	1,598,789
Due from agency fund activities	38,251	-	-	-	38,251
Inventory	-	-	-	8,888	8,888
Prepaid items	4,042	-	-	28,000	32,042
Total assets	\$ 3,844,796	\$ 1,279,661	\$ 176,111	\$ 1,050,078	\$ 6,350,646
Liabilities					
Accounts payable	\$ 70,507	\$ 24,995	\$ -	\$ 20,359	\$ 115,861
State aid anticipation note payable	904,133	-	-	-	904,133
Due to other funds	529,743	179,566	-	705,003	1,414,312
Interest payable	7,307	-	-	-	7,307
Payroll deductions and withholdings	489,107	-	-	-	489,107
Accrued expenditures	341,400	-	-	-	341,400
Accrued salaries	573,109	-	-	283	573,392
Unearned revenue	33,808	-	-	7,425	41,233
Total liabilities	2,949,114	204,561	-	733,070	3,886,745

See Accompanying Notes to the Financial Statements

Manchester Community Schools
Governmental Funds
Balance Sheet
June 30, 2017

	<u>General Fund</u>	<u>2014 Capital Projects Fund</u>	<u>2017 Debt Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance					
Non-spendable					
Inventory	\$ -	\$ -	\$ -	\$ 8,888	\$ 8,888
Prepaid items	4,042	-	-	28,000	32,042
Restricted for					
Community Education	-	-	-	31,711	31,711
Debt service	-	-	176,111	214,979	391,090
Capital projects	-	1,075,100	-	139	1,075,239
Assigned	-	-	-	52,369	52,369
Unassigned (deficit)	<u>891,640</u>	<u>-</u>	<u>-</u>	<u>(19,078)</u>	<u>872,562</u>
 Total fund balance	 <u>895,682</u>	 <u>1,075,100</u>	 <u>176,111</u>	 <u>317,008</u>	 <u>2,463,901</u>
 Total liabilities and fund balance	 <u>\$ 3,844,796</u>	 <u>\$ 1,279,661</u>	 <u>\$ 176,111</u>	 <u>\$ 1,050,078</u>	 <u>\$ 6,350,646</u>

See Accompanying Notes to the Financial Statements

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

Total fund balances for governmental funds	\$ 2,463,901
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets not being depreciated	2,333,629
Capital assets - net of accumulated depreciation	28,946,748
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	891,164
Deferred inflows of resources resulting from net pension liability	(1,459,040)
Deferred outflows of resources from pension expenses subsequent to measurement date of net pension liability	1,987,822
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(206,017)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities	
Net pension liability	(16,718,469)
Compensated absences	(486,148)
Bonds payable	(36,178,491)
School bond loan payable	<u>(1,505,468)</u>
Net position of governmental activities	<u>\$(19,930,369)</u>

See Accompanying Notes to the Financial Statements

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

	General Fund	2014 Capital Projects Fund	2017 Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local sources	\$ 1,499,090	\$ 50,970	\$ 170,493	\$ 3,288,900	\$ 5,009,453
State sources	7,609,716	-	3,520	209,249	7,822,485
Federal sources	346,006	-	-	153,292	499,298
Interdistrict sources	1,287,641	-	-	-	1,287,641
		-			
Total revenues	<u>10,742,453</u>	<u>50,970</u>	<u>174,013</u>	<u>3,651,441</u>	<u>14,618,877</u>
Expenditures					
Current					
Education					
Instruction	5,887,867	-	-	-	5,887,867
Supporting services	4,744,932	72,421	-	9	4,817,362
Community services	3,722	-	-	470,756	474,478
Food services	-	-	-	348,035	348,035
Facilities acquisition	-	-	-	11,973	11,973
Capital outlay	8,283	933,581	-	-	941,864
Debt service					
Principal	-	-	-	3,910,000	3,910,000
Interest and other expenditures	-	-	-	1,134,332	1,134,332
Bond issuance costs	-	-	112,493	-	112,493
Payment to bond refunding escrow agent	-	-	8,669,595	-	8,669,595
Total expenditures	<u>10,644,804</u>	<u>1,006,002</u>	<u>8,782,088</u>	<u>5,875,105</u>	<u>26,307,999</u>
Excess (deficiency) of revenues over expenditures	<u>97,649</u>	<u>(955,032)</u>	<u>(8,608,075)</u>	<u>(2,223,664)</u>	<u>(11,689,122)</u>

See Accompanying Notes to the Financial Statements

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

	General Fund	2014 Capital Projects Fund	2017 Debt Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)					
Proceeds from issuance of bonds	\$ -	\$ -	\$ 8,250,000	\$ -	\$ 8,250,000
Premium on issuance of bonds	-	-	534,186	-	534,186
Proceeds from school bond loan fund	-	-	-	1,501,251	1,501,251
Proceeds from sale of capital assets	-	-	-	80,645	80,645
Transfers in	-	-	-	340,499	340,499
Transfers out	-	-	-	(340,499)	(340,499)
	<u>-</u>	<u>-</u>	<u>8,784,186</u>	<u>1,581,896</u>	<u>10,366,082</u>
Total other financing sources (uses)					
Net change in fund balance	97,649	(955,032)	176,111	(641,768)	(1,323,040)
Fund balance - beginning	<u>798,033</u>	<u>2,030,132</u>	<u>-</u>	<u>958,776</u>	<u>3,786,941</u>
Fund balance - ending	<u>\$ 895,682</u>	<u>\$ 1,075,100</u>	<u>\$ 176,111</u>	<u>\$ 317,008</u>	<u>\$ 2,463,901</u>

See Accompanying Notes to the Financial Statements

Manchester Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

Net change in fund balances - Total governmental funds \$ (1,323,040)

Total change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(958,456)
Capital outlay	528,160

Expenses are recorded when incurred in the statement of activities.

Interest	41,495
Compensated absences	(5,599)

The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.

Net change in net pension liability	425,963
Net change in the deferred inflow of resources related to the net pension liability	(537,064)
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	255,218

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.

Debt issued	(10,285,437)
Repayments of long-term debt	12,410,000
Deferred amount on refunding	169,595
Amortization of premiums	182,586
Amortization of deferred amount on debt refunding	<u>(129,891)</u>

Change in net position of governmental activities **\$ 773,530**

See Accompanying Notes to the Financial Statements

Manchester Community Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2017

	Private Purpose Trust Funds Disbrow Scholarship	Private Purpose Trust Funds GAP Scholarship	Student Activities Fund	Insurance Consortium Fund	Total
Assets					
Cash	\$ 47,177	\$ 672	\$ 453,135	\$ 873,157	\$ 1,374,141
Liabilities					
Due to other funds	-	266	-	106	372
Due to student groups	-	-	453,135	873,051	1,326,186
Total liabilities	-	266	\$ 453,135	\$ 873,157	\$ 1,326,558
Net Position					
Assets held for scholarships	\$ 47,177	\$ 406			\$ 47,583

See Accompanying Notes to the Financial Statements

Manchester Community Schools
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2017

	Private Purpose Trust Funds Disbrow Scholarship	Private Purpose Trust Funds GAP Scholarship	Total
Additions			
Local sources	\$ -	\$ 237,943	\$ 237,943
Interest and investment earnings	421	6	427
Total additions	421	237,949	238,370
Deductions			
Scholarships	-	245,394	245,394
Change in net position	421	(7,445)	(7,024)
Net position - beginning	46,756	7,851	54,607
Net position - ending	\$ 47,177	\$ 406	\$ 47,583

See Accompanying Notes to the Financial Statements

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

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

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

The School District reports the following major governmental funds:

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

2017 Debt Fund – The 2017 debt fund is used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

2014 Capital Projects Fund – The Capital Projects Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring, installing and equipping instructional technology and security; purchasing of school buses; and developing and improving sites. The fund is kept open until the purpose for which the fund was created has been accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service Fund, and the Community Education Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal,

and other expenditures on long-term debt. The District maintains the 2005, 2006, 2007, 2009, 2011, 2014, 2016-A and 2016-B debt funds as non-major funds.

Capital Projects Funds – The district also maintains the Long-term Capital Improvements Fund for taxes received and expenditures made for repairs, maintenance and other activities allowed by the ballot language and 2009 Capital Projects Fund as non-major funds.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The District maintains the Disbrow and Gap Scholarship Funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes. The district maintains an Insurance Consortium Fund to record the funds received as flow-through to the insurance company from other districts.

Assets, Liabilities and Net Position or Equity

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

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

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

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

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	8.50000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 98% of the School District's tax roll lies within Washtenaw County.

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

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

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

Buildings and additions	20-50 years
Site improvements	10-20 years
Equipment and furniture	5-10 years
Buses and other vehicles	8-15 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refundings are included in the district-wide financial statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

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

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

Compensated Absences – The liability for compensated absences reported in the district wide statements consists of earned but unused accumulated vacation and sick leave balances. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive such payments upon termination are included.

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

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

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

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

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

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

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

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

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

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

Assigned – amounts intended to be used for specific purposes, as determined by the board of education. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

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

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

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

Upcoming Accounting and Reporting Changes

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

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The focus of the criteria includes the following: (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020.

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

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

The School District is evaluating the impact these GASB statements will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

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

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

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations

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

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Other	\$ 371,198	\$ 377,367	\$ 6,169

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$15,647,779 as of June 30, 2017. There are no governmental funds with a deficit.

Fund Deficit

The Food Service Fund has deficit unassigned fund balance of \$22,546 which will be eliminated by either the consumption of inventory, realization of prepaid items, or future transfer from the General Fund.

Compliance - Bond Proceeds

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the 2014 Capital Project Fund from the inception of the funds through the current fiscal year:

	<u>2014 Fund</u>
Revenues	\$ 2,907,977
Expenditures	1,832,877

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

Note 3 - Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 3,234,350	\$ 1,374,141	\$ 4,608,491

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 3,755,028
Investments in MILAF	853,463
Total	\$ 4,608,491

As of year end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
MILAF + Cash Mgmt Class	\$ 100	< 60 days	AAAm	Standard and Poor's
MILAF + MAX Class	853,363	< 60 days	AAAm	Standard and Poor's
	\$ 853,463			

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

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

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

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$2,866,661 of the School District's bank balance of \$3,366,661 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the School District's investments were exposed to custodial credit risk.

Note 4 - Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

Amounts invested in MILAF + Portfolio of \$853,463. The MILAF + Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market (Level 2 inputs).

Note 4 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,322,756	\$ 10,873	\$ -	\$ 2,333,629
Capital assets being depreciated				
Buildings and additions	39,118,697	26,784	-	39,145,481
Equipment and furniture	4,154,160	379,763	(427,865)	4,106,058
Buses and other vehicles	1,813,901	110,740	-	1,924,641
Total capital assets being depreciated	<u>45,086,758</u>	<u>517,287</u>	<u>(427,865)</u>	<u>45,176,180</u>
Less accumulated depreciation for				
Buildings and additions	(11,282,309)	(665,572)	-	(11,947,881)
Equipment and furniture	(3,323,146)	(143,636)	(427,865)	(3,038,917)
Buses and other vehicles	(1,093,386)	(149,248)	-	(1,242,634)
Total accumulated depreciation	<u>(15,698,841)</u>	<u>(958,456)</u>	<u>(427,865)</u>	<u>(16,229,432)</u>
Net capital assets being depreciated	<u>29,387,917</u>	<u>(441,169)</u>	<u>-</u>	<u>28,946,748</u>
Net capital assets	<u>\$ 31,710,673</u>	<u>\$ (430,296)</u>	<u>\$ -</u>	<u>\$ 31,280,377</u>

Depreciation for the fiscal year ended June 30, 2017, amounted to \$958,456. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Note 5 - Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
Nonmajor governmental funds	General fund	\$ 694,130
General fund	Nonmajor governmental funds	27,259
2014 Capital Projects	General fund	179,566
General fund	2017 Debt	172,858
Nonmajor governmental funds	Nonmajor governmental funds	<u>340,499</u>
		<u>\$ 1,414,312</u>

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

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

Interfund transfers were made during the year between various debt service funds classified as nonmajor governmental funds to account for debt service funds closing and new debt service funds being established in the amount of \$340,499.

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Student meal balances	\$	7,425
Grant and categorical aid payments received prior to meeting all eligibility requirements		12,491
Total	\$	<u>19,916</u>

Note 7 - State Aid Anticipation Note

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

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

	<u>Beginning Balance</u>	<u>Proceeds</u>	<u>Repayments</u>	<u>Ending Balance</u>
State aid anticipation note	<u>\$ 821,184</u>	<u>\$ 2,200,000</u>	<u>\$ 2,117,051</u>	<u>\$ 904,133</u>

The state aid anticipation note agreement includes an irrevocable set-aside of \$1,295,867 at year end that is considered defeased debt and not included in the ending balance.

Note 8 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Government obligation bonds	\$ 38,790,000	\$ 8,250,000	\$ 12,410,000	\$ 34,630,000	\$ 3,920,000
School Bond Loan Fund	4,217	-	-	4,217	-
School Bond Loan Revolving Fund	-	1,501,251	-	1,501,251	-
Compensated absences	480,549	5,599	-	486,148	-
Premium on bonds	<u>1,196,891</u>	<u>534,186</u>	<u>182,586</u>	<u>1,548,491</u>	<u>-</u>
Total	<u>\$ 40,471,657</u>	<u>\$ 10,291,036</u>	<u>\$ 12,592,586</u>	<u>\$ 38,170,107</u>	<u>\$ 3,920,000</u>

For governmental activities, compensated absences are primarily liquidated by the General Fund.

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

\$5,565,000 serial bond due in annual installments of \$830,000 to \$1,335,000 through May 2021, interest at 3.75% to 4.25%	\$	3,485,000
\$8,250,000 serial bond due in annual installments of \$95,000 to \$1,500,000 from May 2019 to May 2031, interest at 3.00% to 4.00%		8,250,000
\$2,580,000 serial bond due in annual installments of \$95,000 to \$350,000 through May 2029, interest at 1.15% to 5.00%		1,900,000
\$2,825,000 serial bond due in annual installments of \$360,000 to \$405,000 through May 2022, interest at 2.00% to 2.50%		1,910,000
\$8,790,000 serial bond due in annual installments of \$1,025,000 to \$1,300,000 through May 2026, interest at 1.00% to 4.00%		7,490,000
\$13,760,000 serial bond due in annual installments of \$2,200,000 to \$2,520,000 through May 2022, interest at 1.57% to 2.48%		11,595,000
Total general obligation bonded debt	\$	34,630,000

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

	Principal	Interest	Total
Year Ending June 30,			
2018	\$ 3,920,000	\$ 1,150,548	\$ 5,070,548
2019	4,100,000	1,036,648	\$ 5,136,648
2020	4,205,000	932,806	\$ 5,137,806
2021	4,315,000	817,170	\$ 5,132,170
2022	4,325,000	697,172	\$ 5,022,172
2023-2027	7,185,000	2,205,167	\$ 9,390,167
2028-2031	6,580,000	626,900	7,206,900
Total	\$ 34,630,000	\$ 7,466,411	\$ 42,096,411

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$391,090 to pay this debt. Future debt and interest will be payable from future tax levies.

School Loan Revolving Fund

The School Loan Revolving Fund consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's various general obligation bonds issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. The interest rate was 3.13323% at the current fiscal year end. Repayment begins as soon as the annual tax collections exceed annual debt service requirements. The District is required to levy 8.5 mills and repay to the State any excess of the amount levied over the bonded debt service requirement. Due to the variability of the factors that affect the timing of repayment, including the future amount of State-equalized value of property in the District, no provision for repayment of the note or its related interest has been included in the above annual debt service requirements.

Interest expenditures for the fiscal year in the Debt Service Funds was \$1,134,332.

Current Refunding

On February 25, 2017, the School District issued general obligation bonds of \$8,250,000 (par value) with an interest rate of 3.00% to 4.00% to refund term bonds with an interest rate of 4.00% to 4.25%. The term bonds mature on May 1, 2031. The general obligation bonds were issued at a premium and after paying issuance costs of \$112,493, the net proceeds were \$8,671,693. The net proceeds from the issuance of the general obligation bonds were deposited with an escrow agent to provide debt service payments until the term bonds mature. The refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the School District's financial statements.

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As a result of the refunding, the School District reduced its total debt service requirements by \$1,034,362, which resulted in an economic gain of \$854,467.

Deferred Amount on Refunding

The 2016 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$851,460. This amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2022.

The 2017 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$169,595. This amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2031.

Compensated Absences

Accrued compensated absences at year end, consist of \$486,148 accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Note 9 - Risk Management

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

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School

district. The School District had no unemployment compensation expense for the year. No provisions has been made for possible future claims.

Note 10 - Pension Plans and Post-Employment Benefits

Plan Description

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

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

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

Benefits Provided

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

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Notes to the Financial Statements
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service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Contributions and Funding Status

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

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

Pension Contribution Rates

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

Required contributions to the pension plan from the School District were \$1,504,746 for the year ending September 30, 2016.

Net Pension Liability

At June 30, 2017, the School District reported a liability of \$16,718,469 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2016, the School District's proportionate share percent was 0.067 percent, which was a decrease of 0.032 percent since the prior measurement date.

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

For the year ended June 30, 2017, the School District recognized total pension expense of \$1,320,862. The School District's actual contributions for the years ended June 30, 2017, 2016, and 2015 were approximately \$929,800, \$1,023,600, and \$1,287,200, respectively.

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Notes to the Financial Statements
June 30, 2017

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

	<u>Deferred</u> Outflows of Resources	<u>Deferred</u> Inflows of Resources
Difference between expected and actual experience	\$ 208,356	\$ 39,623
Changes in assumptions	261,380	-
Net difference between projected and actual earnings on pension plan investments	277,861	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	22,038	913,310
Employer contributions subsequent to the measurement date	<u>1,218,187</u>	<u>506,107</u>
	<u>\$ 1,987,822</u>	<u>\$ 1,459,040</u>

\$1,218,187 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. \$506,107 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2018 when the related payments reduce the net pension liability.

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

<u>Plan Year Ending September 30</u>	<u>Amount:</u>
2017	\$ (140,960)
2018	(162,802)
2019	159,983
2020	<u>(39,519)</u>
Total	<u>\$ (183,298)</u>

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

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

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June 30, 2017

- Healthcare Cost Trend Rate: 7.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA (for men, 140% of the table rates for ages 0-79, 133% of the table rates for ages 80-84, and 121.8% of the table rates for ages over 84 were used and for women, 96% of the table rates were used).

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.6273 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (CAFR) (www.michigan.gov/mpsers-cafr).

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
	<u>100.0%</u>	

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

Discount Rate

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

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

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

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 21,529,180	\$ 16,718,469	\$ 12,662,577

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

Fiduciary Net Position

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

Payables to the Pension Plan

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

Post-Employment Benefits

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

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

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

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

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

The School District's actual contributions match the required contributions for the years ended June 30, 2017, 2016, and 2015 and were approximately \$302,300, \$316,900, and \$391,800, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2017, the School District had contributions in the amount of \$694,439 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 11.70% for the year ending June 30, 2017.

Manchester Community Schools
Notes to the Financial Statements
June 30, 2017

Note 11 - Contingent Liabilities

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

Note 10 - Tax Abatements

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

The School District evaluated tax abatements under the provisions of GASB 77 and determined that the property tax abatements are insignificant.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 1,536,513	\$ 1,504,591	\$ 1,499,090	\$ (5,501)
State sources	7,872,382	7,661,602	7,609,716	(51,886)
Federal sources	369,348	365,856	346,006	(19,850)
Interdistrict sources	1,270,184	1,269,919	1,287,641	17,722
Total revenues	<u>11,048,427</u>	<u>10,801,968</u>	<u>10,742,453</u>	<u>(59,515)</u>
Expenditures				
Instruction				
Basic programs	5,096,045	4,951,590	4,938,603	(12,987)
Added needs	1,026,907	972,793	949,264	(23,529)
Supporting services				
Pupil	895,547	899,545	865,499	(34,046)
Instructional staff	223,960	202,420	174,498	(27,922)
General administration	331,101	355,801	343,902	(11,899)
School administration	590,399	581,399	579,777	(1,622)
Business	302,665	285,165	284,440	(725)
Operations and maintenance	1,372,504	1,386,637	1,368,555	(18,082)
Pupil transportation services	628,289	552,154	523,504	(28,650)
Central	227,279	230,003	227,390	(2,613)
Other	380,303	371,198	377,367	6,169
Community services	1,846	3,723	3,722	(1)
Capital outlay	-	8,283	8,283	-
Total expenditures	<u>11,076,845</u>	<u>10,800,711</u>	<u>10,644,804</u>	<u>(155,907)</u>
Net change in fund balance	(28,418)	1,257	97,649	96,392
Fund balance - beginning	<u>798,033</u>	<u>798,033</u>	<u>798,033</u>	<u>-</u>
Fund balance - ending	<u>\$ 769,615</u>	<u>\$ 799,290</u>	<u>\$ 895,682</u>	<u>\$ 96,392</u>

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

	June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. Reporting unit's proportion of net pension liability (%)	0.06700%	0.07019%	0.07249%							
B. Reporting unit's proportionate share of net pension liability	\$ 16,718,469	\$ 17,144,432	\$ 15,966,492							
C. Reporting unit's covered-employee payroll	\$ 5,544,060	\$ 5,546,591	\$ 6,384,410							
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	301.56%	309.10%	250.09%							
E. Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%							

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

	For the Years Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
A. Statutorily required contributions	\$ 929,840	\$ 1,023,614	\$ 1,287,233							
B. Contributions in relation to statutorily required contributions	<u>929,840</u>	<u>1,023,614</u>	<u>1,287,233</u>							
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
D. Reporting unit's covered-employee payroll	\$5,208,603	\$5,546,591	\$6,131,999							
E. Contributions as a percentage of covered-employee payroll	17.85%	18.45%	20.99%							

Note:

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

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

OTHER SUPPLEMENTARY INFORMATION

Manchester Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2017

	Special Revenue Funds		Debt Service Funds			
	Community Education Fund	Food Service Fund	2006 Debt Fund	2007 Debt Fund	2009 Debt Fund	2005 Debt Fund
Assets						
Cash and investments	\$ 97,420	\$ 44,048	\$ -	\$ 221,612	\$ 100,421	\$ -
Accounts receivable	1,230	-	-	-	-	-
Due from other funds	-	-	-	-	6,787	-
Due from other governmental units	70,136	-	-	-	-	-
Inventory	-	8,888	-	-	-	-
Prepaid items	-	28,000	-	-	-	-
Total assets	\$ 168,786	\$ 80,936	\$ -	\$ 221,612	\$ 107,208	\$ -
Liabilities						
Accounts payable	\$ 1,053	\$ 19,306	\$ -	\$ -	\$ -	\$ -
Due to other funds	136,022	39,580	-	164,369	-	-
Accrued salaries payable	-	283	-	-	-	-
Unearned revenue	-	7,425	-	-	-	-
Total liabilities	137,075	66,594	-	164,369	-	-
Fund Balance						
Non-spendable						
Inventory	-	8,888	-	-	-	-
Prepaid items	-	28,000	-	-	-	-
Restricted for						
Community education	31,711	-	-	-	-	-
Debt service	-	-	-	57,243	107,208	-
Capital projects	-	-	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned (deficit)	-	(22,546)	-	-	-	-
Total fund balance	31,711	14,342	-	57,243	107,208	-
Total liabilities and fund balance	\$ 168,786	\$ 80,936	\$ -	\$ 221,612	\$ 107,208	\$ -

Manchester Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2017

	Debt Service Funds (Continued)				Capital Projects Funds		Total Nonmajor Governmental Funds
	2011 Debt Fund	2014 Debt Fund	2016-A Debt Fund	2016-B Debt Fund	Long-term Capital Improvements Fund	2009 Capital Projects Fund	
Assets							
Cash and investments	\$ 17,938	\$ 12,257	\$ 6,856	\$ 10,272	\$ 63,242	\$ -	\$ 574,066
Accounts receivable	-	-	-	-	-	-	1,230
Due from other funds	3,386	16,947	61,519	278,980	-	139	367,758
Due from other governmental units	-	-	-	-	-	-	70,136
Inventory	-	-	-	-	-	-	8,888
Prepaid items	-	-	-	-	-	-	28,000
Total assets	\$ 21,324	\$ 29,204	\$ 68,375	\$ 289,252	\$ 63,242	\$ 139	\$ 1,050,078
Liabilities							
Accounts payable	-	-	-	-	-	-	20,359
Due to other funds	-	-	68,375	285,784	10,873	-	705,003
Accrued salaries payable	-	-	-	-	-	-	283
Unearned revenue	-	-	-	-	-	-	7,425
Total liabilities	-	-	68,375	285,784	10,873	-	733,070
Fund Balance							
Non-spendable							
Inventory	-	-	-	-	-	-	8,888
Prepaid items	-	-	-	-	-	-	28,000
Restricted for							
Debt service	21,324	29,204	-	-	-	-	214,979
Capital projects	-	-	-	-	-	139	139
Assigned	-	-	-	-	52,369	-	52,369
Unassigned (deficit)	-	-	-	3,468	-	-	(19,078)
Total fund balance	21,324	29,204	-	3,468	52,369	139	317,008
Total liabilities and fund balance	\$ 21,324	\$ 29,204	\$ 68,375	\$ 289,252	\$ 63,242	\$ 139	\$ 1,050,078

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

	Special Revenue Funds		Debt Service Funds			
	Community Education Fund	Food Service Fund	2006 Debt Fund	2007 Debt Fund	2009 Debt Fund	2005 Debt Fund
Revenues						
Local sources	\$ 336,414	\$ 239,187	\$ 2	\$ 32	\$ 136,163	\$ 10
State sources	128,352	7,599	-	-	3,761	-
Federal sources	37,701	115,591	-	-	-	-
Total revenues	502,467	362,377	2	32	139,924	10
Expenditures						
Current						
Education						
Supporting services	-	-	-	9	-	-
Community services	470,756	-	-	-	-	-
Food services	-	348,035	-	-	-	-
Facilities acquisition	-	-	-	-	-	-
Debt service						
Principal	-	-	-	-	95,000	-
Interest and other expenditures	-	-	-	178,110	91,938	-
Total expenditures	470,756	348,035	-	178,119	186,938	-
Excess (deficiency) of revenues over expenditures	31,711	14,342	2	(178,087)	(47,014)	10
Other Financing Sources (Uses)						
Premium on issuance of bonds	-	-	-	-	-	-
Proceeds from school bond loan fund	-	-	-	-	-	-
Proceeds from sale of capital assets	-	-	-	-	77,660	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	(132,045)	-	-	(208,454)
Total other financing sources (uses)	-	-	(132,045)	-	77,660	(208,454)
Net change in fund balance	31,711	14,342	(132,043)	(178,087)	30,646	(208,444)
Fund balance - beginning (deficit)	-	-	132,043	235,330	76,562	208,444
Fund balance - ending	<u>\$ 31,711</u>	<u>\$ 14,342</u>	<u>\$ -</u>	<u>\$ 57,243</u>	<u>\$ 107,208</u>	<u>\$ -</u>

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

	Debt Service Funds (Continued)				Capital Projects Funds		Total Nonmajor Governmental Funds
	2011 Debt Fund	2014 Debt Fund	2016-A Debt Fund	2016-B Debt Fund	Long-term Capital Improvements Fund	2009 Capital Projects Fund	
Revenues							
Local sources	\$ 69,551	\$ 338,638	\$ 846,909	\$ 1,321,470	\$ 524	\$ -	\$ 3,288,900
State sources	-	9,394	23,491	36,652	-	-	209,249
Federal sources	-	-	-	-	-	-	153,292
Total revenues	<u>69,551</u>	<u>348,032</u>	<u>870,400</u>	<u>1,358,122</u>	<u>524</u>	<u>-</u>	<u>3,651,441</u>
Expenditures							
Current							
Education							
Supporting services	-	-	-	-	-	-	9
Community services	-	-	-	-	-	-	470,756
Food services	-	-	-	-	-	-	348,035
Facilities acquisition	-	-	-	-	11,973	-	11,973
Debt service							
Principal	-	350,000	1,300,000	2,165,000	-	-	3,910,000
Interest and other expenditures	138,938	45,988	364,258	315,100	-	-	1,134,332
Total expenditures	<u>138,938</u>	<u>395,988</u>	<u>1,664,258</u>	<u>2,480,100</u>	<u>11,973</u>	<u>-</u>	<u>5,875,105</u>
Excess (deficiency) of revenues over expenditures	<u>(69,387)</u>	<u>(47,956)</u>	<u>(793,858)</u>	<u>(1,121,978)</u>	<u>(11,449)</u>	<u>-</u>	<u>(2,223,664)</u>
Other Financing Sources (Uses)							
Proceeds from school bond loan fund	-	30,074	625,953	845,224	-	-	1,501,251
Proceeds from sale of capital assets	2,985	-	-	-	-	-	80,645
Transfers in	-	-	61,519	278,980	-	-	340,499
Transfers out	-	-	-	-	-	-	(340,499)
Total other financing sources (uses)	<u>2,985</u>	<u>30,074</u>	<u>687,472</u>	<u>1,124,204</u>	<u>-</u>	<u>-</u>	<u>1,581,896</u>
Net change in fund balance	<u>(66,402)</u>	<u>(17,882)</u>	<u>(106,386)</u>	<u>2,226</u>	<u>(11,449)</u>	<u>-</u>	<u>(641,768)</u>
Fund balance - beginning (deficit)	<u>87,726</u>	<u>47,086</u>	<u>106,386</u>	<u>1,242</u>	<u>63,818</u>	<u>139</u>	<u>958,776</u>
Fund balance - ending	<u>\$ 21,324</u>	<u>\$ 29,204</u>	<u>\$ -</u>	<u>\$ 3,468</u>	<u>\$ 52,369</u>	<u>\$ 139</u>	<u>\$ 317,008</u>

Manchester Community Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2017

Year Ending June 30,	2009 Building and Site Bonds	2011 Refunding Bonds	2014 School Improvement Bonds	2016 Series A Refunding Bonds	2016 Series B Refunding Bonds	2017 Refunding Bonds	Total
2018	\$ 95,000	\$ -	\$ 360,000	\$ 1,265,000	\$ 2,200,000	\$ -	\$ 3,920,000
2019	100,000	1,320,000	370,000	-	2,215,000	95,000	4,100,000
2020	100,000	1,335,000	380,000	-	2,295,000	95,000	4,205,000
2021	100,000	830,000	395,000	-	2,365,000	625,000	4,315,000
2022	100,000	-	405,000	1,300,000	2,520,000	-	4,325,000
2023	105,000	-	-	1,300,000	-	-	1,405,000
2024	110,000	-	-	1,300,000	-	-	1,410,000
2025	120,000	-	-	1,300,000	-	-	1,420,000
2026	190,000	-	-	1,025,000	-	-	1,215,000
2027	240,000	-	-	-	-	1,495,000	1,735,000
2028	290,000	-	-	-	-	1,500,000	1,790,000
2029	350,000	-	-	-	-	1,485,000	1,835,000
2030	-	-	-	-	-	1,480,000	1,480,000
2031	-	-	-	-	-	1,475,000	1,475,000
Total	<u>\$ 1,900,000</u>	<u>\$ 3,485,000</u>	<u>\$ 1,910,000</u>	<u>\$ 7,490,000</u>	<u>\$ 11,595,000</u>	<u>\$ 8,250,000</u>	<u>\$ 34,630,000</u>
Principal payments due the first day of	May	May	May	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	May and November	May and November	May and November	
Interest rate	1.15% - 5.00%	3.75% - 4.25%	2.00% - 2.50%	1.00% - 4.00%	1.57% - 2.48%	3.00% - 4.00%	
Original issue	<u>\$ 2,580,000</u>	<u>\$ 5,565,000</u>	<u>\$ 2,825,000</u>	<u>\$ 8,790,000</u>	<u>\$ 13,760,000</u>	<u>\$ 8,250,000</u>	



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

Independent Auditors' Report

Management and the Board of Education
Manchester Community Schools
Manchester, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manchester Community Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Manchester Community Schools' basic financial statements, and have issued our report thereon dated October 16, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

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

Purpose of this Report

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

Yeo & Yeo, P.C.

Lansing, Michigan
October 16, 2017

Manchester Community Schools
Schedule of Findings and Responses
June 30, 2017

Section II - Financial Statement Findings

There were no findings related to the financial statements which were required to be reported in accordance with *Government Auditing Standards* for the year ended June 30, 2017.

Manchester Community Schools
Summary Schedule of Prior Year Audit Findings
June 30, 2017

Finding 2016-001, Material Weakness

Criteria/Condition: Management did not perform consistent and timely reconciliations of balance sheet accounts, including bank reconciliations.

Current Status: Management reconciled year end balances on a timely basis in the current year.

Finding 2016-002, Material Weakness

Criteria/Condition: The district lacked policies regarding reconciliations.

Current Status: The district has implemented policies requiring reconciliation of accounts on a timely basis.

Finding 2016-003, Material Weakness

Criteria/Condition: The district lacked a process to ensure follow-up and monitoring of prior findings and reconciliations.

Current Status: The district has implemented policies to ensure monitoring, follow-up, and resolution of findings.

Finding 2016-004, Significant Deficiency

Criteria/Condition: Management did not maintain support for decentralized cash receipts

Current Status: The district establish a policy and required supporting documentation for decentralized cash receipts in the current year.

Finding 2016-005, Noncompliance

Criteria/Condition: Management did not file a bond audit with the Michigan Department of Treasury due to lack of required information.

Current Status: Management was able to recover necessary financial data, and an audit for the 2009 bond was completed.



October 16, 2017

Management and the Board of Education
Manchester Community Schools
410 City Rd
Manchester, MI

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Manchester Community Schools as of and for the year ended June 30, 2017, and have issued our report dated October 16, 2017. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and have already met with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.
Lansing, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 27, 2017. Professional standards also require that we communicate to you the following information related to our audit.

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 the School District are described in Note 1 of the financial statements. The School District has adopted Government Accounting Standards Board Statement (GASB) No. 77, *Tax Abatement Disclosures*, effective July 1, 2016. The Statement requires disclosures of tax abatement information. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

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

Statement No. 84, *Fiduciary Activities* improves the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The criteria generally is on (1) is the government controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The four fiduciary funds that should be reported, if applicable are: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally will report fiduciary activities that are not held in a trust or similar arrangement that meets specific criteria. The requirements of this Statement are effective for the fiscal year ending June 30, 2020

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

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

Regulatory and Other Updates

Cybersecurity Posture

Cybersecurity posture, an overall measure of cybersecurity strength, is more prevalent than ever as organizations continue to face cybersecurity risks. Billions of emails are sent every day, some of which contain attachments with malicious files or malicious embedded links aimed at negatively impacting unsuspecting organizations. A recent study showed as many as four out of five U.S. companies have suffered from an attack. Not only can a successful attack cost thousands of dollars and put a strain on IT resources while remediation efforts are underway, but sensitive information may be breached.

Risk assessment is a first step in mitigating cybersecurity risks and improving your School District's overall cybersecurity posture. The National Institute of Standards and Technology published *Framework for Improving Critical Infrastructure Cybersecurity*, which "enables organizations, regardless of size, degree of cybersecurity risk, or cybersecurity sophistication, to apply the principles and best practices of risk management to improving the security and resilience of critical infrastructure." The framework is designed to cover five areas including identification, protection, detection, responsiveness and recovery. The publication can be found at www.nist.gov.

Placing significant emphasis on evaluating your School District's cybersecurity posture, and channeling sufficient resources towards proper risk assessment, implementation, and education will reduce the likelihood of a cybersecurity threat, and help lessen the impact of a breach.

Audit and FID Submission Deadline

The deadline to submit the Financial Information Database (FID) and school district financial audits will be November 1st. This will continue to be the deadline for future fiscal years as it is now State Law.

Uniform Grant Guidance (Super Circular)

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. School districts implemented the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR is the source for guidance that school districts will follow. Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>
- MDE http://www.michigan.gov/mde/0,4615,7-140-5236_76204---,00.html

Implementation of Federal Grant Procurement Standards is Delayed

In May 2017, the federal government granted an additional one-year delay for implementation of the procurement standards under the Uniform Guidance. The grace period now extends through December 25, 2017. Therefore entities with fiscal years beginning on or after December 26, 2017 must have procurement standards, for federal expenditures, that meet the more stringent requirements of 2 CFR 200.317 to 326. For school districts, it will apply to fiscal year 2019 and therefore, must be in place starting July 1, 2018. If your School District did not previously adopt and implement procurement policies and procedures in accordance with 2 CFR 200 you should go through the appropriate channels to elect and document usage of the additional grace period year. The grace period decision and documentation should go through the same process as the adoptions of procurement policies. It is imperative that your procurement policies – whatever they are documented as – be followed. The Uniform Guidance and the old guidance in the OMB Circulars provide minimum requirements that must be covered by an entity's procurement policies. If an entity's policies are stricter than the federal rules, the entity policies still must be followed. As you adopt new procurement policies, we also recommend that you consider separate policies for federal and non-federal expenditures to ease the administrative burden of certain federal requirements.

Fiscal Year (FY) 2018 School Aid

The School Aid budget for FY 2018 was not signed until late July. Following are some significant highlights of the bill:

- The per pupil Foundation Grants for FY 2018 will increase by a range of \$60 to \$120 using the “2X formula.” The increase will be added to the FY 2017 foundation grant resulting in the lowest foundation for FY 2018 being \$7,631 and the maximum state guaranteed foundation being \$8,289.
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is increased by \$120,011,800 to \$499,000,000. Eligibility is expanded from free lunch eligible pupils to include pupils eligible for reduced price lunch, TANF, SNAP, or migrant, homeless, or pupils in foster care. Hold Harmless and Out of Formula districts are now eligible, but will be capped at 30% of the per pupil allowance. Districts that are currently eligible would receive approximately \$777 per pupil and newly eligible districts would receive approximately \$233 per pupil.
- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2016-17.
- Section 147c is reduced by approximately \$22.0 million to reflect higher rates of return on investments.
- Shared Time Instruction for Nonpublic and Homeschool Pupils Section 23f caps the maximum FTE for which a nonpublic school pupil may be counted in a shared-time program at 0.75 FTE per pupil.

Boilerplate changes include:

- A New Section 160 has been added which requires districts seeking a waiver to begin the school year before Labor Day to hold a public hearing with the MDE in the district before the waiver can be granted.
- A New Section 164g has been added which imposes a penalty on any district using State Aid funds to pay expenses related to legal action against the state.
- A New Section 164h has been added to state that there will be a state school aid penalty for a district or ISD that enters into a collective bargaining agreement that fails to comply with

requirements including prohibitions on the automatic deduction of union dues from payroll and racial or religious preferences in hiring.

Early Warning

Pursuant to Public Act 109 of 2015, each school district and public school academy that has a General Fund balance less than 5% of total unrestricted general revenue for either of the 2014-2015 or 2015-2016 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI). The budget assumption data collection period begins June 1, 2017 and is open through July 7, 2017. The Department of Treasury will not declare potential fiscal stress based solely on a school district's or public school academy's budget assumption data.

Uniform Budgeting and Accounting Act (UBAA)

The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to General Fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the School District shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the General Fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Unclaimed Property

Beginning in 2018, the State of Michigan will require the filing of zero balance reports for businesses and governmental agencies who hold property on behalf of others, such as uncashed payroll or vendor checks and other items comprising unclaimed property. This is a revision from the most recent change in 2012, which only encouraged, but did not require, reporting of zero unclaimed property situations. Under the negative attestation requirement, businesses and governmental agencies must ensure they are filing even in situations where entities have no unclaimed property.

Current rules require unclaimed property to be identified as of March 31st of each year and reported to the State on or before July 1. Property that has reached its applicable dormancy period (generally one year or three years) as of March 31 must be remitted with and reported on Michigan State Form 2011, *Michigan Holder Transmittal for Annual Report of Unclaimed Property* and the appropriate annual reporting form (there are separate forms for cash & safe deposit boxes and for securities). If the holder (business or government entity) has more than ten items to report, they must use electronic media for the annual report. The due date for this filing is July 1 (or the next work day if the 1st is on a weekend).

These rules remain unchanged, except that beginning in 2018, the negative attestation requirement will go into effect. Free software is available on the State of Michigan web site at <http://www.michigan.gov/treasury/>. The web site is a valuable resource for information regarding the law, filing requirements and related penalties, including the 33 page *Manual for Reporting Unclaimed Property*.

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

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.

Management has determined that the effects of the uncorrected misstatements to state aid revenue in the amount of \$14,838 is immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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 the 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 the 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 Reports

Other information that is required to be reported to you is included in the: Independent Auditors' 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*; and the Schedule of Findings and Responses. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of school district's proportionate share of net pension liability, schedule of school district's contributions, and budgetary comparison information, we 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 regarding 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.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of Manchester Community Schools as of and for the year ended June 30, 2017, we considered Manchester Community Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of matters for management's consideration that are opportunities for improving compliance and simplifying an accounting matter. This letter does not affect our report dated October 16, 2017, on the financial statements of Manchester Community Schools. Our comments and recommendations regarding those matters are:

Fixed Asset Disposal

The District did not update the fixed asset listing to reflect disposal of fixed assets, instead the district identified disposals as a separate negative asset on the fixed asset listing. We recommend that the fixed asset listing be updated at least annually to reflect changes in assets or estimates such as useful lives and incorporate fixed asset disposals into the listing. This would allow for reconciliation of fixed assets to be completed more efficiently. Using the current methodology, no specific asset would ever be identified as deleted, nor deleted, making the listing lengthy and complex to use. The listing also contains a mixture of manual and automatic formulas which increases the risk of misstatement.

Policies

The District is responsible for implementing policies for federal grants consistent with the requirements of 2 *CFR 200 Uniform Guidance* for grants issued on or after December 26, 2014. We noted that policies were not updated for these requirements. The district also lacks written guidelines on capitalization. We recommend that management and the board draft policies for board approval consistent with the requirements of the Uniform Guidance. Management communicated that its intent is to contract with NEOLA to develop compliant policies for fixed assets and Uniform Grant Guidance.