Chippewa Hills School District
Remus, Michigan

Financial Statements
With Supplementary Information
June 30, 2017

Roslund Prestage & Company
Certified Public Accountants

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Chippewa Hills School District
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June 30, 2017

To the Board of Education
Chippewa Hills School District

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 Chippewa Hills School District (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in

the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information 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 supplemental information 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 September 29, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

September 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Chippewa Hills School District's annual financial report presents our discussion and analysis of the Chippewa Hills School District's financial performance during the year ended June 30, 2017. Please read this section in conjunction with the financial statements that 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 Chippewa Hills School District 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 funds – the General Fund, Food Service Fund, Debt Service Fund, and Capital Projects Fund. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and 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 the General Fund and Major Special Revenue Funds

Other Supplemental Information

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 financial condition of Chippewa Hills School District as a result of this year's activities?" The statement of net position and the statement of activities, which appear first in the financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the 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 nonfinancial factors, such as the quality of education provided and the safety of the schools, to assess the overall health of the Chippewa Hills School District.

The statement of net position and 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, athletics, 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 or to show that the School District is meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

> Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end 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.

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

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

The School District as a Whole

Recall that the statement of net position provides the perspective of the Chippewa Hills School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2017:

Table 1	Governmental Activities-2017	Governmental Activities-2016
Assets		
Current and other assets	$6,376,511	$ 9,670,542
Capital assets - net of accumulated depreciation	26,079,988	23,555,748
Total Assets	32,456,499	33,226,290
Deferred Outflows Of Resources		
Deferred Outflow Retirement Contributions	4,115,378	3,589,106
Liabilities		
Current liabilities	4,377,705	3,376,866
Long-term liabilities	40,509,135	45,175,970
Total liabilities	44,886,840	48,552,836
Deferred Inflows of Resources:		
Deferred inflows of resources-deferred charge on refunding	1,930,124	945,171
Net Position		
Invested in capital assets - Net of related debt	15,707,229	15,767,482
Restricted	418,734	459,597
Unrestricted	(26,371,050)	(28,909,690)
Total net position	$ (10,245,087)	$ (12,682,611)

The change in net position of the School District's governmental activities is discussed below. A new GASB 68 is in effect for this reporting period and beyond. Previous to

Gasb 68, the district did not record their portion of the employee retirement system that the state holds and controls. This is a multiple employer, state wide, defined benefit public employee retirement plan governed by the State of Michigan. For this reporting period, the GASB pronouncement only applies to the pension payments and does not include the unfunded health portion of the pension payments. **The health portion of this liability will be recorded in the statements in future years.** This pension liability was always known to the rating agencies but was not recorded until recently in the financial statements of the district. This has affected the recoded net position of the district. **The district's share of the pension liability for the period ending June 30, 2017 was $30,327,831.** Please note that the district does not directly pay retirees the retirement benefits or the health insurance as this is the responsibility of the state. **The recording of the district's share of this liability has affected the district's net position as of June 30, 2017 as a negative balance of ($10,245,087). Please see Note 10 in the note section of this report for a complete explanation of this liability.**

During the 2014-2015 fiscal year, the district refunded the 2005 refunding bonds as well as passing a new bond issue. The refunding saved the district $527,972 over the remaining years of this loan. In essence it was a savings of 1% in interest on the $5.9 million balance of this bond.

Also the district passed a new general obligation bond in two series. The first series is issued at $7,340,174.00. This is to be used for bus purchases, security and technology upgrades in all buildings, needed remodeling, some furniture replacements, upgrades to the athletic facilities and roof replacements at Mecosta, Weidman and the Remus building. Series two will be sold in 2019.

During the fiscal year 2015-2016, the district began the renovations included in the series 1 of the bond passed in 2014-2015. Since 2014-2015 the district has spent 775,983 on new buses. The district completed asbestos abatement at Barryton and Mecosta, roofing projects at Mecosta, Weidman, and the Remus-mosaic school. The district also bought new interior bleachers for the Intermediate School, replaced the seating in the auditorium at the High School. The district added a new card access security system to all schools. The district also bought carpeting and furniture for all buildings.

A major part of the work in series one of the bond was for updating the athletic facilities. This were completed during the 2016-2017 year in celebration of our 50th anniversary. A new football field was built, a new track, refurbished the press box. Also a new ticket booth was added. A new septic field was added at the concessions stand.

The bond also provided funds to renovate the vacant original Mosaic Alternative Ed building into a wrestling facility. Concrete under the bleachers was also repaired and replaced to make for a safer stadium. Security cameras and more buses are still on the agenda for the remainder of Series One of the bond.

The district also purchased several needed Capital Outlay items from the General Fund during the 2016-2017 fiscal year. The district purchased a New Holland Tractor, a pole vault pit and an elite high jump pit. For the cafeteria, the district also purchased two new convection ovens. The district also sold 6 older buses and a 1998 Chevrolet Pick Up truck. Also the district sold an old 2002 Zetor Tractor. The Restricted net position, which totals **$269,247 restricted for Debt Service and $149,487 restricted for Food Service**, is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net position for day-to-day operations.

The $ (**26,371,050)** in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations and the effect of the retirement obligations of the district. The operating result of the General Fund has had a significant impact on the change in unrestricted net position from year to year.

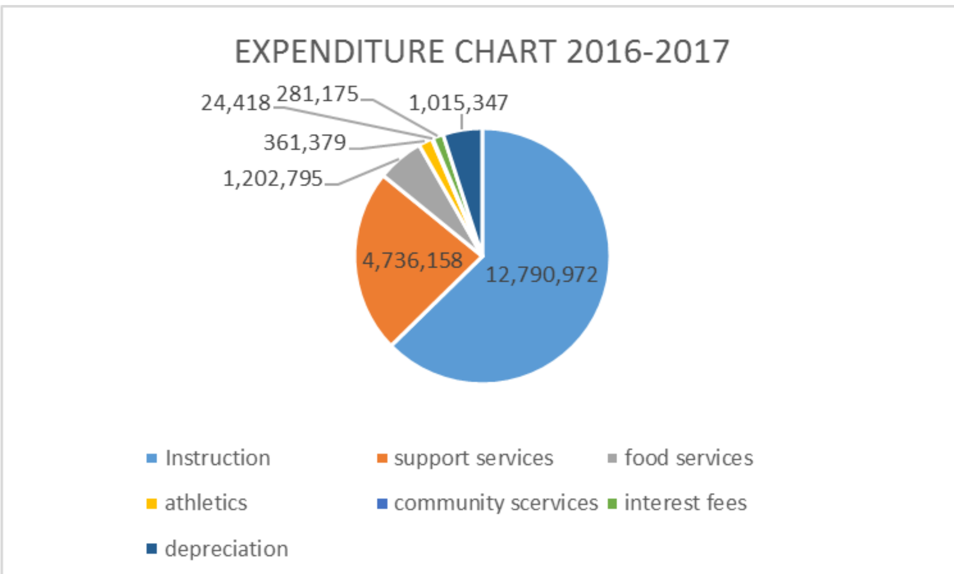
The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2017.

Table 2	**Governmental Activities-2017**	Governmental Activities-2016
Revenue		
Program Revenue	**$2,823,084**	$ 2,921,072
General Revenue:		
Property Taxes	**7,984,121**	7,933,910
State foundation allowance	**11,787,477**	11,162,411
Other	**255,086**	229,638
Total revenue	**22,849,768**	22,247,031
Function/Program Expenses		
Instruction	**12,790,972**	12,966,591
Support Services	**4,736,158**	7,617,943
Food Services	**1,202,795**	1,215,246
Athletics	**361,379**	358,859
Transfers	**24,418**	9,114
Interest on long-term debt	**281,175**	364,926
Depreciation – unallocated	**1,015,347**	887,766
Total expenses	**20,412,244**	23,420,445
Increase/(Decrease) in net position)	**$2,437,524**	($ 1,173,414)

Net Position beginning with net pension liability: **$ (12,682,611)**

Change in net position **$ 2,437,524**

<u>Ending Net Position with pension liability:</u> **<u>$ (10,245,087)</u>**



As reported in the statement of activities, the cost of all of our *governmental* activities this year was **$20,412,244 of which $12,790,972 or 62.7% was spent on instruction and $7,621,272 or 37.3% was on support services (see chart above). Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and categoricals ($1,980,986). We paid for the remaining "public benefit" portion of our governmental activities with $7,984,121 in taxes, $11,863,141 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.**

Chippewa Hills School District's negative net position decreased by $2,437,524.

The district has been cutting programs and services over the past six years due to the economic condition of our state. During 2016-2017, the district added to fund balance 393,761. The Food Service operation of the district lost money this fiscal year of $28,646.The food service director has been proactive and starting new programs. Since the summer of 2014, the district participated in the Summer Food Program offered by the USDA. We did not offer the summer feeding during

the summer of 2017. This was a program that the district lost money on the last few years that it was offered. During the 2014-2015 school year, the district began offering Universal Breakfast to the elementary students and a snack program to the Middle School and Intermediate School students. All the schools participated in the Universal Breakfast for 2015-2016 and 2016-2017.

Please note that the increase in net position differs from the change in fund balance, and the reconciliation appears on page 6.

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 School District operating revenue sources, the Board of Education and Administration must annually 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 Chippewa Hills School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of $4,085,896, which is a decrease of $2,307,928 from last year (see page 5). In 2014-2015, the district had just passed the series one of the new bond which added $7,238,549 increase to the fund balance of June 2015. As expected, the district has been spending this money down to a balance as of June 2017 of $ 1,667,258.The district increased the General Fund balance by $393,761.The district also decreased the debt fund balances overall by $35,005.The Food Service as mentioned before incurred a loss of $28,646. The district also has an outstanding Energy Bond which expires in 2025. The district uses savings from the utilities to meet the annual obligation of $129,270 that is required to repay the energy performance bond taken out seven years ago. This is found under transfers out on page 5. In the General Fund, our principal operating fund, the fund balance came in over the forecasted amounts. Overall, actual General Fund revenue came in within 99% of the projected amount and General Fund expenses were within 98% percent of forecasted amounts.

- The Food Service Fund showed a fund balance **decrease of $28,646** as a result of general food service operations .Food service operations now are required by the USDA to offer healthy food choices. This has resulted in lower participation from the students. One of the things keeping this fund a float is past contract concessions for the support staff which also affected the Food Service operations helped to curtail expenditures for personnel. **This year two convection ovens**

were purchased for $16,850. This accounted for a large percentage of the food service operations loss of $28,676. **For the year 2017-2018, the food service director is not planning to buy any equipment.**

- The Athletic Fund is now included with the General Fund. The net contribution of the General Fund is $260,000 which is down from the $277,552 from the 2010-2011 year. **We have had the same Athletic Director since the 2012-2013 year. She is the Intermediate School Principal as well as the Athletic Director. The sports boosters during 2016-2017 donated $17,000. $7,000 of this is to help defray what the General Fund has difficulties in funding. The other $10,000 was to help with the cost of the new pole vault and high jump pit. The district had gate revenue of $51,413 and fees revenue of $ 29,641.The Athletic Budget actually ended up with a positive balance of $22,619. Also, since 2011-2012, non- employee coaching staff has been contracted through Edu Staff. This saves the district the state retirement system payment. However, during the current year, more on staff coaches were employed in the program.**
- Combined, the Debt Service Funds showed an ending fund balance of **$251,273.The Debt Millage is paid for through a Debt Tax Levy. This Millage rate is determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service.** The debt issue currently had sufficient resources to continue to levy the 2.68 mills. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.
- The Energy Improvement Fund was created during the 2009-2010 school year to keep track of the energy improvement expenditures that were made to update the district's facilities. The money to do this came from an Energy Performance Bond sold during the fiscal year. The district was able to take advantage of some stimulus package funding and was able to sell a $2.5 million dollar Qualified School Construction Bond at zero interest. Updates were done to our lighting, heating, building system management systems as well as some roofing projects. The district also received energy rebates of $56,297, which were deposited into the Energy bond Fund. During 2014-2015, part of these rebates were used to purchase boilers at the Remus Building. **This fund at the end of the 2016-2017 year has a Fund Balance of $ $17,974. This will help offset future payments.**

<u>General Fund Budgetary Highlights</u>

Over the course of the year, the Chippewa Hills School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

Foundation Grant amounts were finalized at $7,511. We also had a hold harmless guarantee of $ 20 per student and an isolated district allowance of 44.79 per student. The district continued to receive At Risk funding of $ 701,328.

Local General Fund tax collections were **$5,866,281**.The district also receives local Indian Money known as the 2% from the Saginaw Chippewa Tribe. **At June 30, 2017** we had a balance in the local Indian Grant money of **$ 132,481**.This figure represents a composite of the current year as well as funding from prior years that the district has not used yet.

The state also has created a new source of funding that is a pass through funding for the district. It is called Section 147c. This money is money that the state has dedicated to bringing down the pension fund liability. It appears that this is increased district funding but it actually is given to the district on the State Aid the 20th of the month and taken back by invoice the 10th of the following month. **The amount sent to the district for the 2016-2017 year was $1,260,286.**

The yearend prediction was that the district would add about $100,000 to our Fund Balance. The district actually had revenues over expenditures of $393,761 which will increase the fund balance to $1,999,900 from the $1,606,143 balance in June 2016. This now gives us a total fund balance of 10%.

During the year 2016-2017, the district estimated to lose 85 students. Our actual loss was 43 students. This cost the district $322,973 of our foundation grant. This is a big part of why we need to cut each year.

Recently, Moody's Investor Services reevaluated the district's financial position and changed its rating to Aa2 with a negative outlook. This means that the investor service is concerned about the financial conditions in the state as well as in the school system. An Aa2 is still considered prime. It has not affected our borrowing rate as of this time.

The district has been faced with declining enrollment, declining state support and declining state resources.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2017, the Chippewa Hills School District had **$26,079,988** invested in a broad range of capital assets, including land, land improvements, buildings, equipment, and vehicles. This amount represents a net increase (including additions and disposals) of **$2,940,166 from last year. This increase is a direct result of the bond projects completed over the last two years. A large amount of this addition is the Athletic complex renovations of the football field, new track, press box, concession stand addition, ticket booth, and new septic system for the concession stand. There**

were also renovations at every building relating to security, mechanical upgrades, window replacements and flooring.

	2017	2016
Land	**$ 105,000**	$ 105,000
Buildings & Improvements	**33,769,551**	33,769,551
Equipment	**3,152,389**	2,752,155
Construction in Progress	**3,595,204**	469,495
Vehicles	**2,252,810**	2,483,578
Total Capital Assets	**42,874,954**	39,579,779
Less accumulated depreciation	**16,794,966**	15,276,333
Net Capital Assets	**$ 26,079,988**	$ 23,139,822

During the fiscal year of 2009-2010, the district also was able to take advantage of the Qualified School Construction Bond Stimulus funding. The district was approved for a $2.5 million dollar energy program. With these funds, the district made improvements to boilers and HVAC equipment, building management systems as well as roof repairs at four of our buildings.

This bond was sold zero interest and our local bank bought the bonds. Under this stimulus funding, the bank receives a tax credit for holding these bonds. Between the zero coupon bond and the tax incentive for the bank, the district will actually pay back only $ 1,939,051.2 with annual set asides for the bank. The remainder of the payment will be made with the interest on the set aside account. The first payment was made in the 2010-2011 fiscal school year.

During the 2016-2017 year, the district bought a New Holland Tractor. The district also bought two convection ovens for the food service department. The district also shared the expense with the Athletic Boosters for the purchase of a Pole Vault Pit and a high jump pit.

The 2015 bond was sold in two series. The work is almost completed in the series 1 with the exception of more buses to purchase and more technology the bond allows for. The second series is in 2019. In the second series the main expense is the replacement of the Barryton School. This was done with no increase in the current Debt Levy of 2.68 mills.

Debt

At the end of this year, the Chippewa Hills School District had $11,169,438 in bonds outstanding versus $13,107,431 in the previous year. We have also added the Capital Leases on the copy machines to this schedule. This schedule reflects the new long term portion of the General Obligation Bond sold during 2014-2015.Those bonds consisted of the following:

	2017	2016
Energy Bonds (QSCB)	**$ 1,034,160**	$ 1,163,430
2015 Refunding Bonds	**$ 3,130,000**	$ 4,605,000
2015 Bond Issue Series 1	**$ 6,635,000**	$ 6,830,000
Capital lease Copiers	**$ 264,217**	349,909
2005 Refunding Bonds	**0**	0
Bus Note	**106,061**	159,092
Total Long-Term Bonds	**$ 11,169,438**	$ 13,107,431

Other obligations, which include employee-compensated absences, will be presented with the above long-term obligations in note 6 of the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected Board of Education officials and administration consider many factors when setting the Chippewa Hills School District's 2017-2018 fiscal year budget. One of the most important factors affecting the budget is 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 fiscal year is 90 percent and 10 percent of the September 2017 and February 2017 student counts. The state has reinstated the previous counting formula (which was suspended during the 2015-2016 year) allowing that if a student leaves after count day and can be traced to the new district, the new district can charge back the district a prorated foundation amount for the days the district educated the student. This adds more uncertainty to the budget. The 2017-2018 fiscal year budget was adopted in June 2017, based on an estimate of students that will be enrolled in September 2017.The district is estimating this number to be 2,000 a drop of possibly 42 students. The good news is that our unofficial count as of the date of this document is that we are about 20 students ahead of this prediction.**

Approximately 75 percent to 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. The district built the budget for 2017-2018 based on the number of projected as well as counting for the graduating seniors and adding the new Kindergarten student estimate from the spring round up. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue 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 revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation. The School Aid Fund actually has done better than expected. However, the new state Governor, Rick Snyder, chose to rebase the education foundation for 2011-2012 from $7,316 downward to $6,846. This is a cut of $470 a student. This cut still exists in the Foundation Grant annual adjustments. There are some one-time revenues to help share the cost of the rising retirement rate as well as incentive money for "Best Practices."

One of the major issues affecting education funding is the retirement legacy costs obligations that the state has for retiring school personnel. The health costs have risen; many more have taken incentives to retire early lowering the amount coming into the retirement system; and districts have been privatizing to save retirement costs. The state has approved legislation to contain costs and reform the pension underfunded liability that currently exists. However, the positive effect of this change will not be seen for many years. The rate that the districts are charged per employee is currently set at **25.56%** that the district pays directly. There are different rates depending upon the choices that the current employees make regarding a defined benefit or defined contribution. Also, part of the foundation grant increase from the state is used to fund the unfunded portion of the pension. About half of the foundation increase from the state for 2016-2017 went to fund the pension underfunded portion and not to the classroom.

The state also has added another categorical called section 147c. This funding also is for the pension system. The state gives us the money in the state aid funding received the 20th of the month. Then the state asks for this money back on the 10th of the following month. This section actually is funding part of the retirement rate and keeping the rate for the districts to pay directly down about 8 to 10 percentage points. The actual pension rate is **36.88%** with the state funding about 10% of the rate off the top of the foundation grant.

The pension reform will take until about 2036 before it stabilizes and the rates to fund the pension go down.

For the year 2017-2018, the state has increased the foundation grant of $7,511 by the following. A $120 boost to the minimum foundation and a continuing equity boost of $125 per student. The district also qualifies again for a categorical added to the State Aid called Isolated District Funding. This makes our foundation grant now $7,631 per student plus the additional $44 per student for isolated districts.

The School District's major expenditure concerns are the soaring employee benefit costs that consist of health care costs and mandatory retirement costs. These employee benefit costs keep rising and the foundation grant does not keep pace with the increases that the district is incurring. One of the more positive things that have happened is that the cost of our Diesel Fuel has gone down over the past year. **Also the transportation routes were changed this year to save money**. **This cut mileage and diesel costs**. The district also has to deal with the rising costs of maintaining aging facilities, vehicles and equipment throughout the district.

The bargaining agreements for both the teachers and the support group have been settled during the 2016-2017 fiscal year. The teacher's contract expires December 2020 and the support contract expires December, 2018. The administration has added an equity sharing clause that states if the district does better than projected some of this increase will be shared with the employees as long as the fund balance is increasing by at least 1% per year. This year we increased the fund balance from 8% to 10%. So the administration will be discussing some equity sharing with the staff.

The way the equity share program was drafted is that the Teacher's Association and the Board will meet after the verified count of the school year and the audit has been completed and the foundation grant is set. The board assumes that steps will be granted should the financial situation allow it to occur. Additional funds will be negotiated through additional steps, schedule adjustments or stipends. The association also agrees to concessions with regard to schedule adjustments and or steps if the financial situation does not meet the expected fund balance. The increases occur in January and run through the following December. This crosses two fiscal years.

The Administators, Executive Staff, and the other support staff also become part of the equity share program.

The original intent was to reach a 10% fund balance by the year 2020. The district has performed better over the last two years and currently has the 10% fund balance as of June, 2017.

In June, 2015, the district had dropped to a fund balance of 5.65%. This was dangerously low. Over the past two years the district has been able to bring the fund balance up to the 10% mark with equity sharing.

To handle our substitute issues we have a third party administrator handling our teacher and some support substitutes. With the high cost of the retirement percentage, hiring substitutes from an outside vendor saves the district in fringe benefit costs.

The district administration and the Board of Education appreciate the concessions that both units have made to try to curtail our spending and avoid more layoffs in personnel.

The rising costs coupled with declining enrollment and revenue loses put the School District in a financial squeeze. However, with employee concessions and right sizing our operations the district has brought the fund balance up to the 10% figure. The district continues to look at cuts and service consolidations to save money and add efficiency.

Contacting the School District's Financial Management

This financial report is designed to provide the Chippewa Hills School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, write the Director of Finance at 3226 Arthur Road, Remus, Michigan 49340.

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

Chippewa Hills School District
Statement of Net Position
June 30, 2017

Assets	
Current assets	
Cash and investments	$ 3,772,026
Accounts receivable	81,810
Due from other governmental units	2,438,244
Inventory	24,653
Other current assets	59,778
Total current assets	6,376,511
Non-current assets	
Capital assets not being depreciated	3,700,204
Capital assets being depreciated, net	22,379,784
Total non-current assets	26,079,988
Total assets	32,456,499
Deferred Outflows of Resources	
Deferred outflow - related to pension	4,115,378
Liabilities	
Current liabilities	
Accounts payable	268,370
Accrued payroll liabilities	95,718
Accrued expenses	1,282,482
Accrued interest	64,518
Unearned revenue	644,045
Bonds payable, due within one year	1,859,270
Bus loan, due within one year	53,031
Capital lease, due within one year	85,692
Compensated absences, due within one year	24,579
Total current liabilities	4,377,705
Non-current liabilities	
Premium on bonds sold, net of amortization	870,578
Bonds payable, due beyond one year	8,939,890
Bus loan, due beyond one year	53,031
Capital lease, due beyond one year	178,525
Compensated absences, due beyond one year	139,280
Net pension liability	30,327,831
Total non-current liabilities	40,509,135
Total liabilities	44,886,840
Deferred Inflows of Resources	
Deferred inflow - related to pension	1,011,628
Deferred inflow - 147c allocation	918,496
Total deferred inflows of resources	1,930,124
Net position	
Net investment in capital assets	15,707,229
Restricted for:	
Debt service	269,247
Food service	149,487
Unrestricted	(26,371,050)
Total net position	$ (10,245,087)

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

Chippewa Hills School District
Statement of Activities
For The Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Instruction	$ 12,790,972	$ 595,704	$ 978,490	$ (11,216,778)
Support services	5,093,760	87,706	-	(5,006,054)
Food service	1,202,795	239,743	921,441	(41,611)
Community activities	24,418	-	-	(24,418)
Interest, fees and other on long-term debt	281,175	-	-	(281,175)
Other expenditures	3,777	-	-	(3,777)
Depreciation - unallocated	1,015,347	-	-	(1,015,347)
Total governmental activities	$ 20,412,244	$ 923,153	$ 1,899,931	(17,589,160)
General revenues:				
Property taxes				7,984,121
State aid not restricted to specific purposes				11,787,477
Interest and investment earnings - unrestricted				14,713
Interest and investment earnings - restricted				35,484
Other revenues				204,889
Total general revenues				20,026,684
Change in net position				2,437,524
Net position - beginning				(12,682,611)
Net position - ending				$ (10,245,087)

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

FUND FINANCIAL STATEMENTS

Chippewa Hills School District
Balance Sheet
Governmental Funds
June 30, 2017

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	Capital Projects		
Assets				
Cash and investments	$ 1,672,824	$ 1,667,258	$ 431,944	$ 3,772,026
Accounts receivable	41,590	-	40,220	81,810
Due from other funds	1,324	-	13,817	15,141
Due from other governmental units	2,426,309	-	11,935	2,438,244
Inventory	18,893	-	5,760	24,653
Prepaid expenditures	59,778	-	-	59,778
Total assets	$ 4,220,718	$ 1,667,258	$ 503,676	$ 6,391,652
Liabilities				
Accounts payable	$ 261,074	$ -	$ 7,296	$ 268,370
Accrued payroll liabilities	90,787	-	4,931	95,718
Accrued expenses	1,243,050	-	39,432	1,282,482
Due to other funds	13,817	-	1,324	15,141
Unearned revenue	612,086	-	31,959	644,045
Total liabilities	2,220,814	-	84,942	2,305,756
Fund balances				
Nonspendable				
Inventory and prepaids	78,671	-	5,760	84,431
Restricted	-	1,667,258	412,974	2,080,232
Committed				
Energy grant	254,542	-	-	254,542
Assigned				
Bus	62,274	-	-	62,274
Bus cameras	23,270	-	-	23,270
Uniforms for athletics	22,619	-	-	22,619
Supplies	30,000	-	-	30,000
Per capita reserve	58,386	-	-	58,386
Unassigned	1,470,142	-	-	1,470,142
Total fund balances	1,999,904	1,667,258	418,734	4,085,896
Total liabilities and fund balances	$ 4,220,718	$ 1,667,258	$ 503,676	$ 6,391,652

Chippewa Hills School District
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Position of Governmental Activities on the Statement of Net Position
June 30, 2017

Total fund balance - governmental funds			$ 4,085,896
The amount reported 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.			
Add:	Cost of capital assets	42,874,954	
Deduct:	Accumulated depreciation	(16,794,966)	
			26,079,988
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:			
Deduct:	Bonds payable - 2010 Energy	(1,034,160)	
Deduct:	Bonds payable - 2015 refunding	(3,130,000)	
Deduct:	Bonds payable - 2015 construction	(6,635,000)	
Deduct:	Loan payable - bus	(106,062)	
Deduct:	Capital lease - copiers	(264,217)	
Deduct:	Premium on bonds sold - Energy (net of amortization)	(299,171)	
Deduct:	Premium on bonds sold - 2015 refunding (net of amortization)	(211,250)	
Deduct:	Premium on bonds sold - 2015 construction (net of amortization)	(360,157)	
			(12,040,017)
Long-term liabilities (and corresponding deferrals) are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:			
Add:	Deferred outflow - related to pension	4,115,378	
Deduct:	Deferred inflow - related to pension	(1,011,628)	
Deduct:	Deferred inflow - 147c allocation	(918,496)	
Deduct:	Net pension liability	(30,327,831)	
Deduct:	Accrued interest on long-term liabilities	(64,518)	
Deduct:	Compensated absences payable	(163,859)	
			(28,370,954)
Net position of governmental activities			$ (10,245,087)

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

Chippewa Hills School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Year Ended June 30, 2017

	Major Funds		Total Non-major Funds	Total Governmental Funds
	General	Capital Projects		
Revenues				
Local sources	$ 6,160,050	$ 27,552	$ 2,330,812	$ 8,518,414
State sources	11,863,141	-	98,226	11,961,367
Federal sources	978,490	-	841,929	1,820,419
Other sources	630,188	-	-	630,188
Total revenues	19,631,869	27,552	3,270,967	22,930,388
Expenditures				
Instruction				
Basic program	9,580,504	-	-	9,580,504
Added needs	3,346,945	-	-	3,346,945
Total instruction	12,927,449	-	-	12,927,449
Support services				
Pupil	326,821	-	-	326,821
Instructional staff	75,564	-	-	75,564
General administration	371,571	-	-	371,571
School administration	1,424,759	-	-	1,424,759
Business services	382,869	-	1,315	384,184
Operation and maintenance	1,499,528	-	-	1,499,528
Pupil transportation	1,259,838	-	-	1,259,838
Central	311,807	-	-	311,807
Athletics	361,380	-	-	361,380
Total support services	6,014,137	-	1,315	6,015,452
Community activities	24,418	-	-	24,418
Facilities and improvement	-	2,665,599	-	2,665,599
Food service	-	-	1,208,185	1,208,185
Debt service				
Principal payments	138,723	-	1,799,270	1,937,993
Interest, fees and other	2,068	-	453,375	455,443
Other expenditures		-	3,777	3,777
Total expenditures	19,106,795	2,665,599	3,465,922	25,238,316
Revenues over (under) expenditures	525,074	(2,638,047)	(194,955)	(2,307,928)
Other financing sources (uses)				
Transfers in	-	-	201,313	201,313
Transfers out	(131,313)	-	(70,000)	(201,313)
Net change in fund balances	393,761	(2,638,047)	(63,642)	(2,307,928)
Fund balances - beginning of year	1,606,143	4,305,305	482,376	6,393,824
Fund balances - end of year	$ 1,999,904	$ 1,667,258	$ 418,734	$ 4,085,896

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

Chippewa Hills School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For The Year Ended June 30, 2017

Net change in fund balances - total governmental funds		$ (2,307,928)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Add:	Capital outlay	3,544,543
Deduct:	Depreciation expense	(1,015,347)
Deduct:	Proceeds from sale of capital assets	(13,563)
Add:	Gain on sale of capital assets	8,607
Long-term debt proceeds are reported as other financing sources in the governmental funds, thereby increasing fund balances. In the statement of net position, however, issuing long-term debt increases liabilities and has no effect on net position. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Add:	Bonds payable - Energy principal payment	129,270
Add:	Bonds payable - 2015 refunding principal payment	1,475,000
Add:	Bonds payable - 2015 construction principal payment	195,000
Add:	Loan payable - bus principal payment	53,030
Add:	Capital lease - copiers	85,692
Add:	Premium on bonds sold - Energy amortization	37,397
Add:	Premium on bonds sold - 2015 refunding amortization	105,625
Add:	Premium on bonds sold - 2015 construction amortization	20,008
Revenue in support of pension contributions made subsequent to the measurement date.		
Deduct:	Change in deferred inflow - 147c allocation	(75,664)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.		
Add:	Change in deferred outflow - related to pension	526,272
Add:	Decrease in net pension liability	568,878
Deduct:	Change in deferred inflow - related to pension	(909,289)
Deduct:	Decrease in accrual for compensated absences	(1,245)
Add:	Decrease in accrual for interest on long-term debt	11,238
Change in net position of governmental activities		$ 2,437,524

Chippewa Hills School District
Statement of Net Position
Fiduciary Fund
June 30, 2017

AGENCY FUND

Assets		
Cash	$	217,305
Liabilities		
Due to student groups		217,305
Net Position	$	-

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Chippewa Hills School District (the District) conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District. All amounts shown are in dollars.

Reporting Entity

The District is governed by Board of Education members which have the responsibility and control over all activities related to public school education within the District. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America.

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 District's reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds. Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following major governmental funds:

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

- The *capital projects fund* accounts for the receipt of bond proceeds, transfers from the general fund (as applicable), and the acquisition of fixed assets or construction of capital projects.

The District reports the following non-major governmental funds:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service in a special revenue fund.

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

The District reports the following fiduciary funds:

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

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

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

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

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

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Budgetary Basis of Accounting
Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue funds. The capital projects fund is appropriated on a project-length basis. Other funds do not have appropriated budgets.

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

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

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
- Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to

year ended June 30. The District does not consider these amendments to be significant.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position/Fund Balance

Cash and Cash Equivalents
The District's cash and cash equivalents are considered to be demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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

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

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

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

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

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

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

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

Assets	Years
Land	Not Depreciated
Construction in process	Not Depreciated
Buildings and additions	10 – 50

Machinery and equipment	3 - 20
Capital Lease – copiers	5
Vehicles	5 – 8

Deferred Outflows

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District has the following items that qualify for reporting in this category:

- Related to pension - A deferred outflow is recognized for pension related items. These amounts are expensed in the plan year in which they apply.

Deferred Inflows

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has the following items that qualifies for reporting in this category:

- Related to pension - Future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.
- 147c allocation - Restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

Compensated Absences

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

Unearned Revenue

Unearned revenues arise when resources are received by the District before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the fund financial statements and Government-wide financial statements, and revenue is recognized.

Long-term Obligations

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

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

Defined Benefit Plan

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

Net Position and Fund Balances

Restricted net position shown in the Government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental fund financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Net Position – Restrictions

Net position in the government-wide financial statements are reported as restricted when constraints placed on net position use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

Fund Balance

The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* - amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- *Restricted fund balance* - amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.
- *Committed fund balance* - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- *Assigned fund balance* - amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.
- *Unassigned fund balance* - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Property Tax Revenue

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

The District levied the following amounts per $1,000 of assessed valuation. The District levied 18.00 mills for school general operations on the non-homestead taxable value. The District also levied an additional 2.680 mills on all property in the District for the purpose of debt service.

State Aid Revenue

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

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

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

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 at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS
At June 30th, the carrying amount of the District's cash, cash equivalents and investments were as follows:

Description	Amount
Petty Cash	3,542
Checking, Savings, & Money Market Accounts	307,540
Certificates of Deposit	525,395
Investments - MILAF	2,935,549
Total	3,772,026

As of year-end, the District had $2,935,525 invested in the MILAF External Investment Pool. Additional investment information regarding the investment pool is as follows:

Investment Type	**Fair Value**	**Weighted Average Maturity (years)**	**Standard & Poor's Rating**	**%**
MILAF External Investment pool-MICMC	1,667,375	0.24	AAAm	57%
MILAF External Investment pool-MIMAX	1,268,267	0.24	AAAm	43%
Total	2,935,549			
Portfolio weighted average maturity		0.24		
1 day maturity equals 0.0027, one year equals 1.00				

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2017, the fair value of the District’s investments is the same as the value of the pool shares.

The other pooled investment fund is Michigan Class. Michigan Class is considered a local government investment pool of "qualified" investments for Michigan School Districts. Michigan Class is not regulated nor is it registered with the SEC. Michigan Class reports as of year-end, the fair value of the District's investments is the same as the value of the pooled shares.

MILAF, as defined by the GASB, are recorded at amortized cost which approximate fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures. Michigan Class is recorded at fair value and are subject to fair value disclosures.

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

Credit risk: State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

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

Custodial credit risk – deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2017, $907,406 of the District's bank balance of $1,407,406 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The fiduciary fund balances are not included in the above balances.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.
The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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

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

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

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

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

Michigan Class investments are subject to the fair value measurement and are level 2.

Foreign currency risk: The District is not authorized to invest in investments which have this type of risk.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES
The amounts of interfund receivable and payable shown on the fund financial statements as of June 30th, are as follows:

Receivable fund	Amount	Payable fund	Amount
General Fund	1,324	General Fund	13,817
Food Service	202	Food Service	1,324
2005 Bond Fund	1,035		-
Energy Bond Fund	12,580		-
Total	15,141	Total	15,141

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS
As of June 30th, due from other governmental units is comprised of the following amounts:

Description	Amount
State aid	2,247,156
Federal grants and other pass-through agencies	191,088
Total	2,438,244

No allowance for doubtful accounts is considered necessary.

NOTE 5 - CAPITAL ASSETS
A summary of changes in the District's capital assets follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated				
Land	105,000	-	-	105,000
Construction in process	469,495	3,125,709	-	3,595,204
Total capital assets not being depreciated	574,495	3,125,709	-	3,700,204
Capital assets being depreciated				
Buildings and additions	33,769,551	-	-	33,769,551
Machinery and equipment	2,752,155	68,925	(18,600)	2,802,480
Capital lease – copiers	-	349,909	-	349,909
Vehicles	2,483,578	-	(230,768)	2,252,810
Total capital assets being depreciated	39,005,284	418,834	(249,368)	39,174,750
Accumulated depreciation				
Buildings and additions	(13,031,334)	(663,570)	-	(13,694,904)
Machinery and equipment	(1,545,686)	(105,737)	18,600	(1,632,823)
Capital lease – copiers	-	(87,477)	-	(87,477)
Vehicles	(1,447,011)	(158,563)	225,812	(1,379,762)
Total accumulated depreciation	(16,024,031)	(1,015,347)	244,412	(16,794,966)
Net capital assets being depreciated	22,981,253	(596,513)	(4,956)	22,379,784
Net capital assets	23,555,748	2,529,196	(4,956)	26,079,988

Depreciation for the year ended June 30, 2017 totaled $1,015,347. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 6 - ACCRUED EXPENSES

Accrued expenses as of year-end include amounts due for accrued wages, retirement, FICA, employee benefit insurances, and termination benefits (if any). Accrued wages represent the remaining balance on teacher contracts to be paid during the summer and other salaries and wages earned as of June 30th.

NOTE 7 - DEBT

Long-term debt

2010 Energy Bonds

During the fiscal year ended June 30, 2010, the District issued $2,500,000 of Energy Conservation Improvement Bonds which are due in one lump sum on November 19, 2024, with interest at 0.00 percent per annum. As a condition of the sale of the bonds, the District covenants to deposit $129,270 in an escrow account, to be held by the Paying agent, on November 19th for the fiscal years 2011 through 2025 at which time there is estimated to be sufficient funds in the escrow account to pay the balance in full. Therefore, actual payments to be made by the District on these bonds totals $1,939,050. The difference between the original bonds ($2,500,000) and the amount of payments to be made by the District ($1,939,050) is $560,950, which is the anticipated amount of interest earnings on the escrow account that will be applied to the final payment. These earnings have been reflected in the statement of net position as bond premiums to be amortized over the life of the bonds.

2013 Bus Loan

During the fiscal year ended June 30, 2013, the District entered into an installment purchase agreement of $318,184 for the purchase of four new buses. Principal payments are due annually in the amount of $53,031, plus interest for six years. The interest rate ranges from 0.55% to 1.5%. The District pledged the buses purchased with this agreement as collateral.

2015 Refunding Bonds

During the fiscal year ended 2015, the School District issued $5,970,000 in refunding bonds with an interest rate of 4.0%. The 2015 refunding bonds were used to pay $7,330,000 in 2005 refunding bonds with an interest rate of 5.0%. $1,228,000 of existing funds in the 2005 debt fund were used to make up the difference between the 2005 principal and 2015 proceeds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The escrow agent paid the 2005 refunding bonds in May 2015. The refunding reduced total debt service payments by approximately $588,270, which represents an economic gain of approximately $527,972.

2015 Bonds

During the fiscal year ended 2015, the School District issued $6,940,000 in general obligation bonds with an interest rate of 4.0% for 18 years and 3.5% for the last two years. These bonds were issued for the following purposes:

- Bus purchases
- Security and technology upgrades – all buildings
- Needed remodeling
- Some furniture replacement
- Upgrades to athletic facilities
- Roof replacements at Mecosta, Weidman and Remus buildings

Capital lease

The District entered into a lease agreement as lessee for financing the acquisition of copiers valued at $428,460. The copiers have a 5 year estimated useful life. This year, $87,477 was included in depreciation expense. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30th, were as follows:

Year Ending June 30	Amount
2018	85,692
2019	85,692
2020	92,833
Total minimum lease payments	349,909
Less: amount representing interest	-
Present value of minimum lease payments	349,909

Summary of Debt Transactions
The changes in debt during the fiscal year are as follows:

	Beginning Balance	Additions	(Deletions)	Ending Balance	Due within one year
Long-term debt					
Compensated abs	162,614	25,637	(24,392)	163,859	(24,579)
2010 Energy Bonds	1,163,430	-	(129,270)	1,034,160	(129,270)
2013 Bus Loan	159,092	-	(53,030)	106,062	(53,031)
2015 Refunding Bonds	4,605,000	-	(1,475,000)	3,130,000	(1,535,000)
2015 Bonds – Series 1	6,830,000	-	(195,000)	6,635,000	(195,000)
Capital Lease - Copiers	349,909	-	(85,692)	264,217	(85,692)
Total long-term debt	13,270,045	25,637	(1,962,384)	11,333,298	(2,022,572)

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2017, are shown in the *Schedule of Long-term Debt*.

NOTE 8 - NET INVESTMENT IN CAPITAL ASSETS
As of June 30th, the composition of net investment in capital assets was comprised of the following:

Net investment in capital assets	Amount
Capital assets not being depreciated	3,700,204
Capital asset being depreciated, net	22,379,784
Capital related general obligation bonds	(10,799,160)
Bus loan	(106,062)
Capital lease	(264,217)
Unamortized premium on bond refunding	(870,578)
Unspent capital project funds	1,667,258
Net investment in capital assets	15,707,229

NOTE 9 - RISK MANAGEMENT
The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District participates in the SET/SEG risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The District has purchased commercial insurance for medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 10 - RETIREMENT AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) (System) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/mpsers-cafr.

Benefits Provided

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

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

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

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

Pension Reform 2010

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

Pension Reform 2012

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

Regular Retirement (no reduction factor for age)

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

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

Pension Plus

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

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

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

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

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

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

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

Member Contributions

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

Employer Contributions

Districts are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

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

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

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Required and actual contributions to the plan for the years ended June 30, 2017 and 2016 were $2,863,185 and $2,873,450 respectively. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB). The District UAAL/147c contributions for the years ended June 30, 2017 and 2016 were $918,496 and $903,312 respectively.

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

Pension Liabilities

At June 30, 2017, the District reported a liability of $30,327,831 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating districts, actuarially determined. At September 30, 2016 and 2015, the District's proportion is shown in the table below.

MPSERS (Plan) Non-university employers	September 30, 2016	September 30, 2015
Total Pension Liability	67,917,445,078	66,312,041,902
Plan Fiduciary Net Position	42,968,263,308	41,887,015,147
Net Pension Liability	24,949,181,763	24,425,026,755
Proportionate share	0.121558%	0.126496%
Net Pension Liability for the District	30,327,831	30,896,709

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

For the year ended June 30, 2017 and 2016, the District recognized pension expense of approximately $2,758,508 and $1,842,105 respectively. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate, these amounts have been recorded as a deferred outflow as of June 30, 2017.

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

Description	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	377,965	(71,878)
Changes of assumptions	474,152	-
Net difference between projected and actual plan investments earnings	504,048	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	344,546	(939,750)
District's contributions subsequent to the measurement date	2,414,667	-
Total	4,115,378	(1,011,628)

$2,414,667, reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

Description	Amount
June 30, 2018	106,716
June 30, 2019	67,046
June 30, 2020	561,128
June 30, 2021	(45,807)

Actuarial Assumptions

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

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

Inflation - 2.5%

Mortality assumptions – RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

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

The long-term expected rate of return on pension plan investments - The rate was **8%** (**7%** Pension Plus Plan) net of investment and administrative expenses was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%

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

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

Sensitivity of the net pension liability to changes in the discount rate
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus Plan), as well as what the 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 than the current rate:

	1% Decrease	Discount Rate	1% Increase
District's proportionate share of the net pension liability	39,054,613	30,327,831	22,970,315

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

Payable to the Pension Plan - At year end the School District is current on all required pension plan payments. At June 30, 2017, the District reported a payable of $335,006 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017, consisting of pension contribution payable plus any other amounts owed to the pension plan including the UAAL payments for July and August 2017.

Benefit Provisions - Other Postemployment

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

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

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

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

Employer Contributions
The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The District's contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were $607,580, $573,086, and $360,688, respectively.

NOTE 11 - TRANSFERS
During the year the following transfers were made between funds:

- The transfer of $2,043 from the general fund to the food service fund as the At Risk section 31a breakfast transfer.
- The transfer of $129,270 from the general fund to the energy bond fund as required in the process of annual payments on the Energy Bonds.
- The transfer of $70,000 from the 2005 bond fund to the 2015 refunding bond fund was for the purpose of paying the principal due on the refunding bond.

NOTE 12 - TAX ABATEMENTS
Effective for the year ended June 30, 2017 the District is required to disclose significant tax abatements as required by GASB statement 77 (Tax abatements).

The District receives reduced property tax revenues as a result of Industrial Facilities Tax exemptions granted by cities, villages and townships. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities. The property taxes abated for all funds by municipality under these programs are as follows:

Municipality	Amount
Broomfield Township	429
Nottawa Township	1,842
Sherman Township	1,441
Morton Township	4
Sheridan Township	66
Wheatland Township	4,267
Total	8,049

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

There are no significant abatements made by the District.

NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENTS
GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits other than Pensions, establishes requirements for governments that provide their employees with OPEB through a trust and replaces *GASB Statement No. 45* for those government employers. The most significant change is that governments will now be required to recognize their net OPEB liability, which is the difference between the total OPEB liability (the portion of the present value of projected benefit payments that is attributed to past periods) and the value of OPEB assets available to pay pension benefits. Additional note disclosure and the first two RSI schedules from *GASB 74* will be required. This requirement also applies to cost sharing, multiple-employer plans and plans that are not administered through a trust. Unlike pension plans, which most governments have been funding for quite a while, many OPEB plans are severely underfunded, and the liability to be recorded will be significant.

The statement mirrors the pension requirements of *GASB 68*. Most changes in the net OPEB liability will be included in current period expense. Other components, such as changes in economic assumptions, will be recognized over a closed period equal to the expected remaining service lives of all employees that are provided benefits. Differences between expected and actual investment rate of return will be recognized in expense over a closed five-year period. The pronouncement will be effective for years ending June 30, 2018.

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

REQUIRED SUPPLEMENTARY INFORMATION

Chippewa Hills School District
Budgetary Comparison Schedule for the General Fund
For The Year Ended June 30, 2017

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final
Revenues				
Local sources	$ 5,938,710	$ 6,282,046	$ 6,160,050	$ (121,996)
State sources	11,624,941	11,851,805	11,863,141	11,336
Federal sources	1,097,668	1,080,814	978,490	(102,324)
Other sources	591,000	873,006	630,188	(242,818)
Total revenues	19,252,319	20,087,671	19,631,869	(455,802)
Expenditures				
Instruction				
Basic programs	9,316,230	9,886,192	9,580,504	305,688
Added needs	3,422,218	3,559,836	3,346,945	212,891
Total instruction	12,738,448	13,446,028	12,927,449	518,579
Support services				
Pupil	352,654	335,848	326,821	9,027
Instructional staff	117,458	103,810	75,564	28,246
General administration	373,980	373,417	371,571	1,846
School administration	1,399,496	1,440,718	1,424,759	15,959
Business services	391,415	379,611	382,869	(3,258)
Operation and maintenance	1,637,495	1,616,919	1,499,528	117,391
Pupil transportation	1,396,326	1,359,900	1,259,838	100,062
Central service	311,967	303,768	311,807	(8,039)
Athletics	342,240	346,519	361,380	(14,861)
Total support services	6,323,031	6,260,510	6,014,137	246,373
Community activities	28,839	29,779	24,418	5,361
Debt service	55,058	319,316	140,791	178,525
Total expenditures	19,145,376	20,055,633	19,106,795	948,838
Revenues over (under) expenditures	106,943	32,038	525,074	493,036
Other financing sources (uses)				
Transfers out	(133,924)	(131,797)	(131,313)	484
Net change in fund balance	(26,981)	(99,759)	393,761	493,520
Fund balances - beginning of year	1,606,143	1,606,143	1,606,143	-
Fund balances - end of year	$ 1,579,162	$ 1,506,384	$ 1,999,904	$ 493,520

Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability

Description	Plan year Sept. 30 2016	Plan year Sept. 30 2015	Plan year Sept. 30, 2014
Reporting unit's proportion of net pension liability (%)	0.1216%	0.1265%	0.1243%
Reporting unit's proportionate share of net pension liability	$ 30,327,831	$ 30,896,709	$ 27,381,029
Reporting unit's covered employee payroll	$ 10,058,273	$ 10,191,604	$ 10,681,958
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	301.52%	303.20%	256.33%
Plan fiduciary net position as a percentage of total pension liability	63.01%	62.92%	66.20%

Note: Amounts were determined as of 9/30 for each fiscal year.

Schedule of the Reporting Unit's Contributions

Schedule of the Reporting Unit's Contributions	Fiscal year June 30, 2016	Fiscal year June 30, 2015	Fiscal year June 30, 2014
Statutorily required contributions	$ 2,844,074	$ 2,440,274	$ 1,930,600
Contributions in relation to statutorily required contributions	$ 2,844,074	$ 2,440,274	$ 1,930,600
Contribution deficiency (excess)	$ -	$ -	$ -
Reporting unit's covered-employee payroll	$ 10,120,016	$ 10,152,320	$ 10,766,802
Contributions as a percentage of covered-employee payroll	28.10%	28.20%	17.93%

Note: Amounts were determined as of 6/30 for each fiscal year.

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes to benefit terms
Changes of assumptions: There were no change of benefit assumptions

OTHER SUPPLEMENTARY INFORMATION

Chippewa Hills School District
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2017

	Food Service Fund	Debt Service Funds: 2005 Bonds	Debt Service Funds: Energy Bonds	Debt Service Funds: 2015 Construction Bonds	Debt Service Funds: 2015 Refunding Bonds	Total Non-major Funds
Assets						
Cash and investments	$ 176,312	$ 150,806	$ 5,395	$ 82,480	$ 16,951	$ 431,944
Accounts receivable, net	36,617	-	-	1,018	2,585	40,220
Due from other funds	202	1,035	12,580	-	-	13,817
Due from other governmental units	11,935	-	-	-	-	11,935
Inventory	5,760	-	-	-	-	5,760
Total assets	$ 230,826	$ 151,841	$ 17,975	$ 83,498	$ 19,536	$ 503,676
Liabilities						
Accounts payable	$ 3,693	$ -	$ -	$ 1,018	$ 2,585	$ 7,296
Accrued payroll liabilities	4,931	-	-	-	-	4,931
Accrued expenses	39,432	-	-	-	-	39,432
Due to other funds	1,324	-	-	-	-	1,324
Unearned revenue	31,959	-	-	-	-	31,959
Total liabilities	81,339	-	-	1,018	2,585	84,942
Fund Balance						
Nonspendable:						
Inventory	5,760	-	-	-	-	5,760
Restricted:						
Food service	143,727	-	-	-	-	143,727
Debt service	-	151,841	17,975	82,480	16,951	269,247
Total fund balance	149,487	151,841	17,975	82,480	16,951	418,734
Total liabilities and fund balance	$ 230,826	$ 151,841	$ 17,975	$ 83,498	$ 19,536	$ 503,676

Chippewa Hills School District
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
For The Year Ended June 30, 2017

		Debt Service Funds				
	Food Service Fund	2005 Bonds	Energy Bonds	2015 Construction Bonds	2015 Refunding Bonds	Total Non-major Funds
Revenues						
Local sources						
Property tax levy	$ -	$ -	$ -	$ 501,250	$ 1,565,654	$ 2,066,904
Interest on investments	83	1,100	10	1,385	5,357	7,935
Food sales	255,973	-	-	-	-	255,973
Total local sources	256,056	1,100	10	502,635	1,571,011	2,330,812
State sources	79,512	-	-	4,538	14,176	98,226
Federal sources	841,929	-	-	-	-	841,929
Total revenues	1,177,497	1,100	10	507,173	1,585,187	3,270,967
Expenditures						
Support services - business	-	-	-	-	1,315	1,315
Food service activities	1,208,185	-	-	-		1,208,185
Debt service:						
Bond and note redemptions	-	-	129,270	195,000	1,475,000	1,799,270
Bond interest and fees	-	-	-	268,675	184,700	453,375
Other expenditures	-	-	-	3,777	-	3,777
Total expenditures	1,208,185	-	129,270	467,452	1,661,015	3,465,922
Revenues over (under) expenditures	(30,688)	1,100	(129,260)	39,721	(75,828)	(194,955)
Other financing sources (uses)						
Transfers in	2,043	-	129,270	-	70,000	201,313
Transfers out	-	(70,000)	-	-	-	(70,000)
Total other financing sources (uses)	2,043	(70,000)	129,270	-	70,000	131,313
Net change in fund balances	(28,645)	(68,900)	10	39,721	(5,828)	(63,642)
Fund balance, beginning of year	178,132	220,741	17,965	42,759	22,779	482,376
Fund balance, end of year	$ 149,487	$ 151,841	$ 17,975	$ 82,480	$ 16,951	$ 418,734

Chippewa Hills School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2017

Maturity Date	Interest Rate	Annual Principal Due	Interest Due 1st payment	Interest Due 2nd payment	Total
Energy Conservation Improvement Bonds - $2,500,000					
Principal due November 19th					
2018		$ 129,270	$ -	$ -	$ 129,270
2019		129,270	-	-	129,270
2020		129,270	-	-	129,270
2021		129,270	-	-	129,270
2022		129,270	-	-	129,270
2023		129,270	-	-	129,270
2024		129,270	-	-	129,270
2025		129,270	-	-	129,270
Total		1,034,160	-	-	1,034,160
Bus Loan - $318,184					
Principal and Interest due April 24th					
2018	1.25%	53,031	1,458	-	54,489
2019	1.50%	53,031	795	-	53,826
Total		106,062	2,253	-	108,315
2015 Refunding Bonds - $5,970,000					
Interest due November 1 and May 1; Principal due May 1					
2018	4.00%	1,535,000	62,600	62,600	1,660,200
2019	4.00%	1,595,000	31,900	31,900	1,658,800
Total		3,130,000	94,500	94,500	3,319,000
Capital Lease - Copiers					
Payments due monthly					
2018		85,692	-	-	85,692
2019		85,692	-	-	85,692
2020		92,833	-	-	92,833
Total		264,217	-	-	264,217

Maturity Date	Interest Rate	Annual Principal Due	Interest Due 1st payment	Interest Due 2nd payment	Total
2015 School Building and Site Bonds, Series 1 - $6,940,000					
Interest due November 1 and May 1; Principal due May 1					
2018	4.000	$ 195,000	$ 130,187	$ 130,187	$ 455,374
2019	4.000	215,000	126,288	126,288	467,576
2020	4.000	285,000	121,987	121,987	528,974
2021	4.000	295,000	116,288	116,288	527,576
2022	4.000	310,000	110,387	110,387	530,774
2023	4.000	320,000	104,188	104,188	528,376
2024	4.000	335,000	97,787	97,787	530,574
2025	4.000	350,000	91,088	91,088	532,176
2026	4.000	360,000	84,087	84,087	528,174
2027	4.000	375,000	76,888	76,888	528,776
2028	4.000	390,000	69,387	69,387	528,774
2029	4.000	405,000	61,588	61,588	528,176
2030	4.000	425,000	53,487	53,487	531,974
2031	4.000	440,000	44,988	44,988	529,976
2032	4.000	455,000	36,187	36,187	527,374
2033	4.000	475,000	27,088	27,088	529,176
2034	3.500	495,000	17,587	17,587	530,174
2035	3.500	510,000	8,925	8,925	527,850
Total		6,635,000	1,378,412	1,378,412	9,391,824

Chippewa Hills School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2017

Fiscal Year	Annual Principal	Annual Interest	Total
Summary			
2018	$ 1,997,993	$ 387,032	$ 2,385,025
2019	2,077,993	317,171	2,395,164
2020	507,103	243,974	751,077
2021	424,270	232,576	656,846
2022	439,270	220,774	660,044
2023	449,270	208,376	657,646
2024	464,270	195,574	659,844
2025	479,270	182,176	661,446
2026	360,000	168,174	528,174
2027	375,000	153,776	528,776
2028	390,000	138,774	528,774
2029	405,000	123,176	528,176
2030	425,000	106,974	531,974
2031	440,000	89,976	529,976
2032	455,000	72,374	527,374
2033	475,000	54,176	529,176
2034	495,000	35,174	530,174
2035	510,000	17,850	527,850
	11,169,439	2,948,077	14,117,516
5 year groupings			
1st year	1,997,993	387,032	2,385,025
2nd year	2,077,993	317,171	2,395,164
3rd year	507,103	243,974	751,077
4th year	424,270	232,576	656,846
5th year	439,270	220,774	660,044
2nd 5 years	2,127,810	908,076	3,035,886
3rd 5 years	2,115,000	531,274	2,646,274
4th 5 years	1,480,000	107,200	1,587,200
	11,169,439	2,948,077	14,117,516