

Leland Public School

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

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Management's Discussion and Analysis

For the year ended June 30, 2017

The discussion and analysis of the Leland Public School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2017. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Leland School District is one of the few remaining one building schools in Michigan. The District is located in Leelanau County. Leland Public School serves students in grades Kindergarten through 12th grade. In addition to a full college preparatory curriculum offered on the Leland campus, Leland staff members teach non-core subjects such as fine arts, foreign language, and technology at the nearby parochial school. Students attending the District are afforded individualized attention due to small class sizes. Educators in the District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Leland Public School District offers a core academic curriculum that meets and/or exceeds State guidelines at all levels. The population for the 2016-2017 school year was 529 pupils with the inclusion of part-time parochial students.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include several kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

Figure A-1

District Financial Report Organization

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

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Basic Financial Statements

Budgetary Information for Funds
(Required Supplemental Information)

Other Supplemental Information

DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows, and liabilities and the difference between them, which is net position. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and statement of activities report the governmental activities for the District, which encompass all of the District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District's *net position* and how they have changed. Examining net position is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

Governmental funds:

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental funds are the general fund, the 2016 capital projects fund and the 2010 refunding and school improvement debt retirement fund.

Fiduciary Funds:

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. For example, the Student Activities Account is accounted for as a fiduciary fund.

The District as a Whole

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

TABLE 1

	Governmental Activities		
	June 30, 2016	June 30, 2017	% Change
Assets			
Current and other assets	\$ 2,669,050	2,183,357	-18.20%
Capital assets	8,020,138	7,911,420	-1.36%
Total assets	10,689,188	10,094,777	-5.56%
Deferred Outflow of Resources	1,323,861	1,493,936	12.85%
Total assets and deferred outflows	\$12,013,049	\$ 11,588,713	-3.53%
Liabilities			
Current liabilities	1,429,053	1,428,247	-0.06%
Long-term liabilities	3,988,336	3,062,142	-23.22%
Net pension obligation	8,895,917	9,364,376	5.27%
Total liabilities	14,313,306	13,854,765	-3.20%
Deferred Inflow of Resources	29,466	46,533	57.92%
Net Assets Invested in			
Property and Equipment – Net of related debt	3,323,045	4,085,903	22.96%
Restricted for:			
Public Improvements	790,184	604,311	-23.52%
Debt Service	39,898	61,192	53.37%
Food Service	16,121	28,320	75.67%
Unrestricted (deficit)	(6,498,971)	(7,092,311)	9.13%
Total net position	\$ (2,329,723)	(2,312,585)	-0.74%
Total Liabilities and net position	\$12,013,049	\$ 11,588,713	-3.53%

The above analysis focuses on the net position (see Table 1). The District's net position was (\$2,329,723) at June 30, 2016 and (\$2,312,585) at June 30, 2017. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use net position for day-to-day operations.

The results of this year's operations for the 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. Revenue and expense for fiscal year 2016 is also shown for comparison purposes.

TABLE 2

	Governmental Activities		
	June 30, 2016	June 30, 2017	% Change
Program Revenues:			
Charges for services	\$ 131,325	\$ 147,309	12.17%
Operating grants and contributions	842,042	918,685	9.10%
General Revenue			
Property taxes			
Levied for general purpose	3,567,032	3,568,950	0.05%
Levied for debt service	986,044	1,051,438	6.63%
Levied for sinking fund	162,515	173,767	6.92%
State School Aid- unrestricted	605,283	416,887	-31.13%
Unrestricted Federal aid	719,349	707,432	-1.66%
Grants and contributions- unrestricted	400,592	194,324	-51.49%
Other	20,527	35,556	73.22%
Total Revenues	<u>7,434,709</u>	<u>7,214,348</u>	<u>-2.96%</u>
Functions/Program Expenses			
Instruction	3,809,196	3,858,725	1.30%
Support services	2,380,047	2,447,964	2.85%
Food Service	238,952	255,800	7.05%
Other transactions	40,979	39,929	-2.56%
Interest on Long Term Debt	175,609	163,113	-7.12%
Depreciation (unallocated)	529,566	431,679	-18.48%
Total Expenses	<u>7,174,349</u>	<u>7,197,210</u>	<u>0.32%</u>
Increase in Net Position	<u>260,360</u>	<u>17,138</u>	<u>-93.42%</u>
Net position, beginning of year	<u>(2,590,083)</u>	<u>(2,329,723)</u>	<u>-10.05%</u>
Net position, end of the year	<u>\$ (2,329,723)</u>	<u>\$ (2,312,585)</u>	<u>-0.74%</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$7,197,210. Certain activities were partially funded by those who benefited from the programs, such as food service and athletics, (\$147,309) or by other grants and contributions (\$918,685). We paid for the remaining “public benefit” portion of our governmental activities with \$4,794,155 in taxes, \$416,887 in State Aid, \$707,432 in Federal Aid and with our other revenues including interest and general entitlements.

As discussed above, the net cost shows the financial burden that was placed on the State and the District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of District annual operating revenue sources, the School Board and Administration must annually evaluate the needs of the District and balance those needs with State allocated available unrestricted resources.

The District’s Funds

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District’s overall financial health. The District’s budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the general fund reported a fund balance of \$1,002,104, which is a decrease of \$309,037 from the prior year. The primary reason for the decrease was the repayment of \$191,000 in State aid which was paid to the District in error due to the faulty reporting system of Leelanau County.

Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget three times during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of Federal and State funding sources, many of which are not finalized until well after the District's original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the general fund budget were as follows:

- Adjustments for changes in state aid and prior year taxes resulted in lower than normal student foundation grant allowances
- Addition of revenue & expense for Robotics
- Final payments on prior year Impact Aid received
- Larger Federal REAP grant than expected
- Cost of new water treatment system and building repairs not anticipated
- Additional technology fees and licenses
- More students taking online courses

Capital Asset and Debt Administration

Capital Assets

At June 30, 2017, the District had \$8,020,138 invested in a range of capital assets including buildings, furniture, equipment and vehicles summarized as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets	\$ 14,113,979	\$ 322,961	\$ (346,070)	\$ 14,090,870
Less: Accum. Depreciation	(6,093,841)	(431,679)	346,070	(6,179,450)
Total capital assets, net	\$ 8,020,138	\$(108,718)	\$ -	\$ 7,911,420

Debt

At June 30, 2017, the District had \$4,002,959 debt owing.

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Leland Public School District.

- The student foundation grant allowance paid per pupil in 2016-2017 was approximately the same per pupil amount paid in 2006-2007. Therefore, schools are attempting to maintain educational programs by paying 2016-2017 expenses with 2006-2007 level revenues.
- The Affordable Care Act requires Leland Public School to insure part time workers adding thousands of dollars to the budget without additional revenue to support the expense.
- Premium rates for employee health insurance continue to rise. The cap imposed by the State of Michigan restricting the amount a school can pay towards the premium, increases about 3% per year. Most of the low priced policies (below the cap) required extremely large employee deductibles and less coverage than in the past. It is a difficult benefit to negotiate. In the end, the school usually pays about 3% more for insurance than the year before and the employee pays all costs above the cap but may be facing a very large deductible. The increased costs continue to be a problem for both the school and the employee.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Sandy Thomas, Business Manager, at Leland Public School District, P.O. Box 498, Leland, MI 49654, Telephone (231) 256-9857, Fax (231) 256-9844.



DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Leland Public School

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District'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 Leland Public School as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *viii*, and budgetary comparison information on page 32, 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 inquires 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 School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2017, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 13, 2017

Leland Public School

STATEMENT OF NET POSITION

June 30, 2017

Governmental
Activities

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS

Current assets

Cash and cash equivalents	\$ 1,881,072
Due from other governments	297,296
Inventory	<u>4,989</u>

Total current assets 2,183,357

Capital assets, net of accumulated depreciation 7,911,420

Total assets 10,094,777

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding	84,845
Pension obligation	<u>1,409,091</u>

Total assets and deferred outflows of resources \$ 11,588,713

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	\$ 473,780
Current portion of long-term liabilities	940,817
Due to other governmental units	10,070
Deferred revenue	<u>3,580</u>

Total current liabilities 1,428,247

Non-current portion of long-term obligations 3,062,142

Net pension obligation 9,364,376

Total liabilities 13,854,765

DEFERRED INFLOWS OF RESOURCES - pension obligation

46,533

NET POSITION

Invested in capital assets, net of related debt 4,085,903

Restricted for

Capital projects	604,311
Debt Service	61,192
Food Service	28,320

Unrestricted (deficit) (7,092,311)

Total net position (2,312,585)

Total liabilities, deferred inflows of resources and net position \$ 11,588,713

The accompanying notes are an integral part of these financial statements.

Leland Public School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 3,858,725	\$ -	\$ 796,642	\$ (3,062,083)
Supporting Services	2,447,964	15,673	-	(2,432,291)
Food Service	255,800	131,636	122,043	(2,121)
Other	39,929	-	-	(39,929)
Interest on long-term debt	163,113	-	-	(163,113)
Depreciation-unallocated	431,679	-	-	(431,679)
Total governmental activities	\$ 7,197,210	\$ 147,309	\$ 918,685	(6,131,216)
General purpose revenues				
Property taxes				
Levied for general purposes				3,568,950
Levied for Debt Service				1,051,438
Levied for Sinking Fund				173,767
State school aid - unrestricted				416,887
Unrestricted Federal aid				707,432
Grants and contributions not restricted to specific program				194,324
Investment and other				35,556
Total general purpose revenues				6,148,354
Change in net position				17,138
Net position, beginning of year				(2,329,723)
Net position, end of year				\$ (2,312,585)

The accompanying notes are an integral part of these financial statements.

Leland Public School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2016 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,184,296	\$ 62,774	\$ 444,825	\$ 189,177	\$ 1,881,072
Due from other governments	297,296	-	-	-	297,296
Due from other funds	125,367	-	-	142,976	268,343
Inventory	-	-	-	4,989	4,989
Total assets	\$ 1,606,959	\$ 62,774	\$ 444,825	\$ 337,142	\$ 2,451,700
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenditures	\$ 451,809	\$ -	\$ -	\$ -	\$ 451,809
Deferred revenue	-	-	-	3,580	3,580
Due to other funds	142,976	-	555	124,812	268,343
Due to other governmental units	10,070	-	-	-	10,070
Total liabilities	604,855	-	555	128,392	733,802
FUND BALANCES					
Nonspendable	-	-	-	4,989	4,989
Restricted					
Food Service	-	-	-	23,331	23,331
Debt retirement	-	62,774	-	20,389	83,163
Capital projects	-	-	444,270	160,041	604,311
Committed					
Subsequent year expenditures	252,061	-	-	-	252,061
Assigned					
Future technology purchases	113,000	-	-	-	113,000
Employee leave liability	92,597	-	-	-	92,597
Unassigned	544,446	-	-	-	544,446
Total fund balances	1,002,104	62,774	444,270	208,750	1,717,898
Total liabilities and fund balances	\$ 1,606,959	\$ 62,774	\$ 444,825	\$ 337,142	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$14,090,870 and the accumulated depreciation is \$(6,179,450).

7,911,420

Deferred outflows of resources net of deferred inflows of resources for pension obligations is not a financial resource and, therefore, is not reported in governmental funds.

1,362,558

Long-term liabilities and related deferred outflows of resources including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

	Bonds payable	\$ 3,855,000	
	Accrued interest on bonds	21,971	
	Unamortized bond refunding loss	(84,845)	
	Unamortized bond premium	55,362	
	Accumulated leave liability	92,597	
	Net pension obligation	9,364,376	(13,304,461)

Total net position - governmental activities

\$ (2,312,585)

Leland Public School

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2016 Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 3,568,950	\$ 929,056	\$ -	\$ 296,149	\$ 4,794,155
Interest	19,470	5,016	-	3,469	27,955
State revenues	1,091,855	-	-	13,453	1,105,308
Federal revenues	817,755	-	-	108,590	926,345
Other	221,348	-	4,301	134,936	360,585
Total revenues	5,719,378	934,072	4,301	556,597	7,214,348
Expenditures					
Current					
Instruction	3,670,092	-	-	-	3,670,092
Supporting Services	2,299,659	-	14,380	-	2,314,039
Food Service	-	-	-	255,800	255,800
Other	38,664	163	-	292	39,119
Debt Service					
Principal	-	770,000	-	110,000	880,000
Interest	-	136,538	-	20,710	157,248
Payment to escrow agent	-	810	-	-	810
Capital outlay	-	-	144,091	217,125	361,216
Total expenditures	6,008,415	907,511	158,471	603,927	7,678,324
REVENUES OVER (UNDER) EXPENDITURES	(289,037)	26,561	(154,170)	(47,330)	(463,976)
Other financing sources (uses)					
Operating transfers in	-	-	-	20,000	20,000
Operating transfers out	(20,000)	-	-	-	(20,000)
Total other financing sources (uses)	(20,000)	-	-	20,000	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(309,037)	26,561	(154,170)	(27,330)	(463,976)
Fund balance, beginning of year	1,311,141	36,213	598,440	236,080	2,181,874
Fund balance, end of year	\$ 1,002,104	\$ 62,774	\$ 444,270	\$ 208,750	\$ 1,717,898

The accompanying notes are an integral part of these financial statements.

Leland Public School

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Total Net Change in Fund Balances - Governmental Funds \$ (463,976)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

	Capital outlays \$ 322,961	
	Depreciation expense <u>(431,679)</u>	(108,718)

Change in deferred outflows of resources for pension obligation, net of the change in deferred inflows of resources for pension obligations.	177,249
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In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was less than the amounts earned by \$14,623. Early retirement incentives paid were \$21,530.	6,907
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Repayment of bond and loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.	880,000
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Net amortization of bond refunding loss and bond premium	(8,424)
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Increase in net pension obligation	(468,459)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.	<u>2,559</u>
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Changes in Net Position of Governmental Activities	<u><u>\$ 17,138</u></u>
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Leland Public School

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 17,281	\$ 119,118	\$ 136,399
Investments	<u>57,769</u>	<u>-</u>	<u>57,769</u>
Total assets	<u>\$ 75,050</u>	<u>\$ 119,118</u>	<u>\$ 194,168</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Due to student groups	\$ -	\$ 119,118	\$ 119,118
NET POSITION			
Held in trust for scholarships	<u>75,050</u>	<u>-</u>	<u>75,050</u>
Total liabilities and net position	<u>\$ 75,050</u>	<u>\$ 119,118</u>	<u>\$ 194,168</u>

Leland Public School

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2017

	Private Purpose Trust Funds
ADDITIONS	
Contributions	\$ 69,371
Interest	<u>3,627</u>
Total additions	72,998
DEDUCTIONS	
Scholarships awarded	<u>51,299</u>
Change in net position	21,699
Net position, beginning of year	<u>53,351</u>
Net position, end of year	<u><u>\$ 75,050</u></u>

Leland Public School

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Leland Public School (the "School District") is a Michigan public school district consisting of one K-12 building. The School District also provides staff for St. Mary's School of Lake Leelanau. The School District primarily serves the Leland community. As of June 30, 2017, the School District employs 37 professional staff and 38 non-professional staff, and has 528 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2017.

Financial Reporting Entity

Leland Public School District's Board is a special purpose government and considered to be a primary government because it has a separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Leland Public School District includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature of significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available, if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

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

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The 2010 Refunding and School Improvement Debt Retirement Fund is used to account for the accumulation of resources (property taxes) for, and the payment of, bond principal, interest and related costs.

The 2016 Capital Project Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of this fund.

The 2008-2009 Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of bond principal, interest and related costs.

The 2016 Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of bond principle, interest and related costs.

The Infrastructure Fund is a capital project fund and is used to account for a sinking fund tax levy to be used for construction or repair of various School District properties.

The 2014 Capital Projects Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment.

The Public Improvement Fund is a capital project fund and is used to account for financial resources to be used for the acquisition or construction of capital assets.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Private purpose trust funds are used to administer scholarships for the benefit of private individuals and organizations.

NOTES TO FINANCIAL STATEMENTS - Continued

Cash and Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	50 years
Improvements, other than buildings	5 years
Buses and vehicles	7 years
Furniture and equipment	3-20 years

Long-Term Debt and Bond Discounts/Premiums

In the district-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums are amortized over the terms of the respective bonds using a method that approximates the interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Inflows and Outflows

In addition to assets and liabilities, the statement of financial position includes elements for deferred outflows of resources and deferred inflows of resources. The separate financial statement elements, deferred outflows and inflows of resources, represent a consumption/addition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or inflows of resources (revenue) until then. The School District items that qualify for reporting in this category are the deferred loss on debt refunding reported in the government-wide statement of net position and items related to the pension obligation. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note I for details of deferred outflows and inflows related to the pension obligation.

Fund Balance

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balance is a limitation imposed by the Superintendent and/or Business Manager as a designee of the School Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Pension Plan

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

NOTES TO FINANCIAL STATEMENTS - Continued

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, Title VIII, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

NOTE B - BUDGETARY POLICY AND PRACTICE

The General Fund budget is adopted on a budgetary basis which does not consider other financing sources and related capital outlay.

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2017, the School District was in compliance with the Act.

NOTE C - CASH AND INVESTMENTS

At June 30, 2017, the School District's cash and investments include the following:

Bank deposits and cash on hand	\$ 274,904
Certificates of Deposit	57,748
Investment pools ("MILAF")	<u>1,742,588</u>
	<u>\$ 2,075,240</u>

Custodial Credit Risk - Deposits

As of June 30, 2017, all of the School District's bank deposits were insured.

NOTES TO FINANCIAL STATEMENTS - Continued

Interest Rate Risk

In accordance with the School District's investment policy, the School 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 short-term securities, liquid asset funds, money market funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements. MILAF investments are carried at amortized cost and are not subject to any withdrawal restrictions.

The School District's investments have the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
Certificates of Deposit	\$ 57,748	\$ 57,748	\$ -	\$ -	\$ -
Investment pools	1,742,588	1,742,588	-	-	-
	<u>\$ 1,800,336</u>	<u>\$ 1,800,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.
7. Securities issued or guaranteed by agencies of the United States government.
8. Michigan Investment Liquid Asset Fund Plus ("MILAF")

Credit Risk

The School District's investment in the MILAF investment pool was rated AAAM by Standard and Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the county as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$10.901 per \$1,000 of equalized non-principal residence property value of \$328 million was levied for general operating purposes. For debt service purposes, \$1.670 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value of \$556 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, \$0.298 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value of \$556 million was levied.

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned, when eligibility requirements are met. Grant revenues are deferred in the governmental fund financial statements and included in unearned revenue.

Amounts due from other governments at June 30, 2017 are as follows:

Due from the State of Michigan - State Aid	\$ 228,554
Due from Federal Grants	67,021
Other	<u>1,721</u>
	<u>\$ 297,296</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	June 30, 2016	Additions	Disposals	June 30, 2017
Buildings and improvements	\$11,132,685	\$ 153,295	\$ -	\$11,285,980
Furniture and equipment	2,417,810	89,583	(213,510)	2,293,883
Buses and vehicles	<u>563,484</u>	<u>80,083</u>	<u>(132,560)</u>	<u>511,007</u>
Total depreciable assets	14,113,979	322,961	(346,070)	14,090,870
Less accumulated depreciation	<u>(6,093,841)</u>	<u>(431,679)</u>	<u>346,070</u>	<u>(6,179,450)</u>
Total capital assets, net	<u>\$ 8,020,138</u>	<u>\$ (108,718)</u>	<u>\$ -</u>	<u>\$ 7,911,420</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 431,679</u>
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NOTE F - LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2017 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
2010 Refunded general obligation and school improvement bonds	\$ 3,640,000	\$ -	\$ (770,000)	\$ 2,870,000	\$ 680,000
Unamortized bond premium	71,179	-	(15,817)	55,362	15,817
2014 Technology and Bus Bonds	495,000	-	(85,000)	410,000	205,000
2016 Technology and Bus Bonds	600,000	-	(25,000)	575,000	40,000
Accumulated leave liability	77,974	14,623	-	92,597	-
Early retirement incentives	<u>21,530</u>	<u>-</u>	<u>(21,530)</u>	<u>-</u>	<u>-</u>
Long-term liabilities	<u>\$ 4,905,683</u>	<u>\$ 14,623</u>	<u>\$ (917,347)</u>	<u>\$ 4,002,959</u>	<u>\$ 940,817</u>

Payments on general obligation and technology and bus bonds are made by Debt Service Funds. The accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2017, the School District's long-term debt consisted of the following:

\$6,845,000; 2010 Refunding and School Improvement Bonds; remaining installments due annually of \$680,000 to \$750,000 through May 1, 2021; remaining interest rates of 3.50% to 4.25%.	\$ 2,870,000
\$600,000; 2014 School Technology and Bus Bonds; remaining installments due annually of \$205,000 through May 1, 2019; interest rate of 2.15%.	410,000
\$600,000; 2016 School Technology and Bus Bonds; remaining installments due annually of \$40,000 to \$245,000 through May 1, 2021; interest rate of 2.00% to 2.40%.	<u>575,000</u>
Total bonds payable	3,855,000
Unamortized bond premium	55,362
Accumulated leave liability	<u>92,597</u>
Total long-term liabilities	<u><u>\$ 4,002,959</u></u>

Total annual requirements to amortize bonds outstanding as of June 30, 2017 are as follows:

Years Ending June 30,	Principal	Interest
2018	\$ 925,000	\$ 131,827
2019	955,000	102,820
2020	980,000	71,074
2021	<u>995,000</u>	<u>36,776</u>
	<u>\$ 3,855,000</u>	<u>\$ 342,497</u>

Interest expense for the year ended June 30, 2017 was \$163,113, and interest paid for the year ended June 30, 2017 was \$157,248.

Accumulated Leave Liability

As of June 30, 2017, a potential liability for sick pay of up to \$1,018,083 had accumulated to employees; this amount is not vested. However, as an employee becomes eligible for retirement, 10.0% of their sick pay balance plus FICA will be paid to them upon retirement, if they have 10 years of service with the School District. The School District has used the retirement value method to estimate the probable amount to be paid of \$92,597.

Prior Year Defeasance of Debt

On December 16, 2010, the School District issued \$6,845,000 in 2010 Refunding and School Improvement Bonds with interest rates ranging from 2.25% to 4.25%, to advance refund \$6,155,000 of outstanding 2001 Building and Site and Refunding Bonds with an interest rate varying between 4.25% and 4.875%. The net proceeds of \$6,219,760 plus \$78,500 from Debt Service Funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the redemption of the \$6,155,000 outstanding 2001 Building and Site Refunding Bonds. The outstanding principal of the defeased bonds was \$2,820,000 at June 30, 2017.

NOTE G - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis. No significant claims are known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 125,367	\$ 142,976
Other Governmental Funds		
Food Service Fund	134,976	124,812
Infrastructure Fund	8,000	-
2016 Capital Projects Fund	<u>-</u>	<u>555</u>
	<u>\$ 268,343</u>	<u>\$ 268,343</u>

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining Debt Service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental activities columns.

The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds		
General Fund	\$ -	\$ 20,000
Other Governmental Funds		
Food Service Fund	<u>20,000</u>	<u>-</u>
	<u>\$ 20,000</u>	<u>\$ 20,000</u>

NOTE I - PENSION PLAN AND POST-EMPLOYMENT BENEFITS

Plan Description

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

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

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

Benefits Provided

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

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

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation ("FAC"). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

Funding Policy

Defined Contribution Plan

Employer contributions to the Plan are dependent on the plan elected by the participant.

Contributions and Funded Status

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

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

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2016:

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

Required contributions to the pension plan from the School District were \$842,841 for the year ended September 30, 2016.

The School District's contributions to the MPSERS Defined Contribution Plan were \$8,257, for the year ended June 30, 2017, which is equal to the pension expense recognized by the School District for the year.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

NOTES TO FINANCIAL STATEMENTS - Continued

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

At June 30, 2017, the School District reported a liability of \$9,364,376 for its proportionate share of the MPERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2016, the School District's proportion was 0.03753%, which was an increase of 0.00111% from its proportion measured as of September 30, 2015

For the year ended June 30, 2017, the School District recognized pension expense of \$1,075,581. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 116,705	\$ 22,194
Changes of assumptions	146,405	-
Net difference between projected and actual earnings on pension plan investments	155,636	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	567,403	24,339
School District contributions subsequent to the measurement date	<u>422,942</u>	<u>-</u>
Total	<u>\$ 1,409,091</u>	<u>\$ 46,533</u>

From the above table, \$422,942 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2017	\$ 256,783
2018	244,544
2019	370,598
2020	<u>67,691</u>
Total	<u>\$ 939,616</u>

Actuarial Assumptions

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

Additional information as of the latest actual valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273 for non-university employers
- Recognition period for assets is 5 years
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Investments

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

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

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

Discount Rate

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

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

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

1% Decrease (Non-Hybrid/Hybrid) (7.0% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (8.0% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (9.0% / 8.0%)
\$ 12,058,959	\$ 9,364,376	\$ 7,092,583

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR") available at: www.michigan.gov/mpers-cafr.

Payables to the Michigan Public School Employees' Retirement System ("MPERS")

The School District reported \$78,176 payable to the plan at June 30, 2017 for legally required defined benefit and defined contribution plan contributions.

NOTE J - COMMITMENTS AND CONTINGENCIES

Capital Projects

The Infrastructure Fund records capital project activities funded with a Sinking Fund millage. For these funds, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

The 2014 Capital Projects Fund accounts for activity related to acquiring and installing educational technology and other equipment. The projects are funded with two bond issues after May 1, 1994. For these projects, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code.

The project for which the 2014 School Technology and Bus Bonds were issued has been completed as of June 30, 2017. The remaining fund balance in the 2014 Capital Projects Fund as of June 30, 2017, was \$660.

NOTES TO FINANCIAL STATEMENTS - Continued

The project for which the 2016 School Technology and Bus Bonds were issued have not been completed as of June 30, 2017. The remaining fund balance in the 2016 Capital Projects Fund as of June 30, 2017, was \$444,270.

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Leland Public School Education Association. The Board of Education and the Leland Public School Education Association have a contract through August 14, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Leland Public School

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues					
Local and intermediate sources	\$ 3,575,282	\$ 3,843,184	\$ 3,588,420	\$ 267,902	\$ (254,764)
State revenues	1,355,386	1,209,319	1,091,855	(146,067)	(117,464)
Federal revenues	772,679	813,424	817,755	40,745	4,331
Other	<u>-</u>	<u>-</u>	<u>221,348</u>	<u>-</u>	<u>221,348</u>
Total revenues	<u>5,703,347</u>	<u>5,865,927</u>	<u>5,719,378</u>	<u>162,580</u>	<u>(146,549)</u>
Expenditures					
Instruction	3,720,853	3,702,780	3,670,092	18,073	32,688
Supporting Services	<u>2,229,272</u>	<u>2,355,275</u>	<u>2,338,323</u>	<u>(126,003)</u>	<u>16,952</u>
Total expenditures	<u>5,950,125</u>	<u>6,058,055</u>	<u>6,008,415</u>	<u>(107,930)</u>	<u>49,640</u>
REVENUES OVER (UNDER) EXPENDITURES	(246,778)	(192,128)	(289,037)	54,650	(96,909)
Other financing uses					
Operating transfers out	<u>(25,000)</u>	<u>(30,000)</u>	<u>(20,000)</u>	<u>(5,000)</u>	<u>10,000</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(271,778)	(222,128)	(309,037)	49,650	(86,909)
Fund balance, beginning of year	<u>1,159,797</u>	<u>1,311,141</u>	<u>1,311,141</u>	<u>151,344</u>	<u>-</u>
Fund balance, end of year	<u>\$ 888,019</u>	<u>\$ 1,089,013</u>	<u>\$ 1,002,104</u>	<u>\$ 200,994</u>	<u>\$ (86,909)</u>

Leland Public School

SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Michigan Public School Employees Retirement Plan

	9/30/2016	9/30/2015	9/30/2014
School District's proportion of collective net pension liability	0.03753 %	0.03642 %	0.03388 %
School District's proportionate share of net pension liability	\$ 9,364,376	\$ 8,895,917	\$ 7,461,744
School District's covered-employee payroll	3,198,314	2,959,363	2,831,673
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	292.79 %	300.60 %	263.51 %
Plan fiduciary net position as a percentage of total pension liability	63.27 %	63.17 %	66.20 %

SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

	6/30/2017	6/30/2016	6/30/2015
Statutorily required employer contributions	\$ 564,613	\$ 702,615	\$ 652,742
School District contributions made to the Plan	564,613	702,615	652,742
Contributions deficiency (excess)	\$ -	\$ -	\$ -
School District's covered-employee payroll	\$ 3,122,446	\$ 3,027,169	\$ 2,951,608
Contributions as a percentage of covered-employee payroll	18.08 %	23.21 %	22.11 %

Change of benefit terms: There were no changes of benefit terms in 2016.

Change of assumptions: There were no changes of benefit assumptions in 2016.

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Leland Public School

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2017

	Special Revenue Fund	Debt Service Funds			Capital Project Funds				Total Non-Major Governmental
	Food Service	2008-2009		Total	Infrastructure Fund	2014 Capital Projects Fund	Public Improvement	Total	
		Debt Retirement	2016 Debt Retirement						
ASSETS									
Cash and cash equivalents	\$ 16,747	\$ 12,728	\$ 7,661	\$ 20,389	\$ 151,336	\$ 660	\$ 45	\$ 152,041	\$ 189,177
Due from other funds	134,976	-	-	-	8,000	-	-	8,000	142,976
Inventory	4,989	-	-	-	-	-	-	-	4,989
Total assets	<u>\$ 156,712</u>	<u>\$ 12,728</u>	<u>\$ 7,661</u>	<u>\$ 20,389</u>	<u>\$ 159,336</u>	<u>\$ 660</u>	<u>\$ 45</u>	<u>\$ 160,041</u>	<u>\$ 337,142</u>
LIABILITIES AND FUND									
BALANCES									
LIABILITIES									
Unearned revenue	\$ 3,580	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,580
Due to other funds	124,812	-	-	-	-	-	-	-	124,812
Total liabilities	<u>128,392</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,392</u>
FUND BALANCES									
Nonspendable	4,989	-	-	-	-	-	-	-	4,989
Restricted									
Food Service	23,331	-	-	-	-	-	-	-	23,331
Debt retirement	-	12,728	7,661	20,389	-	-	-	-	20,389
Capital projects	-	-	-	-	159,336	660	45	160,041	160,041
Total fund balances	<u>28,320</u>	<u>12,728</u>	<u>7,661</u>	<u>20,389</u>	<u>159,336</u>	<u>660</u>	<u>45</u>	<u>160,041</u>	<u>208,750</u>
Total liabilities and fund balances	<u>\$ 156,712</u>	<u>\$ 12,728</u>	<u>\$ 7,661</u>	<u>\$ 20,389</u>	<u>\$ 159,336</u>	<u>\$ 660</u>	<u>\$ 45</u>	<u>\$ 160,041</u>	<u>\$ 337,142</u>

Leland Public School

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	Special Revenue Fund	Debt Service Funds			Capital Project Funds				Total Non-Major Governmental
	Food Service	2008-2009 Debt Retirement	2016 Debt Retirement	Total	Infrastructure Fund	2014 Capital Projects Fund	Public Improvement	Total	
Revenues									
Property taxes	\$ -	\$ 79,656	\$ 42,726	\$ 122,382	\$ 173,767	\$ -	\$ -	\$ 173,767	\$ 296,149
Interest	13	765	2	767	2,339	350	-	2,689	3,469
State revenues	13,453	-	-	-	-	-	-	-	13,453
Federal revenues	108,590	-	-	-	-	-	-	-	108,590
Other	131,636	-	-	-	3,300	-	-	3,300	134,936
Total revenues	253,692	80,421	42,728	123,149	179,406	350	-	179,756	556,597
Expenditures									
Food Service	255,800	-	-	-	-	-	-	-	255,800
Debt Service									
Principal	-	85,000	25,000	110,000	-	-	-	-	110,000
Interest	-	10,643	10,067	20,710	-	-	-	-	20,710
Other	-	265	-	265	27	-	-	27	292
Capital outlay	5,693	-	-	-	191,550	19,882	-	211,432	217,125
Total expenditures	261,493	95,908	35,067	130,975	191,577	19,882	-	211,459	603,927
REVENUES OVER (UNDER) EXPENDITURES	(7,801)	(15,487)	7,661	(7,826)	(12,171)	(19,532)	-	(31,703)	(47,330)
Other financing sources									
Operating transfers in	20,000	-	-	-	-	-	-	-	20,000
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	12,199	(15,487)	7,661	(7,826)	(12,171)	(19,532)	-	(31,703)	(27,330)
Fund balance, beginning of year	16,121	28,215	-	28,215	171,507	20,192	45	191,744	236,080
Fund balance, end of year	<u>\$ 28,320</u>	<u>\$ 12,728</u>	<u>\$ 7,661</u>	<u>\$ 20,389</u>	<u>\$ 159,336</u>	<u>\$ 660</u>	<u>\$ 45</u>	<u>\$ 160,041</u>	<u>\$ 208,750</u>

FEDERAL PROGRAMS

Leland Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2016	Prior Year Expenditures	Current Year Receipts	Adjustments	Current Year Expenditures	Accrued Revenue June 30, 2017
United States Department of Education								
Direct grants								
REAP Grant	84.358A	\$ 42,312	\$ -	\$ -	\$ 42,312	\$ -	\$ 42,312	\$ -
Title VIII - Impact Aid	84.041	707,432	-	-	707,432	-	707,432	-
Passed through Michigan Department of Education								
Title I, Part A Cluster								
161530-1516	84.010	54,663	43,817	43,817	43,817	-	-	-
171530-1617	84.010	-	-	-	-	-	49,794	49,794
Title IIA - Improving Teacher Quality								
160520-1516	84.367	25,248	24,783	24,783	22,765	(2,018)	-	-
170520-1617	84.367	-	-	-	-	-	17,227	17,227
Total passed through Michigan Department of Education		79,911	68,600	68,600	66,582	(2,018)	67,021	67,021
Passed Through Traverse Bay Area ISD								
English Language Acquisition	84.365	200	-	-	200	-	200	-
Total U.S. Department of Education		\$ 829,855	\$ 68,600	\$ 68,600	\$ 816,526	\$ (2,018)	\$ 816,965	\$ 67,021

Leland Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2016	Prior Year Expenditures	Current Year Receipts	Adjustments	Current Year Expenditures	Accrued Revenue June 30, 2017
United States Department of Agriculture								
Nutrition Cluster								
Passed Through Michigan Department of Education								
National School Lunch Program								
1960-Free and Reduced USDA Entitlement	10.555	\$ 63,272	\$ -	\$ -	\$ 63,272	\$ -	\$ 63,272	\$ -
Commodities	10.555	-	-	-	15,419	-	15,419	-
		63,272	-	-	78,691	-	78,691	-
1970-Breakfast	10.553	29,898	-	-	29,898	-	29,898	-
Total Nutrition Cluster		93,170	-	-	108,589	-	108,589	-
United States Department of Health and Human Services								
Passed Through Traverse Bay Area ISD								
Medicaid - School Based Services	93.778	791	-	-	791	-	791	-
Total Federal Financial Assistance		<u>\$ 923,816</u>	<u>\$ 68,600</u>	<u>\$ 68,600</u>	<u>\$ 925,906</u>	<u>\$ (2,018)</u>	<u>\$ 926,345</u>	<u>\$ 67,021</u>

Leland Public School

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2017

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4** The School District did not use the 10% de-minimis indirect cost rate allowed under the Uniform Guidance.
- Note 5** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 926,345</u>
Federal sources per financial statements	<u>\$ 926,345</u>



DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

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

Board of Education
Leland Public School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Leland Public School** (the "School District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 13, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001 and 2017-002, that we consider to be material weaknesses.

Compliance and Other Matters

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

Purpose of this Report

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

Dennis, Gartland & Niergarth

October 13, 2017

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education
Leland Public School

Report on Compliance for Each Major Federal Program

We have audited the *Leland Public School* (the "School District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on the School District's major Federal program for the year ended June 30, 2017. The School District's major Federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Leland Public School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

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

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

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

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

Dennis, Gartland & Niergarth

October 13, 2017

Leland Public School

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2017

PRIOR YEAR

Findings 2016-001 and 2016-002 are repeated this year in Section 2 as Findings 2017-001 and 2017-002.

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unmodified opinion on the financial statements of the Leland Public School.
2. There were two material weaknesses in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. There were no reported significant deficiencies in internal control over major programs.
5. The report over compliance for major programs was unmodified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major program was Title VIII - Impact Aid (CFDA No. 84.041).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$750,000.
9. Leland Public School did not qualify as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2017-001

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized schools, the School District has historically relied on its independent external auditors to adjust the accounting records and assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. To aid in the review and approval process, the business manager of the School District has attended professional development classes related to the preparation of financial statements.

Section 2 - Findings in Accordance with Governmental Auditing Standards - Continued

Finding Number 2017-002

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

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

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

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

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

Section 3 - Findings and Questioned Costs in Accordance with the Uniform Guidance

No findings or questioned costs.