Mar-Lee School

Calhoun County, Michigan

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

Year Ended June 30, 2017

Mar-lee School

Calhoun County, Michigan

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June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Mar-Lee School
Calhoun County, Michigan

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, and each major fund, of Mar-Lee School 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. We did not audit the district's proportionate share of the net pension liability of the Michigan Public School Employees' Retirement System and the related transactions and disclosures. Those balances and disclosures were audited by the State of Michigan Office of the Auditor General whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the district, is based solely on the report of the State of Michigan Office of the Auditor General.

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions
In our opinion and the report of the State of Michigan Office of the Auditor General, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Mar-Lee School as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the administration's discussion and analysis and budgetary comparison information on pages 3 through 12 and pages 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2017, on our consideration of the Mar-Lee School 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 Mar-Lee School internal control over financial reporting and compliance.

Douglas Wohlberg

Douglas Wohlberg, CPA
Byron Center, Michigan
October 20, 2017

Mar Lee School is a K-8 School District located in Calhoun County, Michigan. This Administration's Discussion and Analysis Section, a requirement of GASB 34, is intended to be the Mar Lee School Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2017.

Generally accepted accounting principles (GAAP) according to Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, (GASB 34) requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements

Fund Financial Statements

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, Capital Projects, and the School Service Funds which are comprised of: Food Service and Student Activity accounts.

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

District-Wide Financial Statements

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

Summary of Net Position

The following summarizes the net position at fiscal year ended June 30, 2017.

	2017	2016
ASSETS		
Current assets	$ 1,279,386	$ 1,225,078
Capital assets	2,295,834	2,282,059
Total assets	3,575,220	3,507,137
Deferred outflows of resources	535,492	534,721
LIABILITIES		
Current liabilities	1,053,643	1,116,310
Long-term liabilities	5,605,413	5,611,151
Total liabilities	6,659,056	6,727,461
Deferred inflows of resources	226,046	113,319
NET POSITION		
Net investment in capital assets	1,105,099	977,059
Restricted:		
Food service	19,951	25,807
Debt service	29,530	23,862
Capital projects	163,474	187,027
Unrestricted	(4,092,444)	(4,012,677)
Total net position	$ (2,774,390)	$ (2,798,922)

Analysis of Financial Position

During fiscal year ended June 30, 2017, the District's net position increased by $24,532.

Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net position.

For fiscal year ended June 30, 2017, the net increase in accumulated depreciation was $93,502.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

One way to think of depreciation expense is that in order to maintain net position at the same level, acquisitions of capital outlay and capitalized major maintenance projects would have to equal the annual depreciation expense. In other words, to stay even in net position the District would have had to capitalize $93,502 in assets during the year.

Capital Outlay Acquisitions

Actual capital outlay acquisitions for fiscal year ended June 30, 2017 were $86,542.

Combined with the increase in accumulated depreciation, net position (i.e., net book value) invested in capital assets decreased by $6,960 during the year. This is the additional amount the District would have had to spend to maintain the same net value of assets.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep.

Debt Administration

At year end, the District had $1,173,500 in outstanding long-term debt including compensated absences. Long-term liabilities had a net decrease of $146,680. Compensated absences decreased by $11,680 and by principal payments on bonds payable of $555,000. See note 8 in the notes to basic financial statements for additional information.

Results of Operations

For the fiscal year ended June 30, 2017, the district-wide results of operations were:

	2017	% of Total	2016	% of Total
General Revenues				
Michigan's Foundation Grant Allowance:				
Property taxes levied for general operations	$ 615,305	19.8 %	$ 605,151	18.7 %
State of Michigan Aid, unrestricted	1,576,771	50.7 %	1,605,659	49.8 %
Michigan's Foundation Grant Allowance	2,192,076	70.5 %	2,210,810	68.5 %
Property taxes levied for debt service	167,396	5.4 %	163,905	5.1 %
Property taxes levied for capital outlay	60,570	1.9 %	58,519	1.8 %
Other	34,042	1.1 %	49,395	1.5 %
Total General Revenues	2,454,084	78.9 %	2,482,629	76.9 %
Program Revenues				
Charges for services	73,894	2.4 %	66,588	2.1 %
Operating grants - Federal and State	584,430	18.8 %	679,124	21.0 %
Total Revenues	3,112,408	100.1 %	3,228,341	100.0 %
Expenses				
Instructional	1,928,981	62.5 %	2,037,229	64.2 %
Support services	862,246	27.9 %	848,494	26.7 %
Food services	161,390	5.2 %	157,619	5.0 %
Interest on long-term debt	31,369	1.0 %	33,383	1.1 %
Depreciation (unallocated)	103,890	3.4 %	95,527	3.0 %
Total Expenses	3,087,876	100.0 %	3,172,252	100.0 %
Increase (Decrease) in Net Position	$ 24,532		$ 56,089	

Property Taxes levied for General Operations (General Fund Property Taxes)

The District levied 18.00 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

The District's non-homestead property levy for the 2016-2017 fiscal year was $613,908. The non-homestead tax levy increased by 3.92% over the prior year levy of $602,329.

The following summarizes the District's non-homestead levy the past five years:

Fiscal Year	Non Homestead Tax Levy	Percent change
2016-2017	$ 613,908	3.92 %
2015-2016	602,329	103.87 %
2014-2015	295,446	37.16 %
2013-2014	215,396	13.03 %
2012-2013	190,559	2.01 %

The average increase over the last 5 years was 32.00%.

State of Michigan Aid, Unrestricted

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

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

Per Student, Foundation Allowance:

Annually, the State of Michigan sets the per student foundation allowance. The Mar Lee School foundation allowance was $7,511 per student for the 2016-2017 school year. This represents an increase of $120 per pupil from the District's 2015-2016 foundation allowance.

Student Enrollment:

The District's student enrollment in 2016-2017 was 296 students. The District's enrollments have gradually declined in the last five years. The following summarizes fall student enrollments in the past five years:

Fiscal year	Student Membership	Increase (Decrease) from Prior Year
2016-2017	296.44	(6.19)
2015-2016	302.63	(2.17)
2014-2015	304.80	1.34
2013-2014	303.46	(23.04)
2012-2013	326.50	1.07

The October 2016 pupil count indicates that the 2017-2018 enrollments will increase.

Property Taxes levied for Debt Service

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2016-2017, the District's debt millage levy was 8.39 mills which generated a levy of $1,187,847.

Food Service Sales to Students and Adults

The District's food and milk sales to students decreased by approximately $2,246 to $33,404 from the prior school year. By working to carefully control the cost of food and labor, the administration was able to achieve an excess of revenues from operations over expenditures of $35,394.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

General Fund Revenue Budget vs. Actual 5-Year History

Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
2016-2017	$ 2,773,292	$ 2,849,646	$ 2,854,733	2.94 %	0.18 %
2015-2016	2,802,279	2,839,821	2,822,080	0.71 %	(0.62)%
2014-2015	2,695,766	2,846,791	2,836,237	5.21 %	(0.37)%
2013-2014	2,692,719	2,691,719	2,691,488	(0.05)%	(0.01)%
2012-2013	2,770,741	2,770,741	2,747,840	(0.83)%	(0.83)%

General Fund Expenditures Budget vs. Actual 5-Year History

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
2016-2017	$ 2,776,832	$ 2,857,916	$ 2,848,571	(2.58)%	0.33 %
2015-2016	2,796,045	2,845,542	2,828,710	(1.17)%	0.59 %
2014-2015	2,736,867	2,894,849	2,882,571	(5.32)%	0.42 %
2013-2014	2,879,485	2,879,485	2,903,140	(0.82)%	(0.82)%
2012-2013	2,870,805	2,870,805	2,759,946	3.86 %	3.86 %

Original vs. Final Budget

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

As a matter of practice, Mar Lee School amends its budget during the school year. For fiscal year 2016-2017 the budget was amended one time in June of 2017.

Change from Original to Final Budget

General Fund Revenues

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

Total Revenues Original Budget	$	2,773,292
Total Revenues Final Budget		2,849,646
Increase (Decrease) in Budgeted Revenues	$	76,354

The District's General Fund actual revenues differed from the final budget by $5,087, a variance of 0.18%.

General Fund Expenditures

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

Total Expenditures Original Budget	$	2,776,832
Total Expenditures Final Budget		2,857,916
Increase (Decrease) in Budgeted Expenditures	$	81,084

The District's General Fund actual expenditures differed from the final budget by $9,345, a variance of 0.33%.

Factors Bearing on the District's Future

It is the District's goal to maintain a General Fund equity balance adequate to allow the District to operate without borrowing for cash flow purposes.

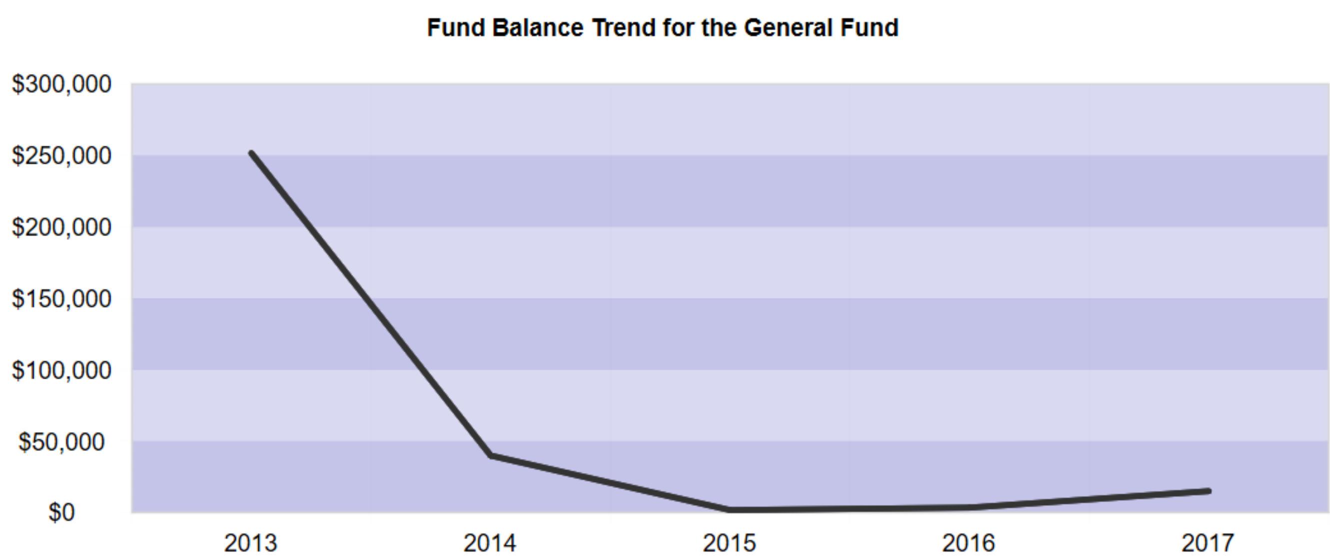
We were able to increase the General Fund's fund balance to $15,047 by by deferring expenditures in areas that have the least impact on education.

It is still uncertain if the State economy will continue to improve and when the legislation will be passed to stabilize school funding. Dramatic declines in the economic activity in the State have resulted in stagnant funding for public education. In recent years, the District has seen lower student counts because families are moving as parents seek employment in other regions. These factors have caused reduced District revenue.

The General Fund equity remains below the Board's target of a minimum of 10%. The School Board and the Superintendent are aware that difficult changes still need to be made and continue the work to boost the General Fund equity to the Board's target.

The Board of Education and staff continue to work together on school improvement plans to make the District more attractive to new residents and to the current residents. The Board is committed through the school improvement process to attract and retain families by offering quality programs and services in the Mar Lee School.

Following is a graph of the fund balance of the General Fund over the last five years.



Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Mar Lee School Business Office. The address is 21236 H Drive North, Marshall, Michigan 49068. The telephone number is (269) 781-5412.

BASIC FINANCIAL STATEMENTS

Mar-lee School

Statement of Net Position

June 30, 2017

	Governmental Activities
ASSETS	
Cash and investments	$ 849,631
Receivables (net of allowance for uncollectibles)	1,919
Intergovernmental receivable	414,329
Inventories	1,774
Prepaid expenses	11,733
Capital assets less accumulated depreciation of $1,699,057	2,275,099
Unamortized bond issuance costs	20,735
Total assets	3,575,220
DEFERRED OUTFLOWS OF RESOURCES	
Pension related	531,799
Escrow deposit for interest on refunded bonds	3,693
Total deferred outflows of resources	535,492
LIABILITIES	
Accounts payable	24,252
Accrued payroll and other liabilities	211,069
Accrued interest	9,054
Unearned revenue	9,268
State aid note payable	800,000
Noncurrent liabilities:	
Bonds payable, due within one year	140,000
Compensated absences and severance liability	3,500
Bonds payable, due in more than one year	1,030,000
Net pension liability	4,431,913
Total liabilities	6,659,056
DEFERRED INFLOWS OF RESOURCES	
Pension related	226,046
NET POSITION	
Net investment in capital assets	1,105,099
Restricted:	
Food service	19,951
Debt service	29,530
Capital outlay	163,474
Unrestricted	(4,092,444)
Total net position	$ (2,774,390)

Mar-lee School

Calhoun County, Michigan

Statement of Activities

For the year ended June 30, 2017

	Expenses	Program Revenues: Charges for services	Program Revenues: Operating grants and contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Functions/Programs:				
Governmental activities:				
Instruction	$ 1,928,981	$ -	$ 459,962	$ (1,469,019)
Support services	862,246	34,142	-	(828,104)
Food service	161,390	39,752	120,501	(1,137)
Interest on long-term debt	31,369	-	3,967	(27,402)
Depreciation (unallocated)	103,890	-	-	(103,890)
Total governmental activities	$ 3,087,876	$ 73,894	$ 584,430	(2,429,552)

General revenues	
Taxes:	
Property taxes, levied for general operations	615,305
Property taxes, levied for debt service	167,396
Property taxes, levied for capital outlay	60,570
State of Michigan aid, unrestricted	1,576,771
Interest and investment earnings	603
Other revenues	33,439
Total general revenues	2,454,084
Change in net position	24,532
Net position-beginning	(2,798,922)
Net position-ending	$ (2,774,390)

The Notes to Financial Statements are an integral part of this statement.

Mar-lee School

Governmental Funds

Balance Sheet

June 30, 2017

		General Fund		Food Service Fund		Debt Service Fund		Sinking Fund		Total Governmental Funds
ASSETS										
Cash and investments	$	647,417	$	9,274	$	29,483	$	163,457	$	849,631
Accounts receivable		1,568		351		-		-		1,919
Due from other funds		-		12,214		-		-		12,214
Intergovernmental receivable		413,884		381		47		17		414,329
Inventories		-		1,774		-		-		1,774
Prepaid items		11,733		-		-		-		11,733
Total assets	$	1,074,602	$	23,994	$	29,530	$	163,474	$	1,291,600
LIABILITIES										
Accounts payable	$	30,704	$	343	$	-	$	-	$	31,047
Accrued payroll and related liabilities		211,028		41		-		-		211,069
Due to other funds		12,214		-		-		-		12,214
Unearned revenue		5,609		3,659		-		-		9,268
State aid note payable		800,000		-		-		-		800,000
Total liabilities		1,059,555		4,043		-		-		1,063,598
FUND BALANCES										
Nonspendable:										
Inventories		-		1,774		-		-		1,774
Prepaid items		11,733		-		-		-		11,733
Restricted:										
Food service		-		18,177		-		-		18,177
Debt service		-		-		29,530		-		29,530
Capital projects		-		-		-		163,474		163,474
Unassigned		3,314		-		-		-		3,314
Total fund balances		15,047		19,951		29,530		163,474		228,002
Total liabilities and fund balances	$	1,074,602	$	23,994	$	29,530	$	163,474	$	1,291,600

The Notes to Financial Statements are an integral part of this statement.

Mar-lee School

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2017

Total fund balances - total governmental funds	$	228,002
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 in the funds.		2,275,099
Unamortized bond insurance costs (before 12-31-2013) are not assets in Governmental Funds		20,735
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Balances at June 30, 2017 were:		
Bonds payable		(1,170,000)
Deferred compensated absences		(3,500)
Net pension liability		(4,431,913)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred Outflows of Resources:		
Changes in pension assumptions		69,289
District pension contributions subsequent to the measurement date		294,795
Net difference between projected and actual earnings on pension plan investments		73,658
Changes in proportion and differences between employer contributions and proportionate share of contributions		38,824
Differences between expected and actual experience		55,233
Escrow deposit for interest on refunded bonds		3,693
Deferred Inflows of Resources:		
District pension contributions subsequent to the measurement date		(134,695)
Net difference between projected and actual earnings on pension plan investments		(10,504)
Changes in proportion and differences between employer contributions and proportionate share of contributions		(80,847)
Interest on long-term debt is accrued as a liability in the district-wide statements, but is not recognized in the governmental funds until due.		(2,259)
Total net position - governmental activities	$	(2,774,390)

The Notes to Financial Statements are an integral part of this statement.

Mar-lee School

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2017

	General Fund	Food Service Fund	Debt Service Fund	Sinking Fund	Total Governmental Funds
REVENUES					
Local sources	$ 692,619	$ 42,402	$ 167,459	$ 59,310	$ 961,790
State sources	1,915,777	2,808	3,967	1,358	1,923,910
Federal sources	95,723	115,066	-	-	210,789
Incoming transfers and other transactions	150,614	-	-	-	150,614
Total revenues	2,854,733	160,276	171,426	60,668	3,247,103
EXPENDITURES					
Current:					
Instruction	1,986,325	-	-	-	1,986,325
Support services	841,921	-	-	-	841,921
Food service	-	161,390	-	-	161,390
Athletics	20,325	-	-	-	20,325
Debt service:					
Principal	-	-	135,000	-	135,000
Interest	-	-	29,475	-	29,475
Fees	-	-	1,283	-	1,283
Capital outlay	-	-	-	84,221	84,221
Total expenditures	2,848,571	161,390	165,758	84,221	3,259,940
Excess (deficiency) of revenues over expenditures	6,162	(1,114)	5,668	(23,553)	(12,837)
OTHER FINANCING SOURCES (USES)					
Operating transfer in	5,398	-	-	-	5,398
Operating transfer out	-	(5,398)	-	-	(5,398)
Total other financing sources (uses)	5,398	(5,398)	-	-	-
Net change in fund balances	11,560	(6,512)	5,668	(23,553)	(12,837)
Fund balances-beginning	3,487	26,463	23,862	187,027	240,839
Fund balances-ending	$ 15,047	$ 19,951	$ 29,530	$ 163,474	$ 228,002

The Notes to Financial Statements are an integral part of this statement.

Mar-lee School

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the year ended June 30, 2017

Net change in fund balances - total governmental funds		$ (12,837)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	$ (103,890)	
Capital outlay	96,930	
Capital outlay in excess of depreciation expense		(6,960)
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.		4,089
Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		135,000
Bond issuance costs (before 12-31-2013) are expenditures in the governmental funds when incurred, but are amortized in the statement of activities		(3,722)
Amortization of the excess of the amount paid into escrow for payment of refunded bonds, over the carrying value of the bonds, is not recorded on the governmental funds, but is recorded as interest expense on the statement of activities		(978)
Increases in compensated absences are reported as expenditures when financial resources are used in the governmental funds in accordance with GASB Interpretation No. 6.		11,680
Governmental funds report pension contributions as expenditures. However, in the statement of activities the pension expense is determined by the pension plan. This is the amount by which the pension expense exceeded the contributions.		(101,740)
Change in net position of governmental activities		$ 24,532

The Notes to Financial Statements are an integral part of this statement.

Mar-lee School

Fiduciary Funds

Statement of Fund Net Position

June 30, 2017

	Scholarship Fund	Agency Fund	Total
ASSETS			
Cash and cash equivalents	$ 8,832	$ 39,162	$ 47,994
LIABILITIES			
Scholarships payable	$ 8,611	$ -	$ 8,611
Due to student groups	-	39,162	39,162
Total liabilities	8,611	39,162	47,773
Net position - restricted for scholarships	221	-	221
Total liabilities and net position	$ 8,832	$ 39,162	$ 47,994

The Notes to Financial Statements are an integral part of this statement.

Mar-lee School

Fiduciary Funds

Statement of Changes in Net Position

June 30, 2017

		Scholarship Fund
Revenue		
Contributions	$	4,130
Interest		7
Total revenue		4,137
Expenditures		
Scholarships awarded		6,500
Excess (deficiency) of revenue over expenditures		(2,363)
Net position-beginning		2,584
Net position-ending	$	221

The Notes to Financial Statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mar-lee School (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

A. Reporting Entity

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

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

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

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

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are generally followed in the district-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

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

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 they are needed.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenues include all taxes and unrestricted State aid.

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

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

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

The School District reports the following major governmental funds:

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

Debt Service Fund - The Debt Service Fund accounts for property taxes and other revenues to be used to pay principal, interest and fees related to long-term debt.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Fund accounts for the School District's food service activity. Any operating deficit generated by this activity is the responsibility of the General Fund.

Sinking Fund - The Sinking Fund accounts for property tax revenues used to finance additions and improvements to the District's buildings and facilities.

Additionally, the School District reports the following fund types:

Fiduciary Fund - The Agency Fund is used to account for assets held by the School District in a trustee capacity for individuals or school-related organizations. The Agency Fund is custodial in nature and does not involve measurement of results of operations. The Scholarship Fund accounts for assets held by the School District that are to be used for college scholarships to District alumni.

D. Assets, Liabilities, and Net Position or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on December 1. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory until used. When payments to vendors reflect costs applicable to future fiscal years they are recorded as prepaid items in both District-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than $10,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building improvements	20-50 years
Land improvements	20-30 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-10 years

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

Compensated Absences - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

Net Position and Fund Equity - The difference between fund assets and liabilities is "Net Position" on the government-wide and fiduciary fund statements and "Fund Balance" on governmental fund statements. Net Position are classified as "Invested in Capital Assets, Net of Related Debt," legally "Restricted" for a specific purpose, or "Unrestricted" and available for appropriation for the general purposes of the fund. In governmental fund financial statements, fund balances are classified as follows:

- Nonspendable--Amounts that cannot be spent either because they are a) not in spendable form or; b) legally or contractually required to be maintained intact.
- Restricted--Amounts with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- Committed--Amounts that can be used only for specific purposes determined by a formal action by Board of Education resolution, and that remain binding unless removed in the same manner.
- Assigned--Amounts neither restricted nor committed for which a School District has a stated intended use as established by the Board of Education or a body or official to which the Board of Education has delegated the authority to assign amounts for specific purposes.
- Unassigned--Amounts that cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Use of Restricted Resources - When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the School District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the School District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

Comparative Data/Reclassifications - Comparative data is not included in the School District's financial statements.

Use of Estimates - 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 the following: assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Pension

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

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan Law. State law permits districts to amend their budgets during the year. During the year, the budgets were amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts, etc.) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - For the year ended June 30, 2017, expenditures exceeded appropriations in the following departments (the legal level of budgetary control).

	Final Budget	Actual	Variance	% Variance
General Fund				
Basic programs	$ 1,654,517	$ 1,657,874	$ 3,357	0.20 %
Foods Service	155,300	161,390	6,090	3.92

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The School District is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

Deposits are carried at cost. The District has designated two banks for deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The School District's deposits and investment policy are in accordance with statutory authority.

As of June 30, 2017, the District had the following deposits.

Chemical Bank	$	933,461
Petty cash		100
Total	$	933,561

At year end, the School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	$ 849,631	$ 47,994	$ 897,625

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk of bank deposits. At year end, the bank balance of the School District's deposits is $933,561, of which $279,483 is covered by federal depository insurance. The remaining $654,078 is uninsured and uncollateralized.

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The District has no investment policy that would further limit its investment choices.

Fair Value Hierarchy. The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The district owns no investments subject to the fair value measurement.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets being depreciated:				
Buildings and building improvements	$ 2,851,063	$ 80,477	$ -	$ 2,931,540
Land improvements	592,525	-	-	592,525
School buses	293,894	-	-	293,894
Furniture and equipment	150,132	6,065	-	156,197
Total capital assets being depreciated	3,887,614	86,542	-	3,974,156
Less accumulated depreciation for:				
Buildings and building improvements	756,705	71,932	-	828,637
Land improvements	522,644	2,331	-	524,975
School buses	188,338	29,627	-	217,965
Furniture and equipment	137,868	-	10,388	127,480
Total accumulated depreciation	1,605,555	103,890	10,388	1,699,057
Net capital assets being depreciated	2,282,059	(17,348)	(10,388)	2,275,099
Net capital assets	$ 2,282,059	$ (17,348)	$ (10,388)	$ 2,275,099

Depreciation expense was not charged to specific activities as the district considers its assets to impact multiple activities and allocation is not practicable.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The following balances at June 30, 2017, represent individual fund interfund receivables and payables:

	Due to: Food Service Fund
Due from:	
General Fund	$ 12,214

The District reports interfund balances between certain funds. The sum of all balances presented in the table above agrees with the sum of balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year then ended, interfund transfers consisted of the following:

	Transfer In: General Fund
Transfers out:	
Food Service Fund	$ 5,398

For the year ended June 30, 2017, the General Fund charged the Food Service Fund for indirect costs.

NOTE 6 - NOTES PAYABLE

The School District has $800,000 outstanding at year end of State Aid Anticipation notes. The District intends to pay this obligation with State Aid received subsequent to year end.

Short-term debt activity for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
State Aid Note	$ 700,000	$ 800,000	$ 700,000	$ 800,000

NOTE 7 - INTERGOVERNMENTAL RECEIVABLES

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

	Government wide
State aid	$ 352,656
State aid for food service	381
Federal revenue	8,207
ISD and other	52,620
Property taxes	465
Total	$ 414,329

Amounts reported as intergovernmental receivables include amounts due form federal, state and local sources for various projects and programs.

No allowance for doubtful accounts is considered necessary.

NOTE 8 - LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General Obligation Bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences and purchase contracts.

The following is a summary of long-term debt transactions for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Amount due Within One Year
Bonds payable	$ 1,305,000	$ -	$ 135,000	$ 1,170,000	$ 140,000
Compensated absences	15,180	3,500	15,180	3,500	-
Total	$ 1,320,180	$ 3,500	$ 150,180	$ 1,173,500	$ 140,000

The annual requirement to amortize long-term debt outstanding as of June 30, 2017 follows:

Year ended, June 30,	Governmental Activities Principal	Governmental Activities Interest	Total
2018	$ 140,000	$ 27,106	$ 167,106
2019	140,000	24,630	164,630
2020	140,000	22,180	162,180
2021	140,000	19,450	159,450
2022	145,000	16,440	161,440
2023	150,000	12,960	162,960
2024	155,000	9,060	164,060
2025	160,000	4,720	164,720
Totals	$ 1,170,000	$ 136,546	$ 1,306,546

Governmental Activities

Bonds and notes payable at June 30, 2017 were comprised of the following:

$155,000 2011 School Bus Bonds, due in annual installments of $25,000 with interest rates from 3.50% to 3.70%	$ 25,000
$1,365,000 2008 2015 General Obligation, Unlimited Tax, Refunding Bonds, due in annual installments of $110,000 to $160,000 with interest rates from 0.95% to 2.95%	1,145,000
Total Bonds and Notes Payable	$ 1,170,000

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for medical claims and participates in the SET-SEG risk pool for claims relating to workers' compensation, general liability, and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three fiscal years.

The SET-SEG shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10 - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	Unavailable	Unearned
General Fund	$ -	$ 5,609
Food Service Fund	-	3,659
Total	$ -	$ 9,268

NOTE 11 - GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPSERS) PENSION PLAN

Plan Description

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

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

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

Benefits Provided

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

A DB member 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.

Contributions and Funded Status

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

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

The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates

Benefit Structure	Member	Employer Universities	Employer Non-Universities
Basic	0.0 - 4.0 %	22.60 %	18.95 %
Member Investment Plan	3.0 - 7.0 %	22.60 %	18.95 %
Pension Plus	3.0 - 6.4 %	N/A	17.73 %
Defined Contribution	0.0 %	17.73 %	14.56 %

Required contributions to the pension plan from the district were $2,293,541 for the year ended September 30, 2016

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

At June 30, 2017, the district reported a liability of $4,431,913 for its proportionate share of the MPSERS 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 2015. The district's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the district's proportion was 0.01776376 percent, which was a decrease of 2.35890375 percent from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the district recognized pension expense of $414,428. At June 30, 2017, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 55,233	$ 10,504
Changes of assumptions	69,289	-
Net difference between projected and actual earnings on pension plan investments	73,658	-
Changes in proportion and differences between district contributions and proportionate share of contributions	38,824	80,847
District contributions subsequent to the measurement date	294,795	134,695
Total	$ 531,799	$ 226,046

Contributions subsequent to the measurement date reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future Pension Expenses)

Year Ending September 30		Amount
2017	$	26,912
2018		21,119
2019		94,551
2020		3,071

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of 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 1.2456 for university employers.
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (*www.michigan.gov/mpsers-cafr*).

Long-Term Expected Return on Plan Assets

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.9 %
% Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	-
Total	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 district's proportionate share of the net pension liability to changes in the discount rate

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
$ 5,707,188	$ 4,431,913	$ 3,356,733

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR, available at *www.michigan.gov/mpsers-cafr*.

NOTE 12 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Post-Employment Benefits - Retirees have the option of health coverage, which is currently funded on a cash disbursement basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than $18,000 in the prior school fiscal year and members who were hired on or after July 1, 2010, with a starting salary less than $18,000 are required to contribute 1.5% of the member's compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account.

For District employees first employed under the system after September 3, 2012 or those electing to choose the benefit during a special election period ended February 1, 2013, a Personal Healthcare Fund (PHF) is set up. Automatic 2% employee contributions to a 456 account along with a 2% employer match will be placed in a 401 (k) account. This creates a portable, tax-deferred fund for the individual. No postemployment benefits are available for those employees.

Funding Responsibility - The District is not responsible for the payment of post-employment benefits which is the responsibility of the State of Michigan.

NOTE 13 - PROPERTY TAX ABATEMENTS

Act 198, the Plant Rehabilitation and Industrial Development Districts Act, was adopted in the State of Michigan as a means of providing a stimulus in the form of significant tax incentives to industry for the purpose of creating new jobs and maintaining existing jobs. It allows an obsolete property, when replaced or restored, to have its assessed value frozen at the level prior to the improvement for a maximum of twelve years; and new plants to receive a fifty percent exemption from property tax on the taxable value of new real and personal properties, also for a maximum period of twelve years.

Public Act 381 of 1996, the Brownfield Redevelopment Financing Act, was adopted in the State of Michigan as a means to authorize municipalities to create a brownfield redevelopment authority to facilitate the implementation of brownfield plans; to create brownfield redevelopment zones; to promote the revitalization, redevelopment, and reuse of certain property, including, but not limited to, tax reverted, blighted, or functionally obsolete property; to prescribe the powers and duties of brownfield redevelopment authorities; to permit the issuance of bonds and other evidences of indebtedness by an authority; to authorize the acquisition and disposal of certain property; to authorize certain funds; to prescribe certain powers and duties of certain state officers and agencies; and to authorize and permit the use of certain tax increment financing.

No significant abatements have been made that would affect the District.

NOTE 14 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

In January 2017, GASB issued Statement 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

In March 2017, GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and “negative” goodwill • Classifying real estate held by insurance entities • Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

In May of 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt,* requires that debt be considered defeased in substance when the debtor irrevocably places cash or other monetary assets acquired with refunding debt proceeds in a trust to be used solely for satisfying scheduled payments of both principal and interest of the defeased debt. The trust also is required to meet certain conditions for the transaction to qualify as an in-substance defeasance. This Statement establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish the debt. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance.

Governments that defease debt using only existing resources should provide a general description of the transaction in the notes to financial statements in the period of the defeasance. In all periods following an in-substance defeasance of debt using only existing resources, the amount of that debt that remains outstanding at period-end should be disclosed.

In June, 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities.

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REQUIRED SUPPLEMENTAL INFORMATION

Mar-Lee School

General Fund

Budgetary Comparison Schedule

For the year ended June 30, 2017

	Budgeted Amounts			
	Original	**Final**	**Actual**	**Variance with final budget**
REVENUES				
Local sources	$ 652,349	$ 691,799	$ 692,619	$ 820
State sources	1,931,213	1,914,345	1,915,777	1,432
Federal sources	90,130	96,502	95,723	(779)
Incoming transfers and other transactions	99,600	147,000	150,614	3,614
Total revenues	2,773,292	2,849,646	2,854,733	5,087
EXPENDITURES				
Current:				
Instruction:				
Basic programs	1,652,509	1,654,517	1,657,874	(3,357)
Added needs	307,752	330,236	328,451	1,785
Support services:				
Pupil services	96,231	97,190	96,626	564
Instructional staff services	-	5,775	2,015	3,760
General administration	118,207	115,141	113,453	1,688
School administration	164,655	168,379	168,261	118
Business services	57,950	77,360	76,711	649
Operations and maintenance	168,331	165,139	162,892	2,247
Pupil transportation	141,042	153,740	152,830	910
Central support services	49,600	70,031	69,133	898
Athletics	20,555	20,408	20,325	83
Total expenditures	2,776,832	2,857,916	2,848,571	9,345
Excess (deficiency) of revenues over expenditures	(3,540)	(8,270)	6,162	14,432
OTHER FINANCING SOURCES (USES)				
Operating transfers in	8,000	8,000	5,398	(2,602)
Operating transfers out	(100)	-	-	-
Total other financing sources (uses)	7,900	8,000	5,398	(2,602)
Net change in fund balances	4,360	(270)	11,560	11,830
Fund balances-beginning	3,487	3,487	3,487	-
Fund balances-ending	$ 7,847	$ 3,217	$ 15,047	$ 11,830

Mar-Lee School

Food Service Fund

Budgetary Comparison Schedule

For the year ended June 30, 2017

	Budgeted Amounts Original and Final	Actual	Variance with final budget
REVENUES			
Local sources	$ 40,000	$ 42,402	$ 2,402
State sources	2,500	2,808	308
Federal sources	107,150	115,066	7,916
Total revenues	149,650	160,276	10,626
EXPENDITURES			
Current:			
Support services:			
Food service	155,300	161,390	(6,090)
Excess (deficiency) of revenues over expenditures	(5,650)	(1,114)	4,536
OTHER FINANCING SOURCES (USES)			
Operating transfers out	(8,000)	(5,398)	2,602
Net change in fund balances	(13,650)	(6,512)	7,138
Fund balances-beginning	26,463	26,463	-
Fund balances-ending	$ 12,813	$ 19,951	$ 7,138

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

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2016	2015	2014
Reporting unit's proportion of net pension liability (%)	0.01776376 %	0.01818279 %	0.01740000 %
Reporting unit's proportionate share of net pension liability	$ 4,431,913	$ 4,441,151	$ 3,952,420
Reporting unit's covered employee payroll	$ 1,477,549	$ 1,502,099	$ 1,528,176
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	299.95 %	295.66 %	258.64 %
Plan fiduciary net position as a percentage of total pension liability	63.01 %	63.17 %	66.20 %

Schedule of the Reporting Unit's Contributions

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2016	2015	2014
Statutorily required contributions	$ 382,702	$ 443,522	$ 332,609
Contributions in relation to statutorily required contributions	382,702	443,522	332,609
Contribution deficiency (excess)	-	-	-
Reporting units covered-employee payroll	$ 1,527,743	$ 1,502,099	$ 1,521,287
Contributions as a percentage of covered-employee payroll	25.05 %	29.53 %	21.86 %

Notes to Required Supplementary Information

Changes of benefit terms: There were no changes of benefit terms during the plan year ending September 30, 2016.

Changes of assumptions: There were no changes of benefit assumptions during the plan year ending September 30, 2016.

AUDITORS REPORTS

DOUGLAS WOHLBERG, CPA
Certified Public Accountants

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

To the School Board
Mar-lee 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 and the major fund, of Mar-lee School, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Mar-lee School's basic financial statements and have issued our report thereon dated October 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Mar-lee School'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 Mar-lee School's internal control. Accordingly, we do not express an opinion on the effectiveness of Mar-lee School'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mar-lee School'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2017-01.

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

Mar-lee School's Response to Findings

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

Purpose of this Report

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

Very truly yours,

Douglas Wohlberg, CPA
Byron Center, Michigan
October 20, 2017

DOUGLAS WOHLBERG, CPA
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AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH THOSE CHARGED WITH GOVERNANCE

October 20, 2017

To the Board of Education
Mar-Lee School

We have audited the financial statements of the governmental activities and the major fund information of Mar-Lee School for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 28, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mar-Lee School are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

> Management's estimates of the useful lives of capital assets which is based on previous history, management's estimate of the accrued compensated absences is based on current contracts, rates and policies regarding payment of these benefits, and the net pension liability which is based on an actuarial valuation of the entire Michigan Public School Employees Retirement System. We evaluated key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

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

AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH THOSE CHARGED WITH GOVERNANCE (continued)

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2017.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

<u>Other Matters</u>

We applied certain limited procedures to the budgetary comparison schedule, Schedule of the Reporting Unit's Proportionate share of the Net Pension Liability, Schedule of the Reporting Unit's Contributions, and the Notes to Required Supplementary Information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

<u>Restriction on Use</u>

This information is intended solely for the use of the Board of Education and management of Mar-Lee School and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Douglas Wohlberg

Douglas Wohlberg, CPA
Byron Center, Michigan

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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the company's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's annual or interim financial statements that is more than inconsequential will not be prevented or detected.

The School District is small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the material weaknesses listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event.

NONCOMPLIANCE WITH STATE STATUTES

Finding 2017-01

Expenditures in Excess of Appropriations

Condition: The School District's General Appropriations Act (budget) provided for expenditures of the General and Food Service Funds to be controlled to the activity level by the School District. As detailed below, actual expenditures exceeded the School District's approved budget allocations.

During the fiscal year ended June 30, 2017, expenditures were incurred in excess of amounts appropriated follows:

	Final Budget	Actual	Variance	% Variance
General Fund				
Basic programs	$ 1,654,517	$ 1,657,874	$ 3,357	0.20 %
Foods Service	155,300	161,390	6,090	3.92

Criteria: The expenditure of funds in excess of appropriations is contrary to the provisions of Section 17 of Public Act 2 of 1968.

Effect: The School District is in noncompliance with State statute. Unavailable funds continued to be spent despite the lack of budgeted funds to support the expenses.

Recommendation: We recommend that the School District develop budgetary control procedures which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act or amendments thereof.

Management's Response-Corrective Action Plan: The School District will more frequently review available funds and amend the budgets.