

**OWENDALE-GAGETOWN
AREA SCHOOLS
HURON COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS
JUNE 30, 2017**

OWENDALE-GAGETOWN AREA SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Owendale-Gagetown Area Schools
Owendale, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owendale-Gagetown Area Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 Owendale-Gagetown Area Schools, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Owendale-Gagetown Area School's basic financial statements. The additional supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017, on our consideration of Owendale-Gagetown Area School'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 Owendale-Gagetown Area School's internal control over financial reporting and compliance.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 6, 2017

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Owendale-Gagetown Area School’s annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the district’s financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

The District’s general fund revenue exceeded expenditures by \$43,030. The General Fund has a fund balance of \$428,349.

The Food Service fund revenue exceeded expenditures by \$8,719. This increased the fund balance to \$32,472.

In total, District revenues exceeded \$1.9 and \$2.0 million dollars for the fiscal years ended June 30, 2017 and 2016, respectively. Spending over the same time periods was \$1.9 and \$2.0 million dollars for the fiscal years ended June 30, 2017 and 2016, respectively.

The District borrowed \$280,000 in state aid anticipation notes to help fund current operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

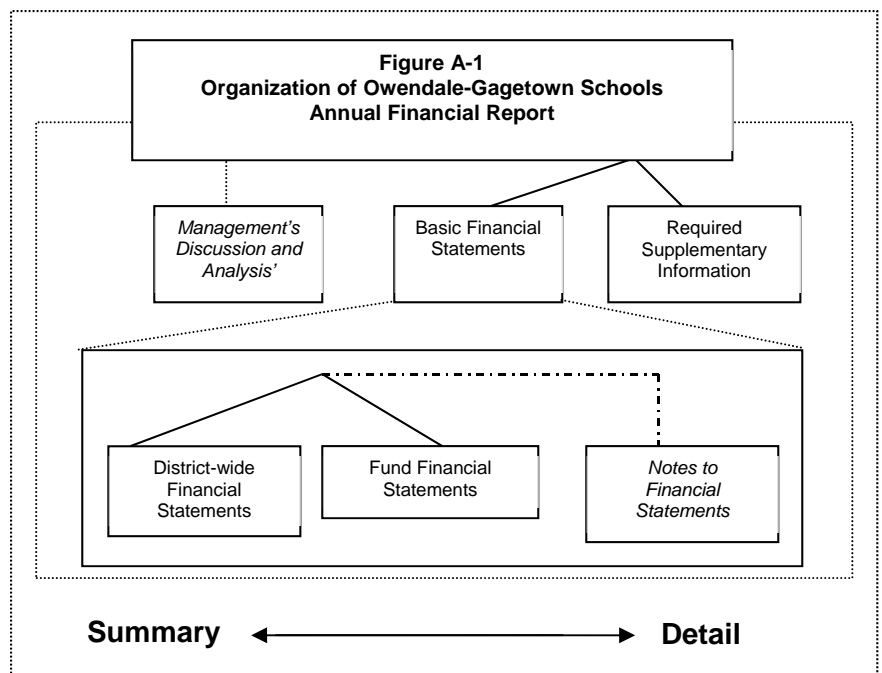
This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.

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 fund* statements tell how *basic* services like instruction and support services were financed in the *short term* as well as what remains for future spending.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. 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 and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Owendale-Gagetown Area Schools funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows, deferred inflows and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets, deferred outflows, deferred inflows and liabilities – 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 deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration, and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. 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 establishes other funds to control and manage money for particular purposes (like repaying debt and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds financial statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds financial statements that explain the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position increased \$10,974 from \$(1,793,791) to \$(1,782,817) as of June 30, 2017.

The following summarizes the combined net position of the Governmental activities:

Table A-3
Owendale-Gagetown Area Schools
Net Position

	<u>2017</u>	<u>2016</u>
Current assets	\$ 951,632	\$ 982,506
Noncurrent assets	<u>2,833,884</u>	<u>2,924,268</u>
Total assets	<u>3,785,516</u>	<u>3,906,774</u>
Deferred outflows of resources	<u>297,069</u>	<u>249,060</u>
Current liabilities	512,596	567,414
Noncurrent liabilities	2,853,413	2,926,685
Net pension liability	<u>2,375,911</u>	<u>2,334,280</u>
Total liabilities	<u>5,741,920</u>	<u>5,828,379</u>
Deferred inflows of resources	<u>123,482</u>	<u>121,245</u>
Net position:		
Net investment in capital assets	(54,434)	(15,936)
Restricted	82,959	77,759
Unrestricted	<u>(1,811,342)</u>	<u>(1,855,613)</u>
Total net position	<u>\$ (1,782,817)</u>	<u>\$ (1,793,791)</u>

The following summarizes the statement of activities:

Table A-4
Changes in Owendale-Gagetown Area School's Net Position

	<u>2017</u>	<u>2016</u>
Revenues		
Program revenues		
Charges for services	\$ 39,771	\$ 41,171
Federal and state categorical grants	556,151	585,266
General Revenues		
Property taxes	441,380	412,669
State sources	886,980	907,720
Other	<u>40,959</u>	<u>79,977</u>
Total revenues	<u>1,965,241</u>	<u>2,026,803</u>
Expenses		
Instruction	1,029,926	1,084,174
Support services	614,807	734,779
Community services	128	216
Food services	95,131	95,581
Interest on long-term debt	115,864	117,096
Depreciation - Unallocated	<u>98,411</u>	<u>98,096</u>
Total expenses	<u>1,954,267</u>	<u>2,129,942</u>
Change in net position	<u>\$ 10,974</u>	<u>\$ (103,139)</u>

District Governmental Activities

The financial performance of the District as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported combined fund balances of \$531,596. This is an increase of \$28,710 from the previous year. The increase in fund balance is due primarily to a reduction in operations and maintenance expenses. The District has taken a proactive approach to its declining enrollment and stagnant state funding. During the fiscal year 2017, the District continued with reduced staff and split staff duties, and attracted students through school of choice.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund and Budget Highlights

During the 2017 fiscal year, the original District budget was amended to reflect changes that affected the District. These changes included adjustments for the final student count, adjustments to the State revenue projections and the final determination of grant awards.

The final amended budget projected revenues to be more than expenditures and outgoing transfers by \$140. Final results showed that revenues came in more than anticipated by \$2,835, and expenditures and transfers were less than anticipated by \$40,029. The net result after other financing sources and (uses) was an increase in the fund balance of \$43,030, increasing the fund balance to \$428,349.

Overall, the difference between the District's amended budget and end of the year figures amounted to a \$42,890 favorable variance.

Food Service Fund

Local revenue decreased \$652; Federal reimbursements decreased \$6,232; in addition, state reimbursements increased \$1,124. The overall change in revenue was a decrease of \$5,760 from 2016.

On the expenditure side, food cost decreased \$718 and salary and benefit costs increased \$2,478. Overall expenditures decreased \$450 from 2016.

Capital Assets

The total additions for 2017 were \$47,953. There were disposals of \$10,171 that held no residual value.

**Table A-5
Owendale-Gagetown Area School's Capital Assets**

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 379,751	\$ 383,793
Buildings and improvements	3,337,813	3,321,823
Vehicles and buses	245,852	227,452
Furniture and equipment	539,861	532,427
Totals	<u>\$4,503,277</u>	<u>\$4,465,495</u>

Long-term Debt

The District issued 2013 School Building and Site Bonds on November 25, 2013 in the amount of \$3,150,000. The balance at June 30, 2017 was \$2,915,000.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

The 2016-2017 base State Aid Foundation allowance of \$7,511 is expected to be increased next year by \$120 per student with a budgeted actual per student amount of \$7,631. The State has established the \$7,631 as the new base foundation for future planning. For the 2016-2017 school year the District received \$681.19 in At Risk funding for each student who qualified for free and reduced lunch in October of 2015. In 2017-2018 the allocation for At Risk will increase to \$777 for each student who qualified for free and reduced lunch in October of 2016. The increase is due to the expansion of Section 31a funding for public school districts. In addition, in 2017-2018 the District is expecting an additional \$25 per pupil in the high school.

The District anticipates a decrease in enrollment of one student for the 2017 fall count compared to the 2016 fall count. In 2016, the fall count of the District was down six students compared to the 2015 fall count. The decrease is the result of decreased population in the county and state as well as competition from other districts for "Schools of Choice" students. The District will use a three year blended count if the current year decline is more than the three year blended count.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Owendale-Gagetown Area Schools, 7166 Main Street, Owendale, MI 48754.

BASIC FINANCIAL STATEMENTS

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF NET POSITION
JUNE 30, 2017**

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS:	
Cash and deposits	\$ 592,006
Receivables:	
Accounts receivable	104
Due from other governmental units	338,984
Inventory	1,416
Prepaid expenses	19,122
Depreciated capital assets	4,503,277
Less: Accumulated depreciation	<u>(1,669,393)</u>
TOTAL ASSETS	<u>3,785,516</u>
 DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	<u>297,069</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>297,069</u>
 LIABILITIES:	
Accounts payable	18,840
Accrued interest payable	21,371
Accrued salaries and wages	67,229
Accrued teacher benefits	48,227
State aid note payable	280,000
Unearned revenue	3,241
Noncurrent liabilities:	
Due within one year	73,688
Due in more than one year	2,853,413
Net pension liability	<u>2,375,911</u>
TOTAL LIABILITIES	<u>5,741,920</u>
 DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	49,972
Related to state aid funding for pension	<u>73,510</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>123,482</u>
 NET POSITION:	
Net investment in capital assets	(54,434)
Restricted for:	
Debt service	51,903
Food service	31,056
Unrestricted	<u>(1,811,342)</u>
TOTAL NET POSITION	<u>\$ (1,782,817)</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		TOTAL
		CHARGES FOR SERVICES	OPERATING GRANTS	GOVERNMENTAL ACTIVITIES
				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
Governmental activities:				
Instruction	\$ 1,029,926	\$ 4,410	\$ 473,684	\$ (551,832)
Support services	614,807	9,395	3,914	(601,498)
Community services	128	-	-	(128)
Food service	95,131	25,966	78,553	9,388
Interest on long-term obligations	115,864	-	-	(115,864)
Depreciation - Unallocated	98,411	-	-	(98,411)
Total governmental activities:	<u>\$ 1,954,267</u>	<u>\$</u>	<u>\$</u>	
General revenues:				
Property taxes, levied for general purposes				260,016
Property taxes, levied for debt service				181,364
State sources				886,980
Investment earnings				1,187
Miscellaneous		556,151		39,772
Total general revenues	39,771		(1,358,345)	<u>1,369,319</u>
CHANGE IN NET POSITION				<u>10,974</u>
NET POSITION - beginning of year				(1,793,791)
NET POSITION - end of year				<u>\$ (1,782,817)</u>

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

OWENDALE-GAGETOWN AREA SCHOOLS

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>NONMAJOR GOVERNMENTAL FUND - FOOD SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS				
Cash and deposits	\$ 483,070	\$ 70,775	\$ 38,161	\$ 592,006
Accounts receivable	104	-	-	104
Due from other funds	7,219	-	-	7,219
Due from other governmental units	338,429	-	555	338,984
Inventory	-	-	1,416	1,416
Prepaid expenditures	19,122	-	-	19,122
TOTAL ASSETS	<u>\$ 847,944</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES:				
Accounts payable	\$ 18,840	\$ -	\$ -	\$ 18,840
Due to other funds	-	-	7,219	7,219
Accrued interest payable	2,499	-	-	2,499
Accrued salaries and wages	67,229	-	958,851	67,229
Accrued teacher benefits	70,775 47,786	40,132	441	48,227
State aid note payable	280,000	-	-	280,000
Unearned revenue	3,241	-	-	3,241
TOTAL LIABILITIES	<u>419,595</u>	<u>\$</u>	<u>\$</u>	<u>427,255</u>
FUND BALANCE:				
Nonspendable:				
Inventory	-	-	1,416	1,416
Prepaid expenditures	19,122	-	-	19,122
Restricted for:				
Debt service	-	70,775	-	70,775
Food service	-	-	31,056	31,056
Assigned for:				
Subsequent year expenditures	61,277	-	-	61,277
Unassigned	347,950	-	-	347,950
TOTAL FUND BALANCE	<u>428,349</u>	<u>70,775</u>	<u>32,472</u>	<u>531,596</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 847,944</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

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

OWENDALE-GAGETOWN AREA SCHOOLS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL ACTIVITIES NET POSITION
JUNE 30, 2017**

TOTAL GOVERNMENTAL FUND BALANCES		\$ 531,596
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources - related to pensions		297,069
Deferred inflows of resources - related to pensions		(123,482)
Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in the governmental funds.		
	The cost of capital assets is	4,503,277
	Accumulated depreciation is	<u>(1,669,393)</u>
		2,833,884
Long-term liabilities, 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	2,915,000
	Compensated absences	38,783
	Accrued interest payable on long-term obligations	<u>18,872</u>
		(2,972,655)
Certain transactions related to the 2013 bonds are reported as expenditures in the fund financial statements, however they are reported as a component of noncurrent liabilities in the government-wide financial statements.		
	The transactions include the following:	
	Discount on bonds	31,494
	Less: Accumulated amortization	<u>(4,812)</u>
		26,682
Net pension liability		(2,375,911)
NET POSITION - GOVERNMENTAL ACTIVITIES		<u>\$ (1,782,817)</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGE IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>NONMAJOR GOVERNMENTAL FUND - FOOD SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:					
Local sources:					
Taxes	\$ 260,016	\$ 181,364	\$ -	\$ -	\$ 441,380
Food service	-	-	-	25,995	25,995
Other local revenue	174,885	115	4	804	175,808
State sources	1,152,803	-	-	3,867	1,156,670
Federal sources	84,573	-	-	74,686	159,259
TOTAL REVENUE	<u>1,672,277</u>	<u>181,479</u>	<u>4</u>	<u>105,352</u>	<u>1,959,112</u>
EXPENDITURES:					
Instruction	1,032,695	-	-	-	1,032,695
Supporting services	599,769	-	-	-	599,769
Community service	128	-	-	-	128
Food service	-	-	-	93,288	93,288
Capital projects	-	-	19,737	-	19,737
Debt service:					
Principal repayment	-	70,000	-	-	70,000
Interest and fiscal charges	-	114,785	-	-	114,785
TOTAL EXPENDITURES	<u>1,632,592</u>	<u>184,785</u>	<u>19,737</u>	<u>93,288</u>	<u>1,930,402</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>39,685</u>	<u>(3,306)</u>	<u>(19,733)</u>	<u>12,064</u>	<u>28,710</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers - net	3,345	-	-	(3,345)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,345</u>	<u>-</u>	<u>-</u>	<u>(3,345)</u>	<u>-</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>43,030</u>	<u>(3,306)</u>	<u>(19,733)</u>	<u>8,719</u>	<u>28,710</u>
FUND BALANCE - JULY 1	385,319	74,081	19,733	23,753	502,886
FUND BALANCE - JUNE 30	<u>\$ 428,349</u>	<u>\$ 70,775</u>	<u>\$ -</u>	<u>\$ 32,472</u>	<u>\$ 531,596</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 28,710

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Depreciation Expense	\$ (138,337)	
Capital Outlays	<u>47,953</u>	(90,384)

Certain transactions related to the 2013 bonds are reported as expenditures in the fund financial statements, however they are reported as a component of liabilities in the government-wide financial statements.

Amortization of bond discount	(1,313)
-------------------------------	---------

Bond repayments affect long-term liabilities in the statement of net position, but are reported as an expenditure in the fund financial statements.

70,000

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.

Accrued interest payable - beginning of year	19,106	
Accrued interest payable - end of year	<u>(18,872)</u>	234

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental fund financial statements until it is paid.

Accrued compensated absences, beginning of year	38,369	
Accrued compensated absences, end of year	<u>(38,783)</u>	(414)

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

Pension related items	14,148
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Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period:

State aid funding for pension	(10,007)
-------------------------------	----------

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 10,974

OWENDALE-GAGETOWN AREA SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and deposits	\$ 56,358
TOTAL ASSETS	<u>\$ 56,358</u>
LIABILITIES:	
Due to student groups	\$ 56,358
TOTAL LIABILITIES	<u>\$ 56,358</u>

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Owendale-Gagetown Area School District is a consolidated school system located in Huron County, Michigan. The School has approximately 155 students in grades kindergarten through twelve. The School operates under a seven person elected Board of Education.

The basic financial statements of the Owendale-Gagetown Area School District have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

The Reporting Entity:

The Owendale-Gagetown Area Schools ("District") is governed by the Owendale-Gagetown Area Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by U.S. GAAP. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements (GASB).

Government-wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type activities. All of the District's activities are classified as governmental activities and there are no business-type 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 or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services of a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State foundation aid, taxes, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts – net investment in capital assets; restricted; and unrestricted.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government-wide and Fund Financial Statements: (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does allocate indirect costs.

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

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

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are reported through governmental funds.

The District reports the following major governmental funds:

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

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

Capital Projects Fund – The 2013 Capital Projects Fund accounts for the receipt of debt proceeds and the acquisition of capital assets or construction of major capital projects.

The 2013 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Governmental Funds: (Continued)

Capital Projects Fund (Continued)

The projects for which the 2013 School Building and Site Bonds were issued were considered complete at August 31, 2015.

The following is a summary of the revenue and expenditures for the 2013 School Building and Site bond activity since inception of the fund through the current fiscal year:

Revenue and other financing sources	<u>\$3,118,551</u>
Expenditures	<u>\$3,118,551</u>

The above revenue amount includes net bond proceeds of \$3,150,000.

Other Non-major Funds:

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service in the special revenue fund.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide financial statements.

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

Measurement Focus, Basis of Accounting and Basis of Presentation:

Accrual Method

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

Modified Accrual Method

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

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation: (Continued)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2017, the foundation allowance was based on pupil membership counts taken in February and October of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October 2016 to August 2017. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as unearned revenue.

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

Other Accounting Policies:

Cash and Equivalents

The District's cash and equivalents include cash on hand and demand deposits.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Inventory and Prepaid Expenses/Expenditures

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consisting of expendable supplies held for consumption is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses/expenditures.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

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

Depreciation of all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	20 – 50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize assets with an initial individual cost of \$5,000 or more. Group purchases are evaluated on a case-by-case basis.

Defined Benefit Plan:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, 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 payable in accordance with the benefit terms. Investments are reported as fair value.

Deferred Outflows/Inflows of Resources

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

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Compensated Absences

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

Long-term Obligations

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

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

Fund Balance

The District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Debt Service, Capital Projects, and Food Service fund balances are considered restricted.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Fund Balance (Continued)

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

Property Taxes

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

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

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Resident Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	1.700

Use of Estimates:

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information

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

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

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (CONTINUED)
Budgetary Information (Continued)

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to July 1, the budget is legally enacted by a School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2017. The District does not consider these amendments to be significant.

During the year ended June 30, 2017, the School District incurred expenditures in certain budgetary funds that were in excess of the amounts appropriated, as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
General fund			
Instructional staff	\$ 72,480	\$ 73,463	\$ 983

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 – CASH AND DEPOSITS:

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U. S. Treasury; certificates of deposit, savings accounts, deposits accounts, or depository receipts of a bank, savings, and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District had no investments as defined by U.S. GAAP at June 30, 2017.

A reconciliation of cash and deposits as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

Statement of Net Position

Government-wide Financial Statement Captions:

Cash - checking	\$278,246
Cash - savings	313,760

Statement of Fiduciary Net Position

Cash and deposits	<u>56,358</u>
Total	<u>\$648,364</u>

Notes to Financial Statements:

Deposits	\$648,079
Cash on hand	<u>285</u>
Total	<u>\$648,364</u>

The carrying amount of cash and deposits with financial institutions of the District amounted to \$648,079 at June 30, 2017. The total bank balance as of the same date was \$675,543. As of June 30, 2017 \$425,543 of the District's bank balance was uninsured.

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 7,219	\$ -
Food Service	<u>-</u>	<u>7,219</u>
Total	<u>\$ 7,219</u>	<u>\$ 7,219</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 - RECEIVABLES:

Receivables at June 30, 2017 from other governmental units consist of the following:

Governmental units	
State sources	\$203,070
Federal sources	71,907
Local sources	<u>64,111</u>
Total	<u>\$339,088</u>

Amounts due from other governmental units include amounts due from federal and state sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for uncollectible accounts has been recorded.

NOTE 6 – CAPITAL ASSETS:

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

	<u>2016</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>2017</u>
Capital assets				
Land improvements	\$ 383,793	\$ 6,129	\$ 10,171	\$ 379,751
Buildings and improvements	3,321,823	15,990	-	3,337,813
Vehicles and buses	227,452	18,400	-	245,852
Furniture and equipment	<u>532,427</u>	<u>7,434</u>	-	<u>539,861</u>
Total capital assets	<u>4,465,495</u>	<u>47,953</u>	<u>10,171</u>	<u>4,503,277</u>
Accumulated depreciation:				
Land improvements	136,210	16,668	10,171	142,707
Buildings and improvements	1,004,951	76,745	-	1,081,696
Vehicles and buses	165,594	9,124	-	174,718
Furniture and equipment	<u>234,472</u>	<u>35,800</u>	-	<u>270,272</u>
Total accumulated depreciation	<u>1,541,227</u>	<u>138,337</u>	<u>10,171</u>	<u>1,669,393</u>
Net capital assets	<u>\$2,924,268</u>	<u>\$ (90,384)</u>	<u>\$ -</u>	<u>\$2,833,884</u>

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 – CAPITAL ASSETS: (CONTINUED)

Depreciation expense in the amount of \$138,337 was charged to the programs of the primary government as follows:

Instruction	\$ 11,068
Support services	21,740
Athletics	5,275
Food services	1,843
Unallocated	<u>98,411</u>
Total depreciation	<u><u>\$138,337</u></u>

NOTE 7 – NOTE PAYABLE:

At June 30, 2017, the District has \$280,000 in State aid notes. The state aid note bears interest at 1.04% and matures on August 21, 2017.

<u>BALANCE JUNE 30, 2016</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>BALANCE JUNE 30, 2017</u>
\$295,000	\$280,000	\$295,000	\$280,000

NOTE 8 - LONG-TERM DEBT:

The District issued general obligation bonds to provide funds for the acquisition, construction, and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2013 general obligation bonds due in annual installments of \$50,000 to \$200,000 starting May 1, 2014 through May 1, 2038, with interest at 2% to 4.5% starting November 1, 2014.	\$2,915,000
Discount on bond	(26,682)
Total general obligation bonds	<u>2,888,318</u>
Obligation under contract for compensated absences	38,783
Total general long-term debt	<u><u>\$2,927,101</u></u>

Interest expense (all funds) for the year ended June 30, 2017 was approximately \$117,900. General fund interest expense is included in support services.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 - LONG-TERM DEBT: (CONTINUED)

The following is a summary of the long-term liabilities of the School District for the year ended June 30, 2017:

	<u>2016</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>2017</u>	<u>DUE WITHIN ONE YEAR</u>
General obligation bonds	\$ 2,985,000	\$ -	\$ 70,000	\$ 2,915,000	\$ 75,000
Discount on bonds	(27,996)	1,313	-	(26,682)	(1,312)
Compensated absences	38,369	414	-	38,783	-
Totals	<u>\$ 2,995,373</u>	<u>\$ 1,727</u>	<u>\$ 70,000</u>	<u>\$ 2,927,101</u>	<u>\$ 73,688</u>

The annual requirements to amortize the long-term debt outstanding as of June 30, 2017, including interest are as follows:

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 75,000	\$ 113,235	\$ 188,235
2019	85,000	111,735	196,735
2020	90,000	110,035	200,035
2021	100,000	107,335	207,335
2022	105,000	104,335	209,335
2023-2027	600,000	467,250	1,067,250
2028-2032	735,000	341,100	1,076,100
2033-2037	925,000	171,693	1,096,693
2038	<u>200,000</u>	<u>9,000</u>	<u>209,000</u>
Total general obligation bonds	2,915,000	1,535,718	4,450,718
Discount on bonds	(26,682)	-	(26,682)
Compensated absences	38,783	-	38,783
Total long-term debt	<u>\$ 2,927,101</u>	<u>\$ 1,535,718</u>	<u>\$ 4,462,819</u>

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description

The Michigan Public School Employee's 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. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpser-cafr>.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Plan Description (Continued)

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.

Benefits Provided

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

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

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

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

Pension Reform 2010

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Pension Reform 2012

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

Regular Retirement (no reduction factor for age)

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

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

Pension Plus

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

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

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

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

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

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

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Member Contribution

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

Employer Contributions

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

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

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

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

The District's pension contributions for the year ended June 30, 2017 were equal to the required contribution total. Pension contributions were approximately \$200,876 with \$151,879 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (72.88% for pension and 27.12% for OPEB).

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

Pension Liabilities

At June 30, 2017, the District reported a liability of \$2,375,911 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2015 and rolled forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2016 and 2015, the District's proportion was .009523% and .009557%.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Pension Liabilities (Continued)

<u>MPSERS (Plan) Non-university employers:</u>	<u>September 30, 2016</u>	<u>September 30, 2015</u>
Total pension liability	\$ 67,917,445,078	\$ 66,312,041,902
Plan fiduciary net position	\$ 42,968,263,308	\$ 41,887,015,147
Net pension liability	\$ 24,949,181,770	\$ 24,425,026,755
Proportionate share	0.009523%	0.009557%
Net pension liability for the District	\$ 2,375,911	\$ 2,334,280

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

For the year ended June 30, 2017, the District recognized pension expenses of approximately \$210,851. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as deferred outflows as of June 30, 2017.

At June 30, 2017, the Reporting Unit 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>
Difference between expected and actual experience	\$ 29,610	\$ (5,631)
Changes of assumptions	37,146	-
Net difference between projected and actual earnings on pension plan investments	39,488	-
Changes in proportion and difference between Reporting unit contributions and proportionate share of contributions	-	(44,341)
Reporting unit's contributions subsequent to the measurement date	190,825	-
Totals	<u>\$ 297,069</u>	<u>\$ (49,972)</u>

\$190,825 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)
Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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

<u>Year ended September 30.</u>	<u>Amount</u>
2017	\$3,107
2018	1
2019	45,369
2020	7,795

Actuarial Assumptions

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

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

Inflation – 2.5%

Mortality assumptions – RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB for men and women were used.

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

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

OWENDALE-GAGETOWN AREA SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

The target asset allocation at September 30, 2016 and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity Pools	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	<u>2.00%</u>	0.00%
	<u>100.00%</u>	

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

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

Sensitivity of the net pension liability to changes in the discount rate - The following presents the Reporting Unit’s proportionate share of the net pension liability calculated using the discount rate of 8% (7% for Pension Plus Plan), as well as what the Reporting Unit’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease (6.0% - 7.0%)</u>	<u>Discount rate (7.0% - 8.0%)</u>	<u>1% Increase (8.0% - 9.0%)</u>
Reporting unit’s proportionate share of the net pension liability	\$3,059,575	\$2,375,911	\$1,799,516

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Pension Plan Fiduciary Net Position

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

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

Other Information

Discount Rate – Assumed Rate of Return

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

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

Pension Reform 2017

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

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

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Benefit Provisions – Other Postemployment

Introduction

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

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

Retiree Healthcare Reform of 2012

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

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

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015; 2.20% - 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015; 6.40% - 6.83% of covered payroll for the period from October 1, 2015 through September 30, 2016; and 5.69% to 5.91% of covered payroll for the period from October 1, 2016 through September 30, 2017 dependent upon the employee's date of hire and plan election.

The District's postemployment healthcare contributions to MPSERS for the years ended June 30, 2017, 2016, and 2015 were approximately \$47,712, \$55,755, and \$22,444.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 10 – CONTINGENT LIABILITY:

The District is a reimbursing employer for purposes of unemployment insurance claims against the District. The District reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. The contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

The surrounding Townships and counties are part of the Michigan Renewable Energy Collaborative (MREC). Certain wind energy companies are contesting the assessed taxable value of wind turbines. If the wind companies are successful in their claim then local governments (including school districts) would have to return tax dollars to these companies. The MREC was formed to fight the legal challenge and share legal costs related to the wind turbine tax value determinations. The wind turbine companies have made tax appeals to the Michigan Tax Tribunal in several townships where they have wind turbines. Due to the inconclusive nature, it is not possible for Legal Counsel to determine the probable outcome or a reasonable estimate of the District's potential liability, if any.

NOTE 11 – RISK MANAGEMENT:

The 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; and natural disasters. The District participates in two district pools of educational institutions within the State of Michigan for self-insuring property and casualty losses and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

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

NOTE 12 - SUBSEQUENT EVENTS:

Subsequent to year-end, the District entered into an agreement to borrow \$200,000 from Mayville State Bank. The borrowing assists the District with cash flow during the months there are no state aid and property taxes received. The note is dated August 21, 2017 and carries interest at 1.39%. The note matures August 20, 2018.

OWENDALE-GAGETOWN AREA SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2017

NOTE 13 – UPCOMING ACCOUNTING STANDARDS:

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

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

REQUIRED SUPPLEMENTARY INFORMATION

OWENDALE-GAGETOWN AREA SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
REVENUE:				
Local sources:				
Taxes	\$ 253,863	\$ 260,016	\$ 260,016	\$ -
Special education	108,394	107,985	107,985	-
Athletics	9,064	9,395	9,395	-
Other local revenue	<u>37,029</u>	<u>57,384</u>	<u>57,505</u>	<u>121</u>
Total local sources	408,350	434,780	434,901	121
State sources	1,215,887	1,151,733	1,152,803	1,070
Federal sources	<u>89,495</u>	<u>82,929</u>	<u>84,573</u>	<u>1,644</u>
TOTAL REVENUE	<u>1,713,732</u>	<u>1,669,442</u>	<u>1,672,277</u>	<u>2,835</u>
EXPENDITURES:				
Instruction:				
Basic instruction	871,011	842,832	829,192	13,640
Added needs	<u>191,163</u>	<u>206,195</u>	<u>203,503</u>	<u>2,692</u>
Total instruction	<u>1,062,174</u>	<u>1,049,027</u>	<u>1,032,695</u>	<u>16,332</u>
Supporting services				
Truancy/absenteeism services	2,000	1,100	833	267
Instructional staff	80,220	72,480	73,463	(983)
General administration	74,899	68,362	66,092	2,270
School administration	145,560	138,214	135,459	2,755
Business	44,509	43,385	43,296	89
Operations and maintenance	172,932	138,173	129,684	8,489
Pupil transportation	106,347	81,076	76,148	4,928
Other support services	21,541	18,499	17,921	578
Athletics	<u>58,233</u>	<u>62,177</u>	<u>56,873</u>	<u>5,304</u>
Total supporting services	706,241	623,466	599,769	23,697
Community services	900	128	128	-
TOTAL EXPENDITURES	<u>1,769,315</u>	<u>1,672,621</u>	<u>1,632,592</u>	<u>40,029</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(55,583)</u>	<u>(3,179)</u>	<u>39,685</u>	<u>42,864</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers - net	<u>5,813</u>	<u>3,319</u>	<u>3,345</u>	<u>26</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>5,813</u>	<u>3,319</u>	<u>3,345</u>	<u>26</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES				
OTHER USES	<u>(49,770)</u>	<u>140</u>	<u>43,030</u>	<u>42,890</u>
FUND BALANCE - JULY 1	<u>385,319</u>	<u>385,319</u>	<u>385,319</u>	<u>-</u>
FUND BALANCE - JUNE 30	<u>\$ 335,549</u>	<u>\$ 385,459</u>	<u>\$ 428,349</u>	<u>\$ 42,890</u>

OWENDALE-GAGETOWN AREA SCHOOLS

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.009523%	0.009557%	0.009839%
Reporting unit's proportionate share of net pension liability	\$ 2,375,911	\$ 2,334,280	\$ 2,164,170
Reporting unit's covered-employee payroll	\$ 806,121	\$ 795,064	\$ 881,007
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	294.73%	293.60%	245.65%
Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%

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

OWENDALE-GAGETOWN AREA SCHOOLS

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 151,879	\$ 160,796	\$ 172,618
Contributions in relation to statutorily required contributions	151,879	160,796	172,618
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 806,792	\$ 816,320	\$ 828,188
Contributions as a percentage of covered-employee payroll	18.83%	19.70%	20.84%

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

OWENDALE-GAGETOWN AREA SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

OWENDALE-GAGETOWN AREA SCHOOLS

**SCHEDULE OF BOND INDEBTEDNESS
2013 SCHOOL BUILDING AND SITE BONDS
ISSUE DATED NOVEMBER 25, 2013 AT JUNE 30, 2017**

MATURITY DATE	PRINCIPAL	INTEREST		TOTAL
		RATE	AMOUNT	
11/1/17	\$ -		\$ 56,618	\$ 56,618
5/1/18	75,000	2.00%	56,617	131,617
11/1/18	-		55,868	55,868
5/1/19	85,000	2.00%	55,868	140,868
11/1/19	-		55,018	55,018
5/1/20	90,000	3.00%	55,018	145,018
11/1/20	-		53,668	53,668
5/1/21	100,000	3.00%	53,668	153,668
11/1/21	-		52,168	52,168
5/1/22	105,000	3.00%	52,168	157,168
11/1/22	-		50,593	50,593
5/1/23	110,000	3.00%	50,593	160,593
11/1/23	-		48,943	48,943
5/1/24	115,000	3.50%	48,943	163,943
11/1/24	-		46,930	46,930
5/1/25	120,000	3.50%	46,930	166,930
11/1/25	-		44,830	44,830
5/1/26	125,000	4.00%	44,830	169,830
11/1/26	-		42,330	42,330
5/1/27	130,000	4.00%	42,330	172,330
11/1/27	-		39,730	39,730
5/1/28	135,000	4.00%	39,730	174,730
11/1/28	-		37,030	37,030
5/1/29	140,000	4.00%	37,030	177,030
11/1/29	-		34,230	34,230
5/1/30	145,000	4.00%	34,230	179,230
11/1/30	-		31,330	31,330
5/1/31	155,000	4.00%	31,330	186,330
11/1/31	-		28,230	28,230
5/1/32	160,000	4.25%	28,230	188,230
11/1/32	-		24,830	24,830
5/1/33	170,000	4.25%	24,830	194,830
11/1/33	-		21,218	21,218
5/1/34	175,000	4.35%	21,218	196,218
11/1/34	-		17,411	17,411
5/1/35	185,000	4.35%	17,411	202,411
11/1/35	-		13,388	13,388
5/1/36	195,000	4.50%	13,388	208,388
11/1/36	-		9,000	9,000
5/1/37	200,000	4.50%	9,000	209,000
11/1/37	-		4,500	4,500
5/1/38	200,000	4.50%	4,500	204,500
	<u>\$ 2,915,000</u>		<u>\$ 1,535,718</u>	<u>\$ 4,450,718</u>

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

To the Board of Education
Owendale-Gagetown Area Schools
Owendale, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Owendale-Gagetown Area Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Owendale-Gagetown Area School's basic financial statements, and have issued our report thereon dated October 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Owendale-Gagetown Area 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 Owendale-Gagetown Area School's internal control. Accordingly, we do not express an opinion on the effectiveness of Owendale-Gagetown 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.

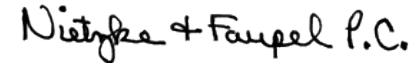
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 Owendale-Gagetown Area 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 6, 2017