

# **Posen Consolidated School District #9**

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**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

**Year Ended June 30, 2017**

# Posen Consolidated School District #9

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June 30, 2017

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560 76th Street SW  
Byron Center, MI 49315

Phone (616) 583-0094

Fax (866) 569-0725

Email: doug@wohlbergcpa.com

## INDEPENDENT AUDITOR'S REPORT

To the School Board  
Posen Consolidated School District #9

### 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 Posen Consolidated School District #9 as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents. We did not audit the district's proportionate share of the net pension liability of the Michigan Public School Employees' Retirement System and the related transactions and disclosures. Those balances and disclosures were audited by the State of Michigan Office of the Auditor General whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for the district, is based solely on the report of the State of Michigan Office of the Auditor General.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion and the report of the State of Michigan Office of the Auditor General, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Posen Consolidated School District #9 as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the administration's discussion and analysis and budgetary comparison information on pages 3 through 12 and pages 40 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 Posen Consolidated School District #9's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2017, on our consideration of the Posen Consolidated School District #9 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 Posen Consolidated School District #9 internal control over financial reporting and compliance.



Douglas Wohlberg, CPA  
Byron Center, Michigan  
December 5, 2017

# Posen Consolidated School District #9

## Administration's Discussion and Analysis

For the year ended June 30, 2017

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Posen Consolidated School District #9 is a K-12 School District located in Presque Isle County, Michigan. This Administration's Discussion and Analysis Section, a requirement of GASB 34, is intended to be the Posen Consolidated School District #9 Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2017.

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

### Fund Financial Statements

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

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

### District-Wide Financial Statements

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

# Posen Consolidated School District #9

## Administration's Discussion and Analysis

For the year ended June 30, 2017

### Summary of Net Position

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

	2017	2016
<b>ASSETS</b>		
Current assets	\$ 899,199	\$ 833,984
Capital assets	3,004,308	3,203,888
<b>Total assets</b>	<b>3,903,507</b>	<b>4,037,872</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
	665,646	490,037
<b>LIABILITIES</b>		
Current liabilities	703,430	959,732
Long-term liabilities	4,809,524	4,569,366
<b>Total liabilities</b>	<b>5,512,954</b>	<b>5,529,098</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
	125,567	10,591
<b>NET POSITION</b>		
Net investment in capital assets	1,632,337	1,550,422
Restricted	271,546	212,839
Unrestricted	(2,973,251)	(2,775,041)
<b>Total net position</b>	<b>\$ (1,069,368)</b>	<b>\$ (1,011,780)</b>

# Posen Consolidated School District #9

## Administration's Discussion and Analysis

For the year ended June 30, 2017

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### Analysis of Financial Position

During fiscal year ended June 30, 2017, the District's net position decreased by \$57,588.

### Depreciation Expense

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

For fiscal year ended June 30, 2017, the net increase in accumulated depreciation was \$205,194.

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

One way to think of depreciation expense is that in order to maintain net position at the same level, acquisitions of capital outlay and capitalized major maintenance projects would have to equal the annual depreciation expense. In other words, to stay even in net position the District would have had to capitalize \$205,194 in assets during the year.

### Capital Outlay Acquisitions

Actual capital outlay acquisitions for fiscal year ended June 30, 2017 were \$5,614.

Combined with the increase in accumulated depreciation, net position (i.e., net book value) invested in capital assets decreased by \$199,580 during the year. This is the additional amount the District would have had to spend to maintain the same net value of assets.

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

### Debt Administration

At year end, the District had \$1,371,971 in outstanding long-term debt including compensated absences. Long-term liabilities had a net decrease of \$281,495. See note 9 in the notes to financial statements for additional information.

# Posen Consolidated School District #9

## Administration's Discussion and Analysis

For the year ended June 30, 2017

### Results of Operations

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

	2017	% of Total	2016	% of Total
<b>General Revenues</b>				
Michigan's Foundation Grant Allowance:				
Property taxes levied for general operations	\$ 875,876	33.6 %	\$ 861,293	31.2 %
State of Michigan aid, unrestricted	861,356	33.0 %	884,138	31.8 %
Michigan's Foundation Grant Allowance	1,737,232	66.6 %	1,745,431	63.0 %
Property taxes levied for debt service	294,776	11.3 %	397,103	14.4 %
Property taxes levied for capital projects	54,135	2.1 %	54,213	2.0 %
Other	16,952	0.7 %	15,939	0.6 %
<b>Total General Revenues</b>	<b>2,103,095</b>	<b>80.7 %</b>	<b>2,212,686</b>	<b>80.0 %</b>
<b>Program Revenues</b>				
Charges for services	60,528	2.3 %	51,994	1.9 %
Operating grants - Federal and State	444,238	17.0 %	499,410	18.1 %
<b>Total Revenues</b>	<b>2,607,861</b>	<b>100.0 %</b>	<b>2,764,090</b>	<b>100.0 %</b>
<b>Expenses</b>				
Instructional	1,495,942	56.1 %	1,398,561	54.1 %
Support services	820,767	30.8 %	760,989	29.5 %
Food services	108,794	4.1 %	114,979	4.5 %
Interest on long-term debt	34,752	1.3 %	46,065	1.8 %
Depreciation (unallocated)	205,194	7.7 %	259,581	10.1 %
<b>Total Expenses</b>	<b>2,665,449</b>	<b>100.0 %</b>	<b>2,580,175</b>	<b>100.0 %</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$ (57,588)</b>		<b>\$ 183,915</b>	

# Posen Consolidated School District #9

## Administration's Discussion and Analysis

For the year ended June 30, 2017

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

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

The District's non-homestead property levy for the 2016-2017 fiscal year was \$875,876. The non-homestead tax levy increased by 1.14% over the prior year levy of \$843,897.

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

<b>Fiscal Year</b>	<b>Non Homestead Tax Levy</b>	<b>Percent Change</b>
2016-2017	\$ 875,876	1.14 %
2015-2016	866,013	2.62 %
2014-2015	843,897	0.59 %
2013-2014	838,957	2.53 %
2012-2013	818,251	1.02 %

The average increase over the last 5 years was 1.58%.

# Posen Consolidated School District #9

## Administration's Discussion and Analysis

For the year ended June 30, 2017

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### State of Michigan Aid, Unrestricted

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

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

### Per Student, Foundation Allowance:

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

### Student Enrollment:

The District's student enrollment in 2016-2017 was 231 students. The District's enrollments have gradually declined in the last five years. The following summarizes fall student enrollments in the past five years:

<b>Fiscal Year</b>	<b>Student Membership</b>	<b>Increase (Decrease) From Prior Year</b>
2016-2017	231.45	(4.36)
2015-2016	235.81	(5.44)
2014-2015	241.25	(10.22)
2013-2014	251.47	(5.26)
2012-2013	256.73	(8.17)

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

### Property Taxes levied for Debt Service

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

For 2016-2017, the District's debt millage levy was 0.50 mills which generated a levy of \$54,135.

### Property Taxes levied for the Sinking Fund

The District's sinking fund levy, which is used to acquire and improve school facilities, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2016-2017, the District's sinking fund millage levy was 0.50 mills which generated a levy of \$54,135.

# Posen Consolidated School District #9

## Administration's Discussion and Analysis

For the year ended June 30, 2017

### Food Service Sales to Students and Adults

The District's food and milk sales to students and adults increased by approximately \$278 to \$27,883 from the prior school year. By working to carefully control the cost of food and labor, the administration was able to achieve an excess of revenues from operations over expenditures of \$10,901.

### GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

General Fund Revenue Budget vs. Actual 5-Year History

Fiscal Year	Revenues Original Budget	Revenues Final Budget	Revenues Actual	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
2016-2017	\$ 2,145,922	\$ 2,203,049	\$ 2,247,031	4.71 %	2.00 %
2015-2016	2,126,405	2,181,635	2,191,547	3.06 %	0.45 %
2014-2015	2,120,797	2,132,289	2,144,055	1.10 %	0.55 %
2013-2014	2,112,349	2,146,003	2,149,766	1.77 %	0.18 %
2012-2013	2,205,051	2,117,714	2,143,284	(2.80)%	1.21 %

General Fund Expenditures Budget vs. Actual 5-Year History

Fiscal Year	Expenditures Original Budget	Expenditures Final Budget	Expenditures Actual	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
2016-2017	\$ 2,091,642	\$ 2,176,518	\$ 2,247,285	(7.44)%	(3.25)%
2015-2016	2,081,000	2,152,142	2,207,512	(6.08)%	(2.57)%
2014-2015	2,082,767	2,141,959	2,211,980	(6.20)%	(3.27)%
2013-2014	2,111,073	2,169,928	2,161,489	(2.39)%	0.39 %
2012-2013	2,176,427	2,132,002	2,155,712	0.95 %	(1.11)%

### Original vs. Final Budget

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

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

# Posen Consolidated School District #9

## Administration's Discussion and Analysis

For the year ended June 30, 2017

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### Change from Original to Final Budget

#### General Fund Revenues

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

Total Revenues Original Budget	\$	2,145,922
Total Revenues Final Budget		<u>2,203,049</u>
Increase (Decrease) in Budgeted Revenues	\$	<u>57,127</u>

The District's General Fund actual revenues differed from the final budget by \$43,982, a variance of 2.00%.

#### General Fund Expenditures

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

Total Expenditures Original Budget	\$	2,091,642
Total Expenditures Final Budget		<u>2,176,518</u>
Increase (Decrease) in Budgeted Expenditures	\$	<u>84,876</u>

The District's General Fund actual expenditures differed from the final budget by \$70,767, a variance of 3.25%.

# Posen Consolidated School District #9

## Administration's Discussion and Analysis

For the year ended June 30, 2017

### Factors Bearing on the District's Future

Posen Consolidated School District #9 has had declining enrollment for the last six years. The school operating revenue is based on student enrollment as well as the amount of funding per student. The student enrollment for the 2016/2017 school year was at 229. The prior year student count was 238. The 2016/2017 school year state aid funding was \$7,511 per student enrolled.

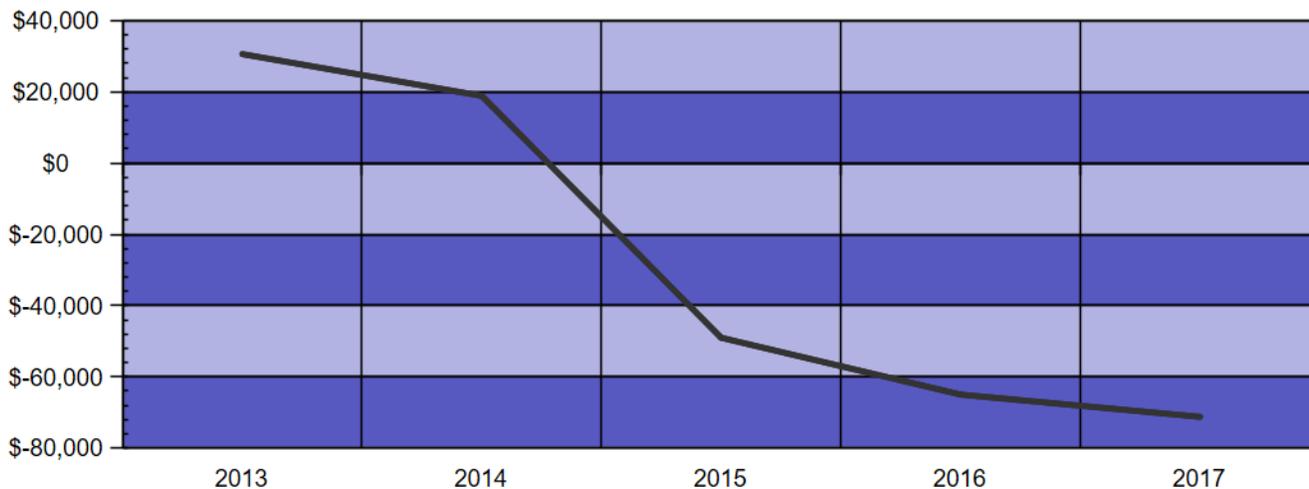
Categorical funding has steadily been reduced while numbers of at-risk students are increasing. The revenue has gone up, but the costs (expenses) have continued to go up due to inflation. Health insurance for the teaching staff and support staff increased by 13%. Natural gas, electricity, bus fuel, and other items contributed to the cost increases. Retirement costs increased another 1.17%.

We will have to continue to look for ways to reduce costs without impacting the educational and socioemotional needs of our students. We will also have to look at ways to increase our revenues.

We continue to have split grade classrooms rather than replacing teachers when they retire and we continue save on our administrator expenses by having only one administrator in a combined Superintendent/Principal position for the 2016/2017 school year. We have reduced classroom start up and supply orders. Teachers have agreed to extend their contract for the 2017-2018 year without an increase in pay or steps.

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

**Fund Balance Trend for the General Fund**



# **Posen Consolidated School District #9**

## **Administration's Discussion and Analysis**

**For the year ended June 30, 2017**

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### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Posen Consolidated School District No. 9's Business Office.

## **BASIC FINANCIAL STATEMENTS**

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# Posen Consolidated School District #9

## Statement of Net Position

June 30, 2017

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and investments	\$ 665,354
Intergovernmental receivable	233,845
Capital assets, net of accumulated depreciation of \$5,403,724	3,004,308
<b>Total assets</b>	<b>3,903,507</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pension plan related	634,247
Refunding deferral	31,399
<b>Total deferred outflows of resources</b>	<b>665,646</b>
<b>LIABILITIES</b>	
Accounts payable	4,221
Accrued payroll and other liabilities	282,850
Accrued interest	4,517
Unearned revenue	5,469
State aid note payable	406,373
Noncurrent liabilities:	
Bonds payable, due within one year	285,847
Bonds payable, due in more than one year	1,086,124
Net pension liability	3,437,553
<b>Total liabilities</b>	<b>5,512,954</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension plan related	125,567
<b>NET POSITION</b>	
Net investment in capital assets	1,632,337
Restricted:	
Food service	28,263
Debt service	128,093
Capital projects	115,190
Unrestricted	(2,973,251)
<b>Total net position</b>	<b>\$ (1,069,368)</b>

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

# Posen Consolidated School District #9

## Statement of Activities

For the year ended June 30, 2017

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Functions/Programs:</b>				
Governmental activities:				
Instruction	\$ 1,495,942	\$ -	\$ 309,767	\$ (1,186,175)
Support services	820,767	32,344	42,961	(745,462)
Food service	108,794	28,184	91,510	10,900
Interest on long-term debt	34,752	-	-	(34,752)
Depreciation (unallocated)	205,194	-	-	(205,194)
<b>Total governmental activities</b>	<b>\$ 2,665,449</b>	<b>\$ 60,528</b>	<b>\$ 444,238</b>	<b>(2,160,683)</b>
General revenues:				
Taxes:				
Property taxes, levied for general operations				875,876
Property taxes, levied for debt service				294,776
Property taxes, levied for capital outlay				54,135
State of Michigan aid, unrestricted				861,356
Interest and investment earnings				2,310
Other revenues				14,642
<b>Total general revenues</b>				<b>2,103,095</b>
Change in net position				(57,588)
Net position-beginning				(1,011,780)
<b>Net position-ending</b>				<b>\$ (1,069,368)</b>

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

# Posen Consolidated School District #9

## Governmental Funds

### Balance Sheet

June 30, 2017

	General	2012 Debt Service	Sinking	Total Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 408,644	\$ 58,260	\$ 110,570	\$ 87,880	\$ 665,354
Due from other funds	17,127	73,892	4,620	31,053	126,692
Intergovernmental	232,935	-	-	910	233,845
<b>Total assets</b>	<b>\$ 658,706</b>	<b>\$ 132,152</b>	<b>\$ 115,190</b>	<b>\$ 119,843</b>	<b>\$ 1,025,891</b>
<b>LIABILITIES</b>					
Accounts payable	\$ 4,221	\$ -	\$ -	\$ -	\$ 4,221
Accrued payroll and related liabilities	276,974	-	-	-	276,974
Due to other funds	31,053	4,620	-	91,019	126,692
Unearned revenue	5,469	-	-	-	5,469
Interest payable	5,876	-	-	-	5,876
State aid note payable	406,373	-	-	-	406,373
<b>Total liabilities</b>	<b>729,966</b>	<b>4,620</b>	<b>-</b>	<b>91,019</b>	<b>825,605</b>
<b>FUND BALANCES</b>					
Restricted:					
Food service	-	-	-	28,263	28,263
Debt service	-	127,532	-	561	128,093
Capital projects	-	-	115,190	-	115,190
Unassigned	(71,260)	-	-	-	(71,260)
<b>Total fund balances</b>	<b>(71,260)</b>	<b>127,532</b>	<b>115,190</b>	<b>28,824</b>	<b>200,286</b>
<b>Total liabilities and fund balances</b>	<b>\$ 658,706</b>	<b>\$ 132,152</b>	<b>\$ 115,190</b>	<b>\$ 119,843</b>	<b>\$ 1,025,891</b>

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

# Posen Consolidated School District #9

## Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2017

Total fund balances - total governmental funds	\$	200,286
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,004,308
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. Balances at June 30, 2017 were:		
Bonds payable		(1,371,971)
Refunding deferral		31,399
Net pension liability		(3,437,553)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred Outflows of Resources:		
District pension contributions subsequent to the measurement date		304,655
Changes in pension assumptions		53,743
Net difference between projected and actual earnings on pension plan investments		42,841
Changes in proportion and differences between employer contributions and proportionate share of contributions		175,876
Differences between expected and actual experience		57,132
Deferred Inflows of Resources:		
District pension contributions subsequent to the measurement date		(108,453)
Net difference between projected and actual earnings on pension plan investments		(8,147)
Changes in proportion and differences between employer contributions and proportionate share of contributions		(8,967)
Interest on long-term debt is accrued as a liability in the district-wide statements, but is not recognized in the governmental funds until due.		(4,517)
<b>Total net position - governmental activities</b>	<b>\$</b>	<b>(1,069,368)</b>

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

# Posen Consolidated School District #9

## Governmental Funds

### Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2017

	General	2012 Debt Service	Sinking	Total Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>					
Local sources	\$ 967,455	\$ 294,992	\$ 54,153	\$ 28,628	\$ 1,345,228
State sources	1,128,428	-	-	4,446	1,132,874
Federal sources	98,498	-	-	87,064	185,562
Intermediate sources	52,650	-	-	-	52,650
<b>Total revenues</b>	<b>2,247,031</b>	<b>294,992</b>	<b>54,153</b>	<b>120,138</b>	<b>2,716,314</b>
<b>EXPENDITURES</b>					
Current:					
Instruction	1,426,518	-	-	-	1,426,518
Support services	712,583	-	-	-	712,583
Food service	-	-	-	108,794	108,794
Athletics	108,184	-	-	-	108,184
Debt service:					
Principal	-	275,000	-	-	275,000
Interest	-	18,997	-	15,161	34,158
Capital outlay	-	-	15,986	-	15,986
<b>Total expenditures</b>	<b>2,247,285</b>	<b>293,997</b>	<b>15,986</b>	<b>123,955</b>	<b>2,681,223</b>
Excess (deficiency) of revenues over expenditures	(254)	995	38,167	(3,817)	35,091
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	4,000	4,292	-	93,575	101,867
Operating transfers out	(10,000)	(72,540)	-	(19,327)	(101,867)
<b>Total other financing sources (uses)</b>	<b>(6,000)</b>	<b>(68,248)</b>	<b>-</b>	<b>74,248</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(6,254)</b>	<b>(67,253)</b>	<b>38,167</b>	<b>70,431</b>	<b>35,091</b>
Fund balances-beginning	(65,006)	194,785	77,023	(41,607)	165,195
Fund balances-ending	\$ (71,260)	\$ 127,532	\$ 115,190	\$ 28,824	\$ 200,286

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

# Posen Consolidated School District #9

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

For the year ended June 30, 2017

Net change in fund balances - total governmental funds	\$ 35,091
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statements of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(205,194)
Capital outlay	5,614
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	4,931
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	275,000
Amortization of bond premiums	6,495
Amortization of refunding deferral	(12,020)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the pension expense is determined by the pension plan. This is the amount by which the pension expense exceeded the contributions.	(167,505)
<b>Change in net position of governmental activities</b>	<b>\$ (57,588)</b>

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

# Posen Consolidated School District #9

## Fiduciary Fund

### Statement of Fiduciary Fund Net Position

June 30, 2017

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#### ASSETS

Cash and cash equivalents	\$	45,762
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#### LIABILITIES

Due to student groups	\$	45,762
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The Notes to Financial Statements are an integral part of this statement.

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

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### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Posen Consolidated School District #9 (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

#### **A. Reporting Entity**

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

#### **B. District-wide and Fund Financial Statements**

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

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

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

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

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

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

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

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

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

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

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

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

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

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

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The School District reports the following major governmental funds:

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

**2012 Debt Service Fund** - The 2012 Debt Service Fund accounts for property taxes and other revenues to be used to pay principal, interest and fees related to long-term debt.

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

Additionally, the School District reports the following fund types:

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

**2015 Refunding Debt Service Fund** - The 2015 Refunding Debt Service Fund accounts for property taxes and other revenues to be used to pay principal, interest and fees related to long-term debt.

**2012 Technology and Bus Capital Projects Fund** - The 2012 Technology and Bus Capital Projects Fund accounts for property tax proceeds and other revenues used to finance additions and improvements to the District's buildings and facilities.

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

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

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

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

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

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

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

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$3,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

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

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

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

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

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

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

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

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

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

### E. Pension

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

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

### **NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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

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

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

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

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>% Variance</b>
General Fund				
Basic programs	\$ 1,153,163	\$ 1,208,786	\$ 55,623	4.82 %
Added needs	212,009	217,732	5,723	2.70
Pupil services	298	396	98	32.89
General administration	167,102	172,281	5,179	3.10
School administration	103,947	110,715	6,768	6.51
Pupil transportation	124,127	133,745	9,618	7.75
Athletics	80,364	108,184	27,820	34.62
Operating transfers out	-	10,000	10,000	100.00

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

### **NOTE 3 - DEPOSITS AND INVESTMENTS**

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

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

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

Michigan Liquid Asset Fund	\$	458,833
Calcite Credit Union		380,684
Huntington National Bank		1,588
<b>Total</b>	<b>\$</b>	<b>841,105</b>

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

	<b>Governmental Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and investments	\$ 665,354	\$ 45,762	\$ 711,116

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk of bank deposits. At year end, the bank balance of the School District's deposits is \$841,105, of which \$251,588 is covered by federal depository insurance. The remaining \$589,517 is uninsured and uncollateralized.

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

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

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

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

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

### NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Disposals	Balance June 30, 2017
Capital assets, not being depreciated:				
Land	\$ 2,485	\$ -	\$ -	\$ 2,485
Capital assets, being depreciated:				
Land improvements	708,955	5,614	-	714,569
Buildings and improvements	6,511,657	-	-	6,511,657
Furniture and equipment	749,495	-	-	749,495
Vehicles	429,826	-	-	429,826
<b>Total capital assets, being depreciated</b>	<b>8,399,933</b>	<b>5,614</b>	<b>-</b>	<b>8,405,547</b>
Less accumulated depreciation for:				
Land improvements	697,187	1,238	-	698,425
Buildings and improvements	3,602,469	123,764	-	3,726,233
Furniture and equipment	617,954	44,652	-	662,606
Vehicles	280,920	35,540	-	316,460
<b>Total accumulated depreciation</b>	<b>5,198,530</b>	<b>205,194</b>	<b>-</b>	<b>5,403,724</b>
<b>Total capital assets being depreciated, net</b>	<b>3,201,403</b>	<b>(199,580)</b>	<b>-</b>	<b>3,001,823</b>
<b>Capital assets, net</b>	<b>\$ 3,203,888</b>	<b>\$ (199,580)</b>	<b>\$ -</b>	<b>\$ 3,004,308</b>

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

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

### NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of the fiscal year end is as follows:

	Due From Fund:					Total Due To Other Funds
	General	Food Service	2012 Debt Service	2015 Debt Service	Sinking	
<b>Due To Fund:</b>						
General	\$ -	\$ 21,053	\$ -	\$ 10,000	\$ -	\$ 31,053
Food Service	17,127	-	-	-	-	17,127
2012 Debt Service	-	-	-	-	4,620	4,620
2015 Debt Service	-	-	73,892	-	-	73,892
<b>Total due from other funds</b>	<b>\$ 17,127</b>	<b>\$ 21,053</b>	<b>\$ 73,892</b>	<b>\$ 10,000</b>	<b>\$ 4,620</b>	<b>\$ 126,692</b>

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

### NOTE 6 - INTERFUND TRANSFERS

The composition of interfund transfers for the fiscal year is as follows:

	Transfer Out Fund:			Total Transfers In Funds
	General	2012 Debt Service	Technology and Bus Capital Project	
<b>Transfer In Fund:</b>				
General	\$ -	\$ -	\$ 4,000	\$ 4,000
2012 Debt Service	-	-	4,292	4,292
2015 Refunding Debt Service	10,000	57,538	11,035	78,573
Technology and Bus Capital Project	-	15,002	-	15,002
<b>Total Transfers Out Funds</b>	<b>\$ 10,000</b>	<b>\$ 72,540</b>	<b>\$ 19,327</b>	<b>\$ 101,867</b>

During the year, transfers were used to close the Technology and Bus Capital Projects Fund and to allocate property tax revenues between the 2012 Debt Service Fund and the 2015 Refunding Debt Service Fund.

### NOTE 7 - NOTES PAYABLE

The School District has \$406,373 outstanding at year end of State Aid Anticipation notes. The District intends to pay this obligation with State Aid received subsequent to year end.

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

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017
State Aid Note	\$ 466,677	\$ 406,373	\$ 466,677	\$ 406,373

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

### **NOTE 8 - INTERGOVERNMENTAL RECEIVABLES**

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

	<b>Government wide</b>	
State aid	\$	205,417
State aid for food service		910
Federal revenue		27,518
<b>Total</b>	<b>\$</b>	<b>233,845</b>

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

No allowance for doubtful accounts is considered necessary.

### **NOTE 9 - LONG-TERM DEBT**

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

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

	<b>Balance July 1, 2016</b>		<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2017</b>		<b>Amount Due Within One Year</b>
Bonds payable	\$	1,630,000	\$ -	\$ 275,000	\$	1,355,000	\$ 280,000
Bond premium		23,466	-	6,495		16,971	10,476
<b>Total long-term debt</b>	<b>\$</b>	<b>1,653,466</b>	<b>\$ -</b>	<b>\$ 281,495</b>	<b>\$</b>	<b>1,371,971</b>	<b>\$ 290,476</b>

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

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

Year ended, June 30,	Governmental Activities		Total
	Principal	Interest	
2018	\$ 280,000	\$ 27,100	\$ 307,100
2019	280,000	21,500	301,500
2020	275,000	15,900	290,900
2021	260,000	10,400	270,400
2022	260,000	5,200	265,200
Totals	\$ 1,355,000	\$ 80,100	\$ 1,435,100

### Governmental Activities

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

\$1,575,000 2015 Refunding Bonds, due in annual installments of \$110,000 to \$280,000, through May 1,  
2022: with interest at 2.00% net of premium \$ 1,355,000

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# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

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### **NOTE 10 - RISK MANAGEMENT**

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

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

### **NOTE 11 - UNEARNED REVENUE**

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

	<b>Unavailable</b>	<b>Unearned</b>
General Fund	\$ -	\$ 5,469

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

### **NOTE 12 - GENERAL INFORMATION ABOUT THE MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (MPERS) PENSION PLAN**

#### **Plan Description**

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

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

The System's financial statements are available at [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr).

#### **Benefits Provided**

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

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

#### **Contributions and Funded Status**

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

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

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

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

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

Required contributions to the pension plan from the district were \$309,397 for the year ended September 30, 2016

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

At June 30, 2017, the district reported a liability of \$3,437,553 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2015. The district's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the district's proportion was 0.01377822 percent, which was an increase of 4.99498484 percent from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the district recognized pension expense of \$378,075. At June 30, 2017, the district reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,841	\$ 8,147
Changes of assumptions	53,743	-
Net difference between projected and actual earnings on pension plan investments	57,132	-
Changes in proportion and differences between district contributions and proportionate share of contributions	175,876	8,967
District contributions subsequent to the measurement date	304,655	108,453
<b>Total</b>	<b>\$ 634,247</b>	<b>\$ 125,567</b>

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

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

<b>Deferred (Inflows) and Deferred Outflows of Resources by Year (To Be Recognized in Future Pension Expenses)</b>	
<b>Year Ending September 30</b>	<b>Amount</b>
2017	\$ 77,502
2018	73,009
2019	128,122
2020	33,845

### Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

### Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	8.0%
- Pension Plus Plan (Hybrid)	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

### Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273 for non-university employers 1.2456 for university employers.
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2016 MPERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

### Long-Term Expected Return on Plan Assets

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

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

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

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

### Discount Rate

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

### Sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 4,426,703	\$ 3,437,553	\$ 2,603,605

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR, available at [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr).

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

### **NOTE 13 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

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

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

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

### **NOTE 14 - SUBSEQUENT EVENTS**

Management evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation was performed through December 5, 2017, the date the financial statements were approved for issuance. There were subsequent events that should be accounted for or require disclosure in the accompanying financial statements.

Subsequent to year end, the district's administration intends to issue a State Aid Note in the amount of approximately \$550,000 with an interest rate of approximately 1.27 to 1.49 percent. This note will be repaid in August of 2018.

### **NOTE 15 - PROPERTY TAX ABATEMENTS**

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

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

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

# Posen Consolidated School District #9

## Notes to Financial Statements

June 30, 2017

### **NOTE 16 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

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

In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

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

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

## **REQUIRED SUPPLEMENTAL INFORMATION**

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# Posen Consolidated School District #9

## General Fund

### Budgetary Comparison Schedule

For the year ended June 30, 2017

	Budgeted Amounts			Variance With Final Budget
	Original	Final	Actual	
<b>REVENUES</b>				
Local sources	\$ 920,500	\$ 956,481	\$ 967,455	\$ 10,974
State sources	1,102,631	1,100,667	1,128,428	27,761
Federal sources	79,997	102,907	98,498	(4,409)
Incoming transfers and other transactions	42,794	42,994	52,650	9,656
<b>Total revenues</b>	<b>2,145,922</b>	<b>2,203,049</b>	<b>2,247,031</b>	<b>43,982</b>
<b>EXPENDITURES</b>				
Current:				
Instruction:				
Basic programs	1,088,161	1,153,163	1,208,786	(55,623)
Added needs	195,761	212,009	217,732	(5,723)
Support services:				
Pupil services	21,002	298	396	(98)
Instructional staff services	-	750	613	137
General administration	168,988	167,102	172,281	(5,179)
School administration	96,298	103,947	110,715	(6,768)
Business services	83,527	85,970	83,709	2,261
Operations and maintenance	189,882	219,588	181,957	37,631
Pupil transportation	138,860	124,127	133,745	(9,618)
Central support services	28,750	29,200	29,167	33
Athletics	80,413	80,364	108,184	(27,820)
<b>Total expenditures</b>	<b>2,091,642</b>	<b>2,176,518</b>	<b>2,247,285</b>	<b>(70,767)</b>
Excess (deficiency) of revenues over expenditures	54,280	26,531	(254)	(26,785)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	-	-	4,000	4,000
Operating transfers out	-	-	(10,000)	(10,000)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(6,000)</b>	<b>(6,000)</b>
Net change in fund balances	54,280	26,531	(6,254)	(32,785)
Fund balances-beginning	(65,006)	(65,006)	(65,006)	(65,006)
<b>Fund balances-ending</b>	<b>\$ (10,726)</b>	<b>\$ (38,475)</b>	<b>\$ (71,260)</b>	<b>\$ (97,791)</b>

# Posen Consolidated School District #9

## Required Supplemental Information

June 30, 2017

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

Michigan Public Schools Employees Retirement Plan

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.01377822 %	0.01309000 %	0.01274000 %
Reporting unit's proportionate share of net pension liability	\$ 3,437,553	\$ 3,197,395	\$ 2,806,256
Reporting unit's covered employee payroll	\$ 1,119,016	\$ 1,142,105	\$ 1,118,714
Reporting unit's proportionate share of net pension liability as a percentage of its covered employee payroll (%)	307.19 %	279.96 %	250.85 %
Plan fiduciary net position as a percentage of total pension liability	62.92 %	63.17 %	66.20 %

### Schedule of the Reporting Unit's Contributions

Michigan Public Schools Employees Retirement Plan

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 261,438	\$ 266,518	\$ 245,920
Contributions in relation to statutorily required contributions	261,438	266,518	245,920
Contribution deficiency (excess)	-	-	-
Reporting unit's covered-employee payroll	\$ 1,135,280	\$ 1,191,191	\$ 1,143,406
Contributions as a percentage of covered-employee payroll	23.03 %	22.37 %	21.51 %

### Notes to Required Supplementary Information

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

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

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## **OTHER SUPPLEMENTAL INFORMATION**

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# Posen Consolidated School District #9

## Nonmajor Governmental Funds

### Combining Balance Sheet

June 30, 2017

	Food Service	2015 Refunding Debt Service	2012 Technology and Bus Capital Projects	Total
<b>ASSETS</b>				
Cash and investments	\$ 23,427	\$ 64,453	\$ -	\$ 87,880
Intergovernmental receivables	910	-	-	910
Due from other funds	21,053	10,000	-	31,053
<b>Total assets</b>	<b>\$ 45,390</b>	<b>\$ 74,453</b>	<b>\$ -</b>	<b>\$ 119,843</b>
<b>LIABILITIES</b>				
Due to other funds	\$ 17,127	\$ 73,892	\$ -	\$ 91,019
<b>FUND BALANCES</b>				
Restricted for food service	28,263	-	-	28,263
Restricted for debt service	-	561	-	561
<b>Total fund balances</b>	<b>28,263</b>	<b>561</b>	<b>-</b>	<b>28,824</b>
<b>Total liabilities and fund balances</b>	<b>\$ 45,390</b>	<b>\$ 74,453</b>	<b>\$ -</b>	<b>\$ 119,843</b>

# Posen Consolidated School District #9

## Nonmajor Governmental Funds

### Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the year ended June 30, 2017

	Food Service	2015 Refunding Debt Service	2012 Technology and Bus Capital Projects	Total
<b>REVENUES</b>				
Local sources	\$ 28,185	\$ 60	\$ 383	\$ 28,628
State sources	4,446	-	-	4,446
Federal sources	87,064	-	-	87,064
<b>Total revenues</b>	<b>119,695</b>	<b>60</b>	<b>383</b>	<b>120,138</b>
<b>EXPENDITURES</b>				
Current:				
Food service	108,794	-	-	108,794
Debt service:				
Interest	-	15,161	-	15,161
<b>Total expenditures</b>	<b>108,794</b>	<b>15,161</b>	<b>-</b>	<b>123,955</b>
Excess (deficiency) of revenues over expenditures	10,901	(15,101)	383	(3,817)
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in	-	78,573	15,002	93,575
Operating transfers out	-	-	(19,327)	(19,327)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>78,573</b>	<b>(4,325)</b>	<b>74,248</b>
<b>Net change in fund balances</b>	<b>10,901</b>	<b>63,472</b>	<b>(3,942)</b>	<b>70,431</b>
Fund balances-beginning	17,362	(62,911)	3,942	(41,607)
<b>Fund balances-ending</b>	<b>\$ 28,263</b>	<b>\$ 561</b>	<b>\$ -</b>	<b>\$ 28,824</b>

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## AUDITORS' REPORTS

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560 76th Street SW  
Byron Center, MI 49315

Phone (616) 583-0094

Fax (866) 569-0725

Email: doug@wohlbergcpa.com

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

To the School Board  
Posen Consolidated School District #9

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 Posen Consolidated School District #9, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Posen Consolidated School District #9's basic financial statements and have issued our report thereon dated December 5, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Posen Consolidated School District #9'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 Posen Consolidated School District #9's internal control. Accordingly, we do not express an opinion on the effectiveness of Posen Consolidated School District #9's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in 2017-003, 2017-006, 2017-007, 2017-008, and 2017-009 in the accompanying schedule of findings and responses to be material weaknesses.

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. We consider the deficiencies described in 2017-004 and 2017-005 in the accompanying schedule of findings and questioned costs to be significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Posen Consolidated School District #9's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2016-01.

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

**Posen Consolidated School District #9's Response to Findings**

Posen Consolidated School District #9's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Posen Consolidated School District #9's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

Very truly yours,

A handwritten signature in black ink that reads "Douglas Wohlberg". The signature is written in a cursive style with a large, sweeping flourish at the end.

Douglas Wohlberg, CPA  
Byron Center, Michigan  
December 5, 2017

560 76th Street SW  
Byron Center, MI 49315  
Phone (616) 583-0094  
Fax (866) 569-0725  
Email: doug@wohlbergcpa.com

**AUDITORS' COMMUNICATION OF SIGNIFICANT MATTERS WITH  
THOSE CHARGED WITH GOVERNANCE**

December 5, 2017

To the School Board  
Posen Consolidated School District #9

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Posen Consolidated School District #9 for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 24, 2017. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Posen Consolidated School District #9 are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the lives of capital assets is based on management's experience and estimates, and the net pension liability is based on an actuarial valuation of the entire Michigan Public School Employees Retirement System. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

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

**Difficulties Encountered in Performing the Audit**

We encountered significant difficulties in dealing with management in performing and completing our audit. Refer to the Schedule of Findings and Questioned Costs.

**Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, many of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

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

**Disagreements with Management**

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

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated December 5, 2017.

**Management Consultations with Other Independent Accountants**

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

**Other Audit Findings or Issues**

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

**Other Matters**

We applied certain limited procedures to the Management's Discussion and Analysis, the General Fund Budgetary Comparison Schedule, Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability, and Schedule of the Reporting Unit's Contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

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

**Restriction on Use**

This information is intended solely for the use of the School Board and management of Posen Consolidated School District #9 and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Douglas Wohlberg, CPA  
Byron Center, Michigan

# Posen Consolidated School District #9

## Schedule of Findings and Responses

For the year ended June 30, 2017

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Finding 2017-001 - Deficit Fund Balance

Type: Material Noncompliance

Criteria: Compliance with Section 102 (1) of the State School Aid Act of 1979. The act states that a school or intermediate district receiving money under this act will not adopt or operate under a deficit budget, and a school or intermediate district will not incur an operating deficit during a school fiscal year.

Statement of Condition: For the fiscal year ending June 30, 2017, the District's General Fund had a deficit fund balance of \$71,260.

Effect: At June 30, 2017, the District has a cumulative deficit in the General Fund.

Cause: Various reasons caused this situation and the District, as of June 30, 2017, is considered a deficit district by the Michigan Department of Education.

Auditor Recommendation: It is the auditor's recommendation that the District improve its accounting and budgeting procedures to provide more reliable information to make informed budgetary decisions.

District's Response: The District will improve its accounting and budgeting procedures.

# Posen Consolidated School District #9

## Schedule of Findings and Responses

For the year ended June 30, 2017

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Finding 2017-002 - Expenditures in Excess of Appropriations

Type: Material Noncompliance

Criteria: Sections 18 and 19 of the Uniform Budgeting and Accounting Act (MCL 141.438 and 141.439) state that the District shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body.

Statement of Condition: The District's General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled at the activity level. As detailed below, actual expenditures exceeded the District's approved budget allocations. During the fiscal year, expenditures were incurred in excess of amounts appropriated follows:

	<b>Final Budget</b>	<b>Actual</b>	<b>Variance</b>	<b>% Variance</b>
General Fund				
Basic programs	\$ 1,153,163	\$ 1,208,786	\$ 55,623	4.82 %
Added needs	212,009	217,732	5,723	2.70
Pupil services	298	396	98	32.89
General administration	167,102	172,281	5,179	3.10
School administration	103,947	110,715	6,768	6.51
Pupil transportation	124,127	133,745	9,618	7.75
Athletics	80,364	108,184	27,820	34.62
Operating transfers out	-	10,000	10,000	100.00

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

Cause: Inadequate accounting procedures do not provide timely and reliable reporting needed to make informed decisions.

Auditor's Recommendation: It is the auditor's recommendation that the District improve its accounting and budgeting procedures to provide more reliable information to make informed budgetary decisions.

District's Response: The District will improve its accounting and budgeting procedures.

# Posen Consolidated School District #9

## Schedule of Findings and Responses

For the year ended June 30, 2017

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Finding 2017-003 - Segregation of Incompatible Duties

Type: Material Weakness

Criteria: Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the District's unique circumstances.

Statement of Condition: As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

Effect: As a result of this condition, the School District is exposed to an increased risk that misstatements or misappropriations might occur and not be detected by management in a timely basis.

Cause: This condition is a result of the School District's limited resources and the small size of its accounting staff.

Auditor's Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

District Response: The School Board is familiar with the revenues and expenses of the District and reviews the checks written and the revenues collected each month. The District has segregated duties to the best of its abilities. It is currently not feasible to hire additional staff to provide further segregation. The School Board does and will continue to enforce the controls it does have and look for ways to improve them.

# Posen Consolidated School District #9

## Schedule of Findings and Responses

For the year ended June 30, 2017

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Finding 2017-004 - Preparation of Financial Statements in Accordance With GAAP

Type: Significant Deficiency

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

Statement of Condition: As many small and medium-sized governmental entities do, the District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements, fund financial statements, and notes to financial statements as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered to be a part of the District's internal controls.

Effect: The District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this duty.

Cause: This condition was caused by the School Board's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for District personnel to prepare them internally.

Auditor's Recommendation: We recommend that the School Board evaluate the cost versus benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determine if it is in the best interests of the District to outsource this duty to its external auditors. If the District continues to rely on its external auditors to prepare the financial statements, we recommend that the School Board designate a responsible District official to carefully review the draft financial statements, including the notes, prior to approving them and accepting responsibility for their content and presentation.

District's Response: It would not be cost effective for the School District to hire staff with GAAP financial qualifications.

# Posen Consolidated School District #9

## Schedule of Findings and Responses

For the year ended June 30, 2017

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Finding 2017-005 - Capital Assets

Type: Significant Deficiency

Criteria: It is the responsibility of the District to update the capital assets listing for additions and deletions. For the governmental funds, assets purchased during the year and recorded as capital outlay should equal the additions to the capital asset records. Depreciation for governmental capital assets should be recorded on the capital asset schedule. Disposals should equal the reductions to the capital asset records.

Statement of Condition: The District does not maintain adequate internal controls for capital assets and a capital asset listing is not maintained in accordance with generally accepted accounting principles. The balances reported in the District's audit report are maintained by the District's auditor.

Effect: The District cannot readily determine or value the assets owned by the District.

Cause: The District has relied upon its auditors to update and maintain the listing.

Auditor's Recommendation: We recommend that the District implement procedures to record the assets and depreciation expense as listed above.

District's Response: It would be most cost effective for the Auditor to continue to maintain the capital asset listing while the District appoint an official to review the list to ensure it is complete and correct.

# Posen Consolidated School District #9

## Schedule of Findings and Responses

For the year ended June 30, 2017

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Finding 2017-006 - Reconciliation of the Bank Statements to the General Ledger Cash Account Balances

Type: Material Weakness

Criteria: All of the District's bank account statements should be reconciled to the general ledger cash balances by the end of the following month.

Statement of Condition: The District has not been reconciling the bank statements.

Effect: The accounting records and financial statements are not accurate.

Cause: The District's Assistant Business Manager appears unable to reconcile the cash accounts.

Auditor's Recommendation: We recommend that the District provide training to the Assistant Business Manager on how to reconcile the bank accounts.

District's Response: The District will provide the Assistant Business Manager with the needed training.

# Posen Consolidated School District #9

## Schedule of Findings and Responses

For the year ended June 30, 2017

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Finding 2017-007 - Recording Interfund Transfers and Bank Transfers

Type: Material Weakness

Criteria: Interfund transfers between funds should be infrequent, should be approved by the School Board and should be made only for appropriate accounting reasons. The transfer out of a given fund should balance to the amount transferred into the other fund. On the other hand, transfers between bank accounts may occur regularly to distribute receipts to the appropriate funds. An example of an appropriate bank transfer would be the State revenue deposited monthly in an account of the General Fund includes money to be recorded in the Food Service Fund.

Statement of Condition: The District is making interfund transfers and bank transfers incorrectly.

Effect: The financial statements do not reflect accurate and timely accounting activity of the District. The auditors required a significant amount of time to reconcile the interfund transfers and resulted in many proposed audit entries.

Cause: The District appears to lack understanding of the nature of separate funds and of interfund transfers.

Auditor's Recommendation: District personnel should be trained in fund accounting and only make interfund transfers when approved and budgeted by the School Board.

District's Response: The District will ensure the appropriate personnel receive the needed training. The District will then monitor the interfund and banking transactions to ensure appropriate accounting procedures are occurring.

# Posen Consolidated School District #9

## Schedule of Findings and Responses

For the year ended June 30, 2017

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Finding 2017-008 - Interfund Balances

Type: Material Weakness

Criteria: The balance in a given fund's account "Due from other fund" should agree with the opposing fund's "Due to other fund" account balance.

Statement of Condition: The District has not been reconciling interfund balances.

Effect: The financial statements do not reflect accurate and timely accounting activity of the District. The auditors required a significant amount of time to reconcile the interfund balances and resulted in many proposed audit entries.

Cause: The District appears to lack understanding of the nature of separate funds and of interfund balances.

Auditor's Recommendation: We recommend that District personnel be trained in fund accounting and reconcile the interfund balances at the end of each month by the end of the following month.

District's Response: The District will ensure the appropriate personnel receive the needed training. The District will then monitor the interfund balance reconciliations to ensure appropriate accounting procedures are occurring.

# Posen Consolidated School District #9

## Schedule of Findings and Responses

For the year ended June 30, 2017

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Finding 2017-009 - Transaction Not Recorded

Type: Material Weakness

Criteria: All of the transactions for all of the funds should be recorded as they occur.

Statement of Condition: The District did not record many transactions in the Food Service Fund, the 2012 Debt Service Fund, the 2015 Refunding Debt Service Fund, the Sinking Capital Projects Fund, and the Technology and Bus Capital Projects Fund.

Effect: Essential transactions were missing meaning timely and accurate financial statements and other information is not available to the District's management and the School Board.

Cause: District personnel failed to record routine transactions.

Auditor's Recommendation: We recommend that District personnel be trained in fund accounting, record all transaction as they occur, and reconcile all balance sheet accounts by the end of the following month. We also recommend District management monitor the Business Office activities by inspecting trial balance reports, budget to actual reports, scan the general ledger report, and inspect the bank reconciliations.

District's Response: District personnel will be trained in fund accounting, record all transaction as they occur, and reconcile all balance sheet accounts by the end of the following month. District management will monitor the Business Office activities by inspecting trial balance reports, budget to actual reports, scan the general ledger report, and inspect the bank reconciliations.