

Gull Lake Community Schools

**Financial Report
with Supplemental Information
June 30, 2017**

Gull Lake Community Schools

Contents

Independent Auditor's Report	1-3
Report Letter on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements Performed in Accordance with Government Auditing Standards	4-5
Management's Discussion and Analysis	6-14
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	18
Statement of Revenue, Expenditures, and Changes in Fund Balances	19
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Fiduciary Funds - Statement of Fiduciary Assets and Liabilities	21
Notes to Financial Statements	22-43
Required Supplemental Information	44
Budgetary Comparison Schedule - General Fund	45
Schedule of Gull Lake Community Schools' Proportionate Share of the Net Pension Liability MPSERS Determined as of the Plan Year Ended September 30	46
Schedule of Gull Lake Community Schools' Contributions MPSERS Determined as of the Year Ended June 30	47
Note to Pension Required Supplemental Information Schedules	
Other Supplemental Information	49
Nonmajor Governmental Funds:	
Combining Balance Sheet	50
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	51
Schedule of Bonded Indebtedness	52

Independent Auditor's Report

To the Board of Education
Gull Lake Community Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Gull Lake Community Schools (the "School District") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise Gull Lake Community Schools' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Education
Gull Lake Community Schools

Opinion

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

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, the schedule of the School District's pension contributions, the schedule of the School District's proportionate share of net pension liability, and the notes to required supplemental information, as disclosed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which 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 supplemental 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 Gull Lake Community Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

To the Board of Education
Gull Lake Community Schools

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017 on our consideration of Gull Lake Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Gull Lake Community Schools' internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 11, 2017

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*

Independent Auditor's Report

To Management and the Board of Education
Gull Lake Community Schools

We have audited, 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, the financial statements of Gull Lake Community Schools (the "School District") as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 11, 2017, which contained an unmodified opinion.

Internal Control Over Financial Reporting

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

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

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

To Management and the Board of Education
Gull Lake Community Schools

Compliance and Other Matters

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

Purpose of this Report

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

Plante & Moran, PLLC

October 11, 2017

Gull Lake Community Schools

Management's Discussion and Analysis

This section of Gull Lake Community Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2017. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Gull Lake Community Schools financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund - the General Fund - with all remaining funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for General Fund

Schedule of Proportionate Share of the Net Pension Liability

Schedule of the School District's Pension Plan Contributions

Other Supplemental Information

Gull Lake Community Schools

Management's Discussion and Analysis (Continued)

Reporting the School District as a Whole - District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the School District's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net position and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Hot Lunch Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Gull Lake Community Schools

Management's Discussion and Analysis (Continued)

Governmental Funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund financial statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

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

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

Gull Lake Community Schools

Management's Discussion and Analysis (Continued)

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2017 and 2016:

Table I	Governmental Activities	
	2017	2016
	(in millions)	
Assets		
Current and other assets	\$ 11.0	\$ 13.5
Capital assets	48.2	46.2
Total assets	59.2	59.7
Deferred Outflows of Resources		
Deferred charges on bond refunding	1.3	1.1
Deferred outflows related to pensions	7.7	6.4
Total deferred outflows of resources	9.0	7.5
Total assets and deferred outflows of resources	68.2	67.2
Liabilities		
Current liabilities	4.4	8.3
Long-term liabilities	34.7	34.4
Net pension liability	44.3	42.4
Total liabilities	83.4	85.1
Deferred Inflows of Resources - Deferred inflows related to pensions	1.5	1.3
Total liabilities and deferred inflows of resources	84.9	86.4
Net Position		
Net investment in capital assets	16.8	11.1
Restricted	0.7	0.7
Unrestricted	(34.2)	(31.0)
Total net position	\$ (16.7)	\$ (19.2)

The above analysis focuses on the net position (see Table I). The change in net position of the School District's governmental activities is discussed below (see Table 2). The School District's net position was a deficit of \$16.7 million at June 30, 2017. Net investment in capital assets, totaling \$16.8 million, compares the original cost, less depreciation, of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net position was an unrestricted deficit of \$34.2 million.

Gull Lake Community Schools

Management's Discussion and Analysis (Continued)

The \$34.2 million deficit unrestricted net position of governmental activities at June 30, 2017 represents the accumulated results of all past years' operations. The deficit in the School District's net position includes a \$44.3 million liability for Michigan Public School Employees' Retirement Plan from the adoption of GASB Statements No. 68 and 71. The unrestricted net position balance, excluding the effects of these pronouncements, enables the School District to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for the years ended June 30:

	Governmental Activities	
	2017	2016
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 1.3	\$ 1.2
Federal grants and entitlements	2.9	3.0
State categoricals	0.5	0.4
Operating grants	2.9	1.5
General revenue:		
Property taxes	8.0	8.0
State foundation allowance	24.0	23.2
Other	0.4	0.3
Total revenue	40.0	37.6
Functions/Program Expenses		
Instruction	21.4	19.8
Support services	11.6	11.0
Athletics	0.6	0.6
Food services	1.1	1.0
Community services	1.6	1.4
Interest on long-term debt	1.1	1.5
Debt issuance costs	0.1	-
Total functions/program expenses	37.5	35.3
Change in Net Position	2.5	2.3
Net Position - Beginning of year	(19.2)	(21.5)
Net Position - End of year	<u>\$ (16.7)</u>	<u>\$ (19.2)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$37.5 million. Certain activities were partially funded from those who benefited from the programs (\$1.3 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6.3 million). We paid for the remaining "public benefit" portion of our governmental activities with \$8.0 million in taxes, \$24.0 million in state foundation allowance, and \$0.4 million with our other revenue (i.e., interest and general entitlements).

Gull Lake Community Schools

Management's Discussion and Analysis (Continued)

As discussed above, the net cost shows the financial burden that was placed on the state and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$6.7 million, which is a decrease of \$2.1 million from last year.

The General Fund, the School District's principal operating fund, increased approximately \$0.6 million during the 2016-2017 year. Starting with the 2010-2011 budget year, the School District was required to include the Athletic Fund budget with the General Fund budget. The Athletic Fund revenue and expenditures will now be shown within the General Fund detail. The General Fund balance is available to fund costs related to allowable school operating purposes.

The Hot Lunch Fund is the School District's special revenue fund, which had a fund balance that slightly increased. This fund continues to be self-supporting; revenue exceeds expenditures.

Combined, the debt service funds had a \$0.5 million decrease in fund balance for the year. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service funds' fund balances are reserved since they can only be used to pay debt service obligations.

The 2016 Capital Project Fund was established during the 2015-2016 school year for the purpose of building a new Administration Building and Gateway Academy. The 2016 Capital Project Fund reported a fund balance of \$0.1 million.

The 2012 Capital Projects Fund fund balance is \$84,766. The fund balance at year end is related to the unspent bond proceeds.

The 2015 Capital Projects Fund fund balance is \$88,930. The fund balance at year end is related to the unspent bond proceeds.

The 2014 Sinking Fund fund balance is \$0.7 million. The fund balance at year end is related to unspent tax levy received during the 2016-2017 year.

The Building and Site Fund balance is \$0.8 million. The fund balance increased as the School District transferred funds to support facility improvements. The transfer was primarily due to the timing of the end of the fiscal year and outstanding projects that were unable to be started and/or completed during the 2016-2017 school year.

Gull Lake Community Schools

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2017. The board approved budget amendments once during 2016-2017 fiscal year. The final amendment to the budget was adopted in June 2017. This amendment included a local revenue increase of \$184,870 due to taxable value changes, additional E-Rate funds and sale of fixed assets. Budgeted state revenue included an amended increase of \$814,244 which was primarily due to increased enrollment. Budgeted athletic revenue and federal revenue increased slightly. The net revenue change was an increase of \$918,149. Actual General Fund expenditures increased compared to the original budget. Basic Program Instruction expenditures were significantly higher than budgeted due to salaries and benefits, contracted sub costs, and dual enrollment. Continuing to have the most significant impact on the budget was the continuation of new initiatives; the Virtual School, Homeschool Partnership, and Early College resulted in both unanticipated revenue and expenditures. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information to these financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the School District had \$48.2 million invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, furniture, and equipment, net of accumulated depreciation. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$2.0 million, or approximately 4.2 percent, from last year.

	2017	2016
Land	\$ 292,240	\$ 292,240
Construction in progress	68,000	586,177
Buildings and building improvements	56,306,220	53,751,997
Buses and other vehicles	3,207,001	2,803,785
Furniture and equipment	<u>8,812,829</u>	<u>8,334,774</u>
Total capital assets	68,686,290	65,768,973
Less accumulated depreciation	<u>20,533,116</u>	<u>19,550,034</u>
Net capital assets	<u>\$ 48,153,174</u>	<u>\$ 46,218,939</u>

We present more detailed information about our capital assets in the notes to the financial statements.

Gull Lake Community Schools

Management's Discussion and Analysis (Continued)

The School district has continued to update and revise the technology plan to budget for technology upgrades and to enhance security throughout the School district. During the 2015-2016 fiscal year, the School District offered \$1,200,000 in bonds for sale for the Series B 2015 School Building and Site Bond. This was the second bond series of three series to be issued for technology. The next bond series will be issued in 2018.

Significantly impacting the School District was the passage of a sinking fund. The sinking fund millage is 0.65 mills for 9 years. The anticipated revenue per year is approximately \$605,000. Projects funded by the sinking fund during 2016-2017 were energy improvement projects such as mechanical work; safety/security projects such as door hardware; and the completion of tennis courts.

Debt

At the end of this year, the School District had approximately \$33.5 million in bonds outstanding versus \$36.4 million in the previous year.

The School District's general obligation bond rating is A1. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$33.5 million is below the statutorily imposed limit.

Other obligations include accrued compensated absences, early retirement incentives and accrued interest on capital appreciation bonds. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2017-2018 fiscal year budget. The budget process was started early in fall 2016. All areas of the budget were reviewed. Based on preliminary projections, the finance committee, along with the full board, made a decision to develop a budget that ensured the General Fund maintained a minimum of a 10 percent fund balance.

One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017-2018 fiscal year is budgeted at 10 percent of the February 2018 and 90 percent of the October 2017 student counts. The 2017-2018 budget was adopted in June 2017, based on an estimate of students that will be enrolled in October 2017. The decision to be a school of choice district as well as continuing the Virtual School and Homeschool Partnership led to a somewhat conservative projection of a slight increase in enrollment.

Gull Lake Community Schools

Management's Discussion and Analysis (Continued)

Approximately 90 percent of total General Fund revenue is from the foundation allowance (combined state portion and the 18 mill local non-homestead tax portion). Under state law, the School District cannot assess additional property tax revenue for general operations. The current Headlee override expired in December 2013; however, the School District is still able to collect the full 18 mills due to the renewal of the full 18 mills in November 2012, which included an additional amount of .5548. School district funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per pupil funding are validated, state law requires the School District to amend the budget if actual school district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The state periodically holds a revenue-estimating conference to estimate revenue. The next conference is scheduled after the November elections.

Continuing to have a significant impact on the budget was the health insurance legislation which stated that "the public employer shall pay no more than 80 percent of the total annual cost of the medical benefit plans it offers or contributes to for its employees and elected officials" or, for calendar year 2017, "Shall pay no more than single - \$6,344.80; one dependent - \$13,268.93; family - \$17,304.02." The board chose the hard cap option, which resulted in significant savings. At the time of the budget planning, the MPSERS rate was published at 25.56 percent, which also has had a significant effect on the 2017-2018 budget, although the State has included a MPSERS offset in the state aid funding.

Additionally, impacting the 2017-2018 budget was the passage of the KRESA special education millage. This six-year millage will have significant impact on the School District's budget. The special education reimbursement from KRESA was budgeted at approximately an additional \$800,000. The revenue will help to offset the current special education expenditures.

For 2017-2018, the School District has settled all contracts.

Gull Lake Community Schools

Statement of Net Position June 30, 2017

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 4,189,160
Receivables (Note 4)	4,863,893
Inventories	25,273
Other assets	50,000
Restricted assets (Note 8)	1,913,041
Capital assets - Net (Note 5)	<u>48,153,174</u>
Total assets	59,194,541
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 7)	1,327,152
Deferred outflows related to pensions (Note 10)	<u>7,705,328</u>
Total deferred outflows of resources	<u>9,032,480</u>
Total assets and deferred outflows of resources	68,227,021
Liabilities	
Accounts payable	353,344
Accrued payroll-related liabilities	3,278,215
State aid anticipation note (Note 11)	400,000
Other accrued liabilities	155,996
Unearned revenue (Note 4)	298,281
Noncurrent liabilities (Note 7):	
Due within one year	3,339,454
Due in more than one year	31,320,888
Net pension liability (Note 10)	<u>44,284,231</u>
Total liabilities	83,430,409
Deferred Inflows of Resources - Deferred inflows related to pension and revenue in support of pension payment (Note 10)	<u>1,513,101</u>
Total liabilities and deferred inflows of resources	<u>84,943,510</u>
Net Position	
Net investment in capital assets	16,824,835
Restricted - Debt service	659,058
Unrestricted	<u>(34,200,382)</u>
Total net position	<u>\$ (16,716,489)</u>

Gull Lake Community Schools

Statement of Activities Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Primary government - Governmental activities:				
Instruction	\$ 21,357,128	\$ -	\$ 5,771,811	\$ (15,585,317)
Support services	11,645,874	-	-	(11,645,874)
Athletics	553,515	139,548	-	(413,967)
Food services	1,099,656	597,738	479,823	(22,095)
Community services	1,588,842	554,358	-	(1,034,484)
Interest on long-term debt	1,126,881	-	-	(1,126,881)
Debt issuance costs	105,848	-	-	(105,848)
Total primary government	<u>\$ 37,477,744</u>	<u>\$ 1,291,644</u>	<u>\$ 6,251,634</u>	(29,934,466)
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				4,214,355
Property taxes - Levied for debt service				3,803,501
State aid not restricted to specific purposes				23,983,609
Interest and investment earnings				13,285
Gain on the sale of capital assets				52,305
Other				392,629
Total general revenue				<u>32,459,684</u>
Change in Net Position				2,525,218
Net Position - Beginning of year				<u>(19,241,707)</u>
Net Position - End of year				<u>\$ (16,716,489)</u>

Gull Lake Community Schools

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Nonmajor Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 4,009,298	\$ 179,862	\$ 4,189,160
Receivables (Note 4)	4,846,872	17,021	4,863,893
Due from other funds (Note 6)	-	750,000	750,000
Inventories	14,180	11,093	25,273
Prepaid costs and other assets	-	50,000	50,000
Restricted assets (Note 8)	-	1,913,041	1,913,041
	<u>\$ 8,870,350</u>	<u>\$ 2,921,017</u>	<u>\$ 11,791,367</u>
Total assets			
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 130,813	\$ 222,531	\$ 353,344
Accrued payroll-related liabilities	3,270,939	7,276	3,278,215
State aid anticipation note (Note 11)	400,000	-	400,000
Due to other funds (Note 6)	750,000	-	750,000
Unearned revenue (Note 4)	298,281	-	298,281
	<u>4,850,033</u>	<u>229,807</u>	<u>5,079,840</u>
Total liabilities			
Fund Balances			
Nonspendable:			
Inventories	14,180	11,093	25,273
Prepaid costs	-	50,000	50,000
Restricted:			
Capital projects	-	899,297	899,297
Debt service	-	814,083	814,083
Food services	-	166,737	166,737
Assigned - Capital projects	-	750,000	750,000
Unassigned	4,006,137	-	4,006,137
	<u>4,020,317</u>	<u>2,691,210</u>	<u>6,711,527</u>
Total fund balances			
Total liabilities and fund balances	<u>\$ 8,870,350</u>	<u>\$ 2,921,017</u>	<u>\$ 11,791,367</u>

Gull Lake Community Schools

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

Fund Balance Reported in Governmental Funds	\$	6,711,527
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 are not reported in the funds:		
Cost of capital assets	\$ 68,686,290	
Accumulated depreciation	<u>(20,533,116)</u>	48,153,174
Deferred outflows related to pension payments made subsequent to the measurement date		3,693,890
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable including unamortized premiums and discounts	(34,253,817)	
Compensated absences	(356,525)	
Employee retirement incentive	<u>(50,000)</u>	(34,660,342)
Accrued interest payable is not included as a liability in governmental funds		(155,996)
Deferred charges are not capitalized in the governmental funds		1,327,152
Deferred outflow related to pensions		4,011,438
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(44,284,231)
Deferred inflows related to pension investment returns and changes in assumptions and revenue in support of pension contributions subsequent the measurement date are not reported in the governmental funds		<u>(1,513,101)</u>
Net Position of Governmental Activities		<u>\$ (16,716,489)</u>

Gull Lake Community Schools

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2017

	General Fund	Nonmajor Funds	Total Governmental Funds
Revenue			
Local sources	\$ 4,437,053	\$ 5,088,466	\$ 9,525,519
State sources	26,778,453	73,531	26,851,984
Federal sources	264,234	460,108	724,342
Interdistrict sources	2,885,260	-	2,885,260
	34,365,000	5,622,105	39,987,105
Expenditures			
Current:			
Instruction	20,388,956	-	20,388,956
Support services	10,402,208	1,681	10,403,889
Athletics	468,324	-	468,324
Food services	-	1,081,823	1,081,823
Community services	1,572,095	-	1,572,095
Interfund reimbursement (Note 6)	(25,000)	25,000	-
Debt service:			
Principal	355,000	2,720,000	3,075,000
Interest	74,368	854,343	928,711
Other	-	105,698	105,698
Capital outlay	198,191	3,648,143	3,846,334
	33,434,142	8,436,688	41,870,830
Excess of Revenue Over (Under) Expenditures	930,858	(2,814,583)	(1,883,725)
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	52,305	-	52,305
Payment to escrow agent	-	(19,144,461)	(19,144,461)
Transfers in	-	1,125,418	1,125,418
Transfers out	(350,000)	(775,418)	(1,125,418)
Face value of debt issued	-	18,905,000	18,905,000
	(297,695)	110,539	(187,156)
Net Change in Fund Balances	633,163	(2,704,044)	(2,070,881)
Fund Balances - Beginning of year	3,387,154	5,395,254	8,782,408
Fund Balances - End of year	\$ 4,020,317	\$ 2,691,210	\$ 6,711,527

Gull Lake Community Schools

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$	(2,070,881)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	\$	(1,627,190)
Capitalized capital outlay	<u>3,561,425</u>	1,934,235
Face value of refinancing debt is revenue to governmental funds, but issuing debt increases long-term liabilities in the statement of activities		(18,905,000)
Bond issuance discount/premium reported as expenditures/revenue in the funds and amortized in the statement of activities		134,585
Repayment of bond obligation principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		21,810,000
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		53,892
Revenue in support of pension contributions made subsequent to measurement date are recorded in the statement of activities, but not reported in the governmental funds until paid		(226,343)
Change in pension expense related to deferred items		(467,847)
Compensated absences and early retirement incentives are recorded when earned in the statement of activities. In the current year, more paid out than earned		50,018
Deferred charges reported as expenditures in the governmental funds are capitalized in the statement of activities		<u>212,559</u>
Change in Net Position of Governmental Activities	\$	<u>2,525,218</u>

Gull Lake Community Schools

Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2017

	<u>Agency Funds</u>
Assets - Cash and investments	<u>\$ 429,211</u>
Liabilities - Due to student groups	<u>\$ 429,211</u>

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note I - Summary of Significant Accounting Policies

The accounting policies of Gull Lake Community Schools (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.

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. Based on the application of the criteria, the School District does not contain any component units. In previous years, the Gull Lake Community Schools Foundation was included in the School District's financial statements as a discretely presented component unit. The Foundation no longer meets the criteria to be considered a component unit, and thus is no longer included in the School District's financial statements.

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 the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, 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 revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (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 requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead 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.

Note I - Summary of Significant Accounting Policies (Continued)

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. Revenue is 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 revenue 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.

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed fund balance, assigned fund balance, and unassigned fund balance.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is 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 revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

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

The School District reports the following major governmental funds:

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

Additionally, the School District reports the following fund types:

Special Revenue Fund - 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 activities. Revenue sources for the special revenue fund include sales to customers and dedicated grants from state and federal sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Funds - The School District maintains four governmental debt service funds, which account for property tax, state aid, and other revenue legally restricted for payment of long-term debt principal, interest, and other expenditures.

Capital Project Funds - The School District maintains five nonmajor governmental capital project funds: 2012 Capital Projects Fund, 2015 Capital Projects Fund, 2016 Capital Projects Fund, the Building and Site Fund, and 2014 Sinking Fund. The capital project and building and site funds are used to record bond proceeds, nonbond proceeds, or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and various improvements. These funds operate until the purposes for which they were created are accomplished.

The Sinking Fund records capital project activities funded with the sinking fund millage.

Agency Fund - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trusts for the students.

Assets, Liabilities, and Net Position or Equity

Cash and Investments - Cash and investments 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."

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note I - Summary of Significant Accounting Policies (Continued)

All trade and property tax 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. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventory recorded in the General Fund consists of centrally warehoused operating supplies for the School District. The Hot Lunch Fund inventory consists of food and paper goods. Inventories of governmental funds are recorded as expenditures when consumed.

Restricted Assets - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. In addition, the unspent property taxes levied in the Debt Service Funds and Sinking Fund are required to be set aside for future bond principal and interest and approved Sinking Fund projects, respectively. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental 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 \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life 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 additions	20 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	3 to 10 years

Compensated Absences and Early Termination Benefits - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Note I - Summary of Significant Accounting Policies (Continued)

A liability for early termination benefits is reported in the district-wide statements. The early termination benefits consist of early retirement incentive cash payments provided to five employees over a three-year period. The cost of the obligation is reported in long-term obligations.

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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources - In addition to assets, the statement of net position includes a separate section for deferred outflows of resources, which represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. The School District has a deferred charge on refunding reported in the district-wide statement of net position. A deferred charge on refunding results from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. The other item is the deferred outflow related to the School District's participation in the statewide pension plan, as disclosed in Note 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of these items, which arise only under a full accrual basis of accounting, that qualifies for reporting in this category. Deferred inflows at June 30, 2017 include \$1,384,094 for funding received through state appropriations for contributions to the MPSERS pension plan after measurement date and \$129,007 related to the pension plan described in Note 10. The School District has one type of these items, which arise only under the modified accrual basis of accounting, that qualifies for reporting in this category.

Note I - Summary of Significant Accounting Policies (Continued)

Fund Balance - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education, or by the superintendent or assistant superintendent, who is authorized by resolution and approved by the Board of Education
- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

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

Pensions - For the purpose 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. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

Gull Lake Community Schools

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 Fund and all Special Revenue Funds, except that capital outlay and debt service costs are budgeted by function and athletics revenue is presented separately from local revenue. 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 budget was amended in a legally permissible manner. The School District changed budgeted amounts during the year in response to changes in state funding, pupil counts, and staffing.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restrictions, commitments, or assignments 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. There were no significant encumbrances outstanding at June 30, 2017.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District incurred expenditures in the General Fund which were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>
Technology, information, and other	<u>\$ 705,184</u>	<u>\$ 767,702</u>

Capital Projects Fund Compliance - The 2012 Capital Projects Fund, 2015 Capital Projects Fund, and 2016 Capital Projects Fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Sinking Fund Compliance - For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95.

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 offices 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.

The School District has designated two banks for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk of bank deposits 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 School District's deposit balance of \$4,930,367 had \$4,430,367 of bank deposits (including certificates of deposit and checking and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment policy does not address custodial credit risk of investments. The School District has no investments subject to custodial credit risk as of June 30, 2017.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy restricts investment maturities to within two years of the date of purchase. In addition, the policy restricts investments in commercial paper, which can only be purchased with a 270-day maturity.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the investments are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund - MAX Class	\$ 1,710,723	N/A	AAAm	S&P
Michigan Liquid Asset Fund - Cash management	1,304	N/A	AAAm	S&P
Total investments	<u>\$ 1,712,027</u>			

Investment Restrictions - The Michigan Liquid Asset Fund - MAX Class investment may not be redeemed for at least 14 calendar days with the exception of direct investments of funds distributed by the State of Michigan. In addition, redemptions made prior to the 14-day period are subject to a penalty equal to 15 days' interest on the amount so redeemed. The Michigan Liquid Asset Fund - CMS investment has no limitations or restrictions on participant withdrawals, except for a one-day minimum investment period.

Concentration of Credit Risk - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy does not address ways to minimize concentration of credit risk.

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

Note 4 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the School District's individual major funds and the nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Funds	Total
Receivables:			
Intergovernmental	\$ 4,846,872	\$ 7,050	\$ 4,853,922
Other	-	9,971	9,971
Total receivables	<u>\$ 4,846,872</u>	<u>\$ 17,021</u>	<u>\$ 4,863,893</u>

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 4 - Receivables and Unavailable/Unearned Revenue (Continued)

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned 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:

	Governmental Funds
	<u>Liability - Unearned</u>
Grant and categorical aid payment received prior to meeting all eligibility requirements	<u>\$ 298,281</u>

Note 5 - Capital Assets

Capital asset activity of the School District was as follows:

Governmental Activities	Balance July 1, 2016	Reclassifications	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 292,240	\$ -	\$ -	\$ -	\$ 292,240
Construction in progress	586,177	(586,177)	68,000	-	68,000
Subtotal	878,417	(586,177)	68,000	-	360,240
Capital assets being depreciated:					
Buildings and building improvements	53,751,997	586,177	1,968,046	-	56,306,220
Furniture and equipment	8,334,774	-	595,097	117,042	8,812,829
Buses and other vehicles	2,803,785	-	930,282	527,066	3,207,001
Subtotal	64,890,556	586,177	3,493,425	644,108	68,326,050
Accumulated depreciation:					
Buildings and building improvements	12,973,673	-	1,017,057	-	13,990,730
Furniture and equipment	4,357,522	-	406,409	117,042	4,646,889
Buses and other vehicles	2,218,839	-	203,724	527,066	1,895,497
Subtotal	19,550,034	-	1,627,190	644,108	20,533,116
Net capital assets being depreciated	45,340,522	586,177	1,866,235	-	47,792,934
Net capital assets	<u>\$ 46,218,939</u>	<u>\$ -</u>	<u>\$ 1,934,235</u>	<u>\$ -</u>	<u>\$ 48,153,174</u>

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 621,853
Support services	905,486
Community services	4,049
Food services	10,611
Athletics	85,191
	<u>1,627,190</u>
Total governmental activities	<u>\$ 1,627,190</u>

Construction Commitments - The School District has active construction projects at year end. At year end, the School District's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Administration and Gateway Building	\$ 1,807,324	\$ 102,100
Kellogg sewer	96,673	5,088
Tennis courts	587,845	10,000
Asbestos abatement	-	16,600
Middle school digital sign	-	23,200
Middle school window wall	-	43,448
Paving improvements	-	237,700
Middle school HVAC	68,000	159,580
	<u>\$ 2,559,842</u>	<u>\$ 597,716</u>
Total		

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Building and Site Fund	General Fund	<u>\$ 750,000</u>
<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
Building and Site Fund	General Fund	\$ 350,000
2017 Debt Service Fund	2006 Debt Service Fund	408,585
2017 Debt Service Fund	2007 Debt Service Fund	<u>366,833</u>
	Total	<u>\$ 1,125,418</u>

Operating transfers from the General Fund are to provide support for nonbond-funded capital projects. Operating transfers from the 2006 and 2007 Debt Service Funds are for the refunding of these bonds.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers were made from the Food Service Fund to the General Fund in the amount of \$25,000 to reimburse the General Fund for indirect costs related to the food service activities.

Note 7 - Long-term Obligations

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. Qualified bonds are fully guaranteed by the State of Michigan. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences, termination benefits, and accrued interest on capital appreciation bonds.

Long-term obligation activity can be summarized as follows:

Governmental Activities	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds	\$ 36,380,000	\$ 18,905,000	\$ 21,810,000	\$ 33,475,000	\$ 3,110,000
Deferred amounts:					
Issuance premiums	1,008,732	-	189,895	818,837	189,895
Issuance discounts	(95,330)	-	(55,310)	(40,020)	(10,441)
Total bonds payable	37,293,402	18,905,000	21,944,585	34,253,817	3,289,454
Compensated absences	356,543	-	18	356,525	-
Early retirement incentive	100,000	-	50,000	50,000	50,000
Total governmental activities	<u>\$ 37,749,945</u>	<u>\$ 18,905,000</u>	<u>\$ 21,994,603</u>	<u>\$ 34,660,342</u>	<u>\$ 3,339,454</u>

At June 30, 2017, the School District had deferred outflows of \$1,327,152 related to deferred charges on bond refunding.

Annual debt service requirements to maturity for the above bonds obligations are as follows:

<u>Years Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,110,000	\$ 686,809	\$ 3,796,809
2019	3,035,000	839,293	3,874,293
2020	3,095,000	746,843	3,841,843
2021	3,180,000	636,793	3,816,793
2022	2,725,000	549,138	3,274,138
2023-2027	12,125,000	1,829,340	13,954,340
2028-2032	6,205,000	374,512	6,579,512
Total	<u>\$ 33,475,000</u>	<u>\$ 5,662,728</u>	<u>\$ 39,137,728</u>

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Obligations (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$4,600,000 2012 School Building and Site Bonds due in annual installments of \$475,000 to \$500,000 through 2024; interest at 3.00 percent	\$ 3,400,000
\$9,375,000 2013 Series B Refunding Bonds, due in annual installments of \$1,000,000 to \$1,500,000 through 2021; interest at 4.00 percent to 5.00 percent	5,315,000
\$5,405,000 2013 Series A Refunding Bonds, due in annual installments of \$545,000 to \$670,000 through 2021; interest at 2.00 percent to 2.50 percent	2,330,000
\$1,200,000 2015 Series B School Building and Site Bonds, due in annual installments of \$160,000 to \$245,000 through 2021; interest at 0.50 percent to 1.00 percent	730,000
\$3,150,000 2016 School Improvement and Bus Bonds, due in annual installments of \$235,000 to \$405,000 through 2026; interest at 2.00 percent	2,795,000
\$18,905,000 2017 Refunding Bonds, due in annual installments of \$590,000 to \$2,095,000 through 2030; interest at 1.70 percent to 3.10 percent	<u>18,905,000</u>
Total bonded debt	<u>\$ 33,475,000</u>

On May 8, 2012, the School District successfully passed a bond proposal to be repaid with the proceeds from a 0.29 mill tax levy, which equates to \$7,290,000 over a 12-year period. The bond proceeds will be dedicated to instructional technology for student and teacher use in the classroom, as well as facility upgrades in the areas of energy efficiency, safety, and infrastructure. The School District received bond proceeds of \$4,890,000 and \$1,200,000 during the years ended June 30, 2013 and 2016, respectively. The School District anticipates receiving additional bond proceeds in the amount of \$1,200,000 in 2018.

2017 Refunding - During the year, the School District issued \$18,905,000 in general obligation bonds with an average interest rate of 2.706 percent. The proceeds of these bonds were used to advance refund \$18,735,000 of outstanding 2006 and 2007 refunding serial bonds with an average interest rate of 4.00 percent. The net proceeds of \$19,144,461 (after payment of \$105,687 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School District's long-term obligations. The advance refunding reduced total debt service payments by approximately \$2,004,000, which represents an economic gain of approximately \$1,815,000.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 7 - Long-term Obligations (Continued)

Prior Bond Defeasances - In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2017, \$8,490,000 of bonds outstanding are considered defeased.

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities
Unspent bond proceeds and related interest	\$ 355,878
Unspent debt service funds	814,083
Unspent sinking fund millage	<u>743,080</u>
Total restricted assets	<u>\$ 1,913,041</u>

Note 9 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for each of these claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 - Michigan Public School Employees' Retirement System

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. Certain School District employees also receive defined contribution retirement and healthcare benefits through the System. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Contributions - Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the state legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

School District's contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

The range of rates are as follows:

School District

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

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contribution to the plan for the year ended June 30, 2017 was \$4,505,341, which includes the School District's contributions required for those members with a defined contribution benefit. The School District's required and actual contributions include an allocation of \$1,384,094 revenue received from the State of Michigan, and remitted to the System, to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2017.

Benefits Provided - Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation, times years of service, times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Members are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2017, the School District reported a liability of \$44,284,231 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, which used updated procedures to roll forward the estimated liability to September 30, 2016. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2017, the School District's proportion was 0.177498 percent.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 10 - Michigan Public School Employees' Retirement System (Continued)

For the year ended June 30, 2017, the School District recognized pension expense of \$4,897,508, inclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2017, the School 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
Difference between expected and actual experience	\$ 551,898	\$ (104,955)
Changes of assumptions	692,349	-
Net difference between projected and actual earnings on pension plan assets	736,004	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	2,031,187	(24,052)
The School District's contributions subsequent to the measurement date	3,693,890	-
Total	<u>\$ 7,705,328</u>	<u>\$ (129,007)</u>

<u>Years Ending</u>	<u>Amount</u>
2018	\$ 1,025,403
2019	967,567
2020	1,602,499
2021	286,962
Total	<u>\$ 3,882,431</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Actuarial Assumptions - 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:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 to 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP 2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3 percent annual noncompounded for MIP members

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Discount Rate - The discount rate used to measure the total pension liability was 7.00 to 8.00 percent, depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 10 - Michigan Public School Employees' Retirement System (Continued)

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.5	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pool	15.5	6.0
Short-term investment pools	2.0	-
Total	100.0 %	

On February 23, 2017, MPSERS approved a decrease in the discount rate for the September 30, 2016 annual actuarial valuation of 0.5 percent. As a result, the actuarial computed employer contributions and the net pension liability will increase for the measurement period ending on September 30, 2017.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the School District calculated using the discount rate of 7.00 to 8.00 percent, depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (6.00 to 7.00 percent) or 1.00 percentage point higher (8.00 to 9.00 percent) than the current rate:

1.00 Percent Decrease (7.00 Percent)	Current Discount Rate (8.00 Percent)	1.00 Percent Increase (9.00 Percent)
\$57,026,943	\$44,284,231	\$33,540,900

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 10 - Michigan Public School Employees' Retirement System (Continued)

Payable to the Pension Plan - At June 30, 2017, the School District reported a payable of \$597,677 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

Postemployment Benefits Other Than Pensions (OPEB) - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 2.2 to 2.71 percent of covered payroll for the period from July 1, 2016 to September 30, 2016, and from 6.4 percent to 6.83 percent of covered payroll for the period from October 1, 2016 through June 30, 2017, dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403B account.

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were approximately \$977,000, \$828,000, and \$700,000, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

Note 11 - State Aid Anticipation Note

On August 22, 2016, the School District borrowed \$2,000,000 on a Series C state aid anticipation note. The note bears interest at 1.133 percent and matures on July 20, 2017. The School District had \$1,612,478 withheld from state aid payments prior to June 30, 2017 for repayment of the note. The liability recorded at year end includes the outstanding principal balance plus accrued interest, net of amounts withheld, totaling \$400,000.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 12 - Tax Abatements

The School District receives reduced property tax revenue as a result of Industrial Facilities Tax exemptions (PA 198 of 1974) and Brownfield Redevelopment Agreements granted by cities, villages, and townships within the boundaries of the School District. Industrial facility exemptions are intended to promote construction of new industrial facilities, or to rehabilitate historical facilities; Brownfield redevelopment agreements are intended to reimburse taxpayers that remediate environmental contamination on their properties.

For the fiscal year ended June 30, 2017, the School District's property tax revenue was reduced by approximately \$161,000 under these programs.

The School District is reimbursed for lost revenue caused by tax abatements on the operating millage of nonhomestead properties from the State of Michigan under the school aid formula. The School District received approximately \$131,000 in reimbursements from the State of Michigan. The School District is not reimbursed for lost revenue from the sinking fund or debt service millages. There are no abatements made by the School District.

Note 13 - Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the School District to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2018.

In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the School District's financial statements for the year ending June 30, 2020.

Gull Lake Community Schools

Notes to Financial Statements June 30, 2017

Note 14 - Subsequent Events

In August 2017, the School District borrowed \$1,700,000 on a Series A state aid anticipation note at an effective interest rate of 1.27 percent maturing on July 20, 2018. The School District will have funds withheld from its monthly state aid payments, which will be deposited with a bank for repayment of the note.

Required Supplemental Information

Gull Lake Community Schools

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	(Under) Over Final Budget
Revenue				
Local sources	\$ 4,123,037	\$ 4,307,907	\$ 4,297,505	\$ (10,402)
State sources	25,899,997	26,714,241	26,778,453	64,212
Federal sources	356,206	365,744	264,234	(101,510)
Interdistrict sources	2,983,471	2,891,542	2,885,260	(6,282)
Athletic revenue	135,000	136,425	139,548	3,123
Total revenue	33,497,711	34,415,859	34,365,000	(50,859)
Expenditures - Current				
Instruction:				
Basic program	18,176,458	18,287,275	18,045,309	(241,966)
Added needs	2,061,534	2,436,129	2,344,789	(91,340)
Support services:				
Pupil	1,847,150	1,994,155	1,948,934	(45,221)
Instructional staff	1,014,162	970,837	902,781	(68,056)
General administration	697,526	618,086	607,792	(10,294)
School administration	1,784,755	1,995,978	1,974,878	(21,100)
Business	632,696	700,947	677,107	(23,840)
Operations and maintenance	2,586,853	2,507,240	2,403,604	(103,636)
Pupil transportation services	1,474,520	1,383,950	1,316,459	(67,491)
Technology, information, and other	673,951	705,184	767,702	62,518
Athletics	508,754	498,929	468,324	(30,605)
Community services	1,533,917	1,615,634	1,572,095	(43,539)
Interfund reimbursement	(25,000)	(25,000)	(25,000)	-
Debt service	426,750	428,710	429,368	658
Total expenditures	33,394,026	34,118,054	33,434,142	(683,912)
Excess of Revenue Over Expenditures	103,685	297,805	930,858	633,053
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	52,305	52,305
Transfers out	-	-	(350,000)	(350,000)
Net Change in Fund Balance	103,685	297,805	633,163	335,358
Fund Balance - Beginning of year	3,387,154	3,387,154	3,387,154	-
Fund Balance - End of year	<u>\$ 3,490,839</u>	<u>\$ 3,684,959</u>	<u>\$ 4,020,317</u>	<u>\$ 335,358</u>

Gull Lake Community Schools

Required Supplemental Information Schedule of Gull Lake Community Schools' Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System Determined as of the Plan Year Ended September 30

	2016	2015	2014
School District's proportion of the net pension liability	0.17750 %	0.17376 %	0.16435 %
School District's proportionate share of the net pension liability	\$ 44,284,231	\$ 42,440,037	\$ 36,199,942
School District's covered employee payroll	15,178,157	14,453,392	13,319,013
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	291.76 %	293.63 %	271.79 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	62.92 %	66.20 %

Gull Lake Community Schools

Required Supplemental Information Schedule of Gull Lake Community Schools' Contributions Michigan Public School Employees' Retirement System Determined as of the Year Ended June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 4,459,720	\$ 4,107,034	\$ 2,552,503
Contributions in relation to the statutorily required contribution	4,459,720	4,107,034	2,552,503
Contribution deficiency	-	-	-
School District's covered employee payroll	16,280,044	14,858,598	13,566,153
Contributions as a percentage of covered employee payroll	27.39 %	27.64 %	18.82 %

Gull Lake Community Schools

Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2017

Benefit Changes - There were no changes of benefit terms for the plan year ended September 30, 2016.

Changes in Assumptions - There were no changes of benefit assumptions for the plan year ended September 30, 2016.

Other Supplemental Information

Gull Lake Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special	Debt Service Funds						Capital Projects Funds					Total
	Revenue Fund												Nonmajor
	Hot Lunch	2006 Debt	2007 Debt	2012 Debt	2013 Debt	2015 Debt	2017 Debt	2012 Capital	2015 Capital	2016 Capital	2014 Sinking	Building and	Governmental
	Fund	Service Fund	Service Fund	Service Fund	Service Fund	Service Fund	Service Fund	Projects Fund	Projects Fund	Projects Fund	Fund	Site Fund	Funds
Assets													
Cash and cash equivalents	\$ 179,862	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 179,862
Receivables	17,021	-	-	-	-	-	-	-	-	-	-	-	17,021
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	750,000	750,000
Inventories	11,093	-	-	-	-	-	-	-	-	-	-	-	11,093
Prepaid costs and other assets	50,000	-	-	-	-	-	-	-	-	-	-	-	50,000
Restricted assets	-	-	-	93,621	238,941	29,320	452,201	106,766	88,930	160,182	743,080	-	1,913,041
Total assets	\$ 257,976	\$ -	\$ -	\$ 93,621	\$ 238,941	\$ 29,320	\$ 452,201	\$ 106,766	\$ 88,930	\$ 160,182	\$ 743,080	\$ 750,000	\$ 2,921,017
Liabilities and Fund Balances													
Liabilities													
Accounts payable	\$ 22,870	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,000	\$ -	\$ 97,044	\$ 80,617	\$ -	\$ 222,531
Accrued payroll-related liabilities	7,276	-	-	-	-	-	-	-	-	-	-	-	7,276
Total liabilities	30,146	-	-	-	-	-	-	22,000	-	97,044	80,617	-	229,807
Fund Balances													
Nonspendable:													
Inventories	11,093	-	-	-	-	-	-	-	-	-	-	-	11,093
Prepaid costs	50,000	-	-	-	-	-	-	-	-	-	-	-	50,000
Restricted:													
Capital projects	-	-	-	-	-	-	-	84,766	88,930	63,138	662,463	-	899,297
Debt service	-	-	-	93,621	238,941	29,320	452,201	-	-	-	-	-	814,083
Food services	166,737	-	-	-	-	-	-	-	-	-	-	-	166,737
Assigned - Capital projects	-	-	-	-	-	-	-	-	-	-	-	750,000	750,000
Total fund balances	227,830	-	-	93,621	238,941	29,320	452,201	84,766	88,930	63,138	662,463	750,000	2,691,210
Total liabilities and fund balances	\$ 257,976	\$ -	\$ -	\$ 93,621	\$ 238,941	\$ 29,320	\$ 452,201	\$ 106,766	\$ 88,930	\$ 160,182	\$ 743,080	\$ 750,000	\$ 2,921,017

Gull Lake Community Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2017

	Special	Debt Service Funds						Capital Projects Fund				Total	
	Revenue Fund											Nonmajor	
	Hot Lunch	2006 Debt	2007 Debt	2012 Debt	2013 Debt	2015 Debt	2017 Debt	2012 Capital	2015 Capital	2016 Capital	2014 Sinking	Building and	Governmental
	Fund	Service Fund	Service Fund	Service Fund	Service Fund	Service Fund	Service Fund	Projects Fund	Projects Fund	Projects Fund	Fund	Site Fund	Funds
Revenue													
Local sources	\$ 643,990	\$ 383,861	\$ 347,650	\$ 584,026	\$ 2,241,316	\$ 226,023	\$ 21,942	\$ -	\$ 6	\$ -	\$ 639,652	\$ -	\$ 5,088,466
State sources	43,277	3,143	2,847	4,644	17,823	1,797	-	-	-	-	-	-	73,531
Federal sources	460,108	-	-	-	-	-	-	-	-	-	-	-	460,108
Total revenue	1,147,375	387,004	350,497	588,670	2,259,139	227,820	21,942	-	6	-	639,652	-	5,622,105
Expenditures													
Current:													
Support services	-	-	-	-	-	-	-	-	-	944	737	-	1,681
Food services	1,081,823	-	-	-	-	-	-	-	-	-	-	-	1,081,823
Interfund reimbursement	25,000	-	-	-	-	-	-	-	-	-	-	-	25,000
Debt service:													
Principal	-	-	-	475,000	2,000,000	245,000	-	-	-	-	-	-	2,720,000
Interest	-	199,747	181,028	116,350	348,193	9,025	-	-	-	-	-	-	854,343
Other	-	-	-	-	-	-	105,698	-	-	-	-	-	105,698
Capital outlay	23,626	-	-	-	-	-	-	68,000	406,980	2,796,515	353,022	-	3,648,143
Total expenditures	1,130,449	199,747	181,028	591,350	2,348,193	254,025	105,698	68,000	406,980	2,797,459	353,759	-	8,436,688
Excess of Revenue Over (Under) Expenditures	16,926	187,257	169,469	(2,680)	(89,054)	(26,205)	(83,756)	(68,000)	(406,974)	(2,797,459)	285,893	-	(2,814,583)
Other Financing (Uses)													
Sources													
Payment to escrow agent	-	-	-	-	-	-	(19,144,461)	-	-	-	-	-	(19,144,461)
Transfers in	-	-	-	-	-	-	775,418	-	-	-	-	350,000	1,125,418
Transfers out	-	(408,585)	(366,833)	-	-	-	-	-	-	-	-	-	(775,418)
Face value of debt issued	-	-	-	-	-	-	18,905,000	-	-	-	-	-	18,905,000
Total other financing (uses) sources	-	(408,585)	(366,833)	-	-	-	535,957	-	-	-	-	350,000	110,539
Net Change in Fund Balances	16,926	(221,328)	(197,364)	(2,680)	(89,054)	(26,205)	452,201	(68,000)	(406,974)	(2,797,459)	285,893	350,000	(2,704,044)
Fund Balances - Beginning of year	210,904	221,328	197,364	96,301	327,995	55,525	-	152,766	495,904	2,860,597	376,570	400,000	5,395,254
Fund Balances - End of year	<u>\$ 227,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,621</u>	<u>\$ 238,941</u>	<u>\$ 29,320</u>	<u>\$ 452,201</u>	<u>\$ 84,766</u>	<u>\$ 88,930</u>	<u>\$ 63,138</u>	<u>\$ 662,463</u>	<u>\$ 750,000</u>	<u>\$ 2,691,210</u>

Gull Lake Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness June 30, 2017

June 30	2012 Building and Site Bonds <u>Principal</u>	2013 Series B Refunding Bonds <u>Principal</u>	2013 Series A Refunding Bonds <u>Principal</u>	2015 Series B Building and Site Bonds <u>Principal</u>	2016 School Improvement Bonds <u>Principal</u>	2017 Refunding Bonds <u>Principal</u>
2018	\$ 475,000	\$ 1,385,000	\$ 635,000	\$ 245,000	\$ 370,000	\$ -
2019	475,000	1,430,000	585,000	160,000	385,000	-
2020	475,000	1,500,000	565,000	160,000	395,000	-
2021	475,000	1,000,000	545,000	165,000	405,000	590,000
2022	500,000	-	-	-	235,000	1,990,000
2023	500,000	-	-	-	240,000	1,965,000
2024	500,000	-	-	-	250,000	2,015,000
2025	-	-	-	-	255,000	1,995,000
2026	-	-	-	-	260,000	2,090,000
2027	-	-	-	-	-	2,055,000
2028	-	-	-	-	-	2,095,000
2029	-	-	-	-	-	2,075,000
2030	-	-	-	-	-	2,035,000
Total	\$ 3,400,000	\$ 5,315,000	\$ 2,330,000	\$ 730,000	\$ 2,795,000	\$ 18,905,000
Principal payments due	May 1	May 1	May 1	May 1	May 1	May 1
Interest payments due	May 1 and Nov. 1	May 1 and Nov. 1	May 1 and Nov. 1	May 1 and Nov. 1	May 1 and Nov. 1	May 1 and Nov. 1
Interest rate	3.00%	4.00% to 5.00%	2.00% to 2.50%	0.50% to 1.00%	2.00%	1.70% to 3.10%
Original issue	\$ 10,000,000	\$ 9,395,000	\$ 5,405,000	\$ 1,200,000	\$ 3,150,000	\$ 18,905,000