
Vicksburg Community Schools

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

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Independent Auditor's Report

To the Board of Education
Vicksburg Community Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining information of Vicksburg Community Schools as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise Vicksburg 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

The basic financial statements of Vicksburg Community Schools as of and for the year ended June 30, 2016 were audited by a predecessor auditor, which expressed an unmodified opinion on the financial position of the governmental activities, the major funds, and the aggregate remaining information. The predecessor auditor's report was dated October 24, 2016.

To the Board of Education
Vicksburg Community Schools

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, major fund budgetary comparison schedules, and the School District's proportionate share of the net pension liability and pension contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 an opinion on the financial statements that collectively comprise Vicksburg 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 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2017 on our consideration of Vicksburg 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 Vicksburg Community Schools' internal control over financial reporting and compliance.



October 24, 2017

This section of the Vicksburg 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 Vicksburg Community Schools financially as a whole. The government-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 government-wide financial statements by providing information about the School District's most significant funds - the General Fund and 2014 Building and Site Fund, with all other 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. This report is comprised of the following elements:

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

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds
Schedule of Proportionate Share of the Net Pension Liability
Schedule of the School District's Pension Plan Contributions
Note to Pension Required Supplemental Information Schedules

Other Supplemental Information

Reporting the School District as a Whole - Government-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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 plus deferred outflows of resources and liabilities plus 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 Food Service and Athletics Funds are examples) 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:

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 readily be converted to cash. The governmental fund 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 (or differences) 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.

Vicksburg 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 1 provides a summary of the School District's net position as of June 30, 2017 and 2016:

TABLE 1	Governmental Activities	
	June 30	
	2017	2016
	(in millions)	
Assets		
Current and other assets	\$ 7.6	\$ 11.4
Capital assets	<u>28.6</u>	<u>27.0</u>
Total assets	<u>36.2</u>	<u>38.4</u>
Deferred Outflows of Resources	6.5	6.3
Liabilities		
Current liabilities	7.4	7.7
Long-term liabilities	15.9	19.1
Net pension liability	<u>38.5</u>	<u>37.1</u>
Total liabilities	<u>61.8</u>	<u>63.9</u>
Deferred Inflows of Resources	1.3	1.1
Net Position		
Net investment in capital assets	14.6	14.3
Restricted	0.5	0.9
Unrestricted	<u>(35.5)</u>	<u>(35.5)</u>
Total net position	<u>\$ (20.4)</u>	<u>\$ (20.3)</u>

The above analysis focuses on the net position (see Table 1). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was (\$20.4) million at June 30, 2017. Capital assets, net of related debt totaling \$14.6 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 position for day-to-day operations. The remaining amount of net position (\$35.5 million) was unrestricted.

The \$35.5 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The unrestricted net position balance 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.

Vicksburg Community Schools

Management's Discussion and Analysis (Continued)

The net deficiency position of the School District is similar to a year ago, but has grown significant from several years prior, directly as a result of the adoption of GASB Statement Number 68 and the recognition of the long-term pension liability. The adoption of GASB 68 and the impact on the statement are explored in more depth in Footnote 10.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net position for fiscal years 2017 and 2016.

TABLE 2	Governmental Activities	
	2017	2016
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.9	\$ 0.9
Operating grants and contributions	6.5	4.2
General revenue:		
Property taxes	5.5	5.4
State foundation allowance	17.9	18.3
Other	0.4	1.0
Total revenue	31.2	29.8
Functions/Program Expenses		
Instruction	16.3	15.4
Support services	10.7	8.5
Athletics	0.6	0.6
Food services	1.1	1.1
Community services	0.4	0.3
Interest on long-term debt	0.7	0.9
Depreciation (unallocated)	1.5	1.3
Total functions/program expenses	31.3	28.1
(Decrease) Increase in Net Position	(0.1)	1.7
Net Position (Deficit) - Beginning of year	(20.3)	(22.0)
Net Position (Deficit) - End of year	<u>\$ (20.4)</u>	<u>\$ (20.3)</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$31.3 million. Certain activities were partially funded from those who benefited from the programs (\$0.9 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$6.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$5.5 million in taxes, \$17.9 million in State foundation allowance, and with our other revenue (i.e., interest and general entitlements).

The School District experienced a decrease in net position of \$0.1 million. Key reasons for the change in net position included the increase in the net pension liability, which was largely offset by reductions in the District's long-term debt.

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

Vicksburg Community Schools

Management's Discussion and Analysis (Continued)

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 \$4.5 million, which is a decrease of \$3.3 million from last year. The primary reasons for the decrease are as follows:

In the General Fund, our principal operating fund, remained stable from the prior years, showing a net increase of approximately \$8,000.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

Our special revenue funds showed a net decrease of approximately \$28,000. The decrease from the prior year in food service was due to planned investments in new kitchen equipment. The fund balance of this fund is available to fund costs that are restricted for specified purposes.

Combined, the Debt Service Funds showed a fund balance decrease of approximately \$161,000 from the prior 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 combined Capital Projects Funds fund balance decreased as the School District continued construction related to the 2014 bond issue. The construction project is estimated to be approximately 80% percent complete at June 30, 2017.

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 actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

There were a number of revisions made to the 2016-2017 General Fund original budget. Budgeted revenue was increased \$0.3 million due to an unexpected change in certain categorical revenue from the State and an unanticipated increase in foundation allowance payments due to actual student enrollment greater than original estimates.

Budgeted expenditures were also increased \$0.3 million to account for the increase in salaries and purchased professional services resulting from the School District's revised operating plan due to the fluctuations in revenue.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Vicksburg Community Schools

Management's Discussion and Analysis (Continued)

Capital Assets

As of June 30, 2017, the School District had \$28.6 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$1.7 million, or 6.2 percent, from last year.

	2017	2016
Land	\$ 147,402	\$ 147,402
Construction in progress	58,082	969,167
Buildings and building improvements	43,611,924	40,453,509
Buses and other vehicles	3,043,297	2,569,515
Furniture and equipment	<u>5,036,493</u>	<u>4,913,117</u>
Total capital assets	51,897,198	49,052,710
Less accumulated depreciation	<u>(23,261,520)</u>	<u>(22,077,647)</u>
Net capital assets	<u>\$ 28,635,678</u>	<u>\$ 26,975,063</u>

This year's additions of \$3.2 million included equipment, technology, and building renovations related to the 2014 Building and Site Fund, and school buses and vehicles funded from the General Fund.

Several capital projects are planned for the 2017-2018 fiscal year. We anticipate capital additions will be approximately \$2.4 million less than the 2016-2017 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$14.4 million in bonds outstanding versus \$16.7 million in the previous year - a change of 13.7 percent. Those bonds consisted of the following:

	2017	2016
General obligation bonds	<u>\$ 14,446,848</u>	<u>\$ 16,729,170</u>

The School District's general obligation bond rating continues to be A. 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 debt obligation of \$14.4 million is classified as qualified debt and is not subject to the statutorily imposed debt limit.

Other obligations include accrued vacation pay, sick leave, installment purchases and accreted 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. One of the most important factors affecting the budget is our student count. The state foundation allowance revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2018 fiscal year is 10 percent and 90 percent of the supplemental 2017 and fall 2017 student counts, respectively. The 2017-2018 budget was adopted in June

Vicksburg Community Schools

Management's Discussion and Analysis (Continued)

2017 based on an estimate of students who will be enrolled in October 2017. Once the final student count and related per-pupil funding are validated, state law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations. Approximately 76 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2017-2018 school year, we anticipate that the fall student count will be short of close to the estimates used in creating the 2017-2018 budget. Once the final student count and related per-pupil funding is validated, State law requires the School District to amend the budget if actual 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. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

Contacting the School District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Business Office.

June 30, 2017

	Primary Government <u>Governmental Activities</u>
Assets	
Cash and cash equivalents (Note 4)	\$ 1,701,288
Receivables:	
Accounts receivable	43,880
Due from other governments	4,002,310
Inventories	13,182
Prepaid expenses and other assets	412,588
Restricted assets (Note 4)	1,448,942
Capital assets: (Note 6)	
Assets not subject to depreciation	205,484
Assets subject to depreciation - Net	<u>28,430,194</u>
Total assets	36,257,868
Deferred Outflows of Resources	
Deferred charges on bond refunding (Note 8)	90,189
Deferred outflows related to pension plan (Note 10)	<u>6,369,342</u>
Total deferred outflows of resources	6,459,531
Liabilities	
Accounts payable	221,799
Accrued payroll and other liabilities	2,886,203
Unearned revenue (Note 5)	74,111
Noncurrent liabilities:	
Due within one year (Note 8)	4,240,025
Due in more than one year (Note 8)	15,946,126
Net pension liability (Note 10)	<u>38,476,546</u>
Total liabilities	61,844,810
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the report date (Note 10)	1,201,031
Deferred inflows related to pension plan (Note 10)	<u>115,225</u>
Total deferred inflows of resources	<u>1,316,256</u>
Net Position (Deficit)	
Net investment in capital assets	14,589,468
Restricted - Debt service	543,220
Unrestricted	<u>(35,576,355)</u>
Total net position (deficit)	<u><u>\$ (20,443,667)</u></u>

Vicksburg Community Schools

Statement of Activities

Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government				
Governmental activities:				
Instruction	\$ 16,345,950	\$ -	\$ 4,951,796	\$ (11,394,154)
Support services	10,746,958	20,372	880,250	(9,846,336)
Athletics	584,870	65,990	-	(518,880)
Food services	1,114,890	501,831	681,664	68,605
Community services	351,643	289,322	2,001	(60,320)
Interest	669,563	-	-	(669,563)
Other	70,183	-	-	(70,183)
Depreciation expense (unallocated)	1,499,185	-	-	(1,499,185)
Total primary government	\$ 31,383,242	\$ 877,515	\$ 6,515,711	(23,990,016)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				1,782,857
Property taxes, levied for debt service				3,693,281
State aid not restricted to specific purposes				17,941,299
Interest and investment earnings				8,648
Gain on sale of capital assets				2,562
Other				408,339
Total general revenue				23,836,986
Change in Net Position				(153,030)
Net Position (Deficit) - Beginning of year				(20,290,637)
Net Position (Deficit) - End of year				\$ (20,443,667)

Vicksburg Community Schools

Governmental Funds Balance Sheet

June 30, 2017

	General Fund	2014 Building and Site Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Note 4)	\$ 1,223,988	\$ -	\$ 477,300	\$ 1,701,288
Receivables:				
Accounts receivable	24,092	-	19,788	43,880
Due from other governments	4,002,310	-	-	4,002,310
Due from other funds (Note 7)	143,303	-	208,550	351,853
Inventories	2,896	-	10,286	13,182
Prepaid expenses and other assets	412,588	-	-	412,588
Restricted assets (Note 4)	-	932,443	516,499	1,448,942
	<u>\$ 5,809,177</u>	<u>\$ 932,443</u>	<u>\$ 1,232,423</u>	<u>\$ 7,974,043</u>
Total assets				
Liabilities				
Accounts payable	\$ 158,855	\$ 58,082	\$ 4,862	\$ 221,799
Due to other funds (Note 7)	208,550	1,799	141,504	351,853
Accrued payroll and other liabilities	2,809,867	-	37,534	2,847,401
Unearned revenue (Note 5)	58,354	-	15,757	74,111
	<u>3,235,626</u>	<u>59,881</u>	<u>199,657</u>	<u>3,495,164</u>
Total liabilities				
Fund Balances				
Nonspendable:				
Inventories	2,896	-	10,286	13,182
Prepaid expenses and other assets	412,588	-	-	412,588
Restricted:				
Debt service	-	-	582,020	582,020
Capital projects	-	872,562	-	872,562
Food service	-	-	354,946	354,946
Assigned:				
Budgeted use of fund balance in subsequent year	113,737	-	-	113,737
Capital project improvements	-	-	85,514	85,514
Unassigned	2,044,330	-	-	2,044,330
	<u>2,573,551</u>	<u>872,562</u>	<u>1,032,766</u>	<u>4,478,879</u>
Total fund balances				
Total liabilities and fund balances	<u>\$ 5,809,177</u>	<u>\$ 932,443</u>	<u>\$ 1,232,423</u>	<u>\$ 7,974,043</u>

Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Position

June 30, 2017

Fund Balances Reported in Governmental Funds	\$ 4,478,879
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	28,635,678
Deferred inflows and outflows related to bond refundings are not reported in the funds	90,189
Bonds and installment notes payable, accrued interest on capital appreciation bonds, other long-term liabilities, and premium on issuance of bonds are not due and payable in the current period and are not reported in the funds	(20,101,523)
Accrued interest is not due and payable in the current period and is not reported in the funds	(38,802)
Some employee fringe benefits are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities:	
Employee compensated absences	(84,628)
Net pension liability and related deferred inflows and outflows	(32,222,429)
Revenue in support of pension contributions made subsequent to the measurement date is reported as a deferred inflow of resources in the statement of net position and is not reported in the funds	(1,201,031)
Net Position (Deficit) of Governmental Activities	<u><u>\$ (20,443,667)</u></u>

Vicksburg Community Schools

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended June 30, 2017

	General Fund	2014 Building and Site Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 2,396,958	\$ 89,089	\$ 4,294,649	\$ 6,780,696
State sources	21,342,852	102,236	57,602	21,502,690
Federal sources	376,552	-	624,062	1,000,614
Intergovernmental	2,142,914	-	-	2,142,914
Total revenue	26,259,276	191,325	4,976,313	31,426,914
Expenditures				
Current:				
Instruction	15,488,724	-	-	15,488,724
Support services	9,096,462	-	-	9,096,462
Athletics	569,947	-	-	569,947
Food services	-	-	1,075,421	1,075,421
Community services	337,015	-	-	337,015
Debt service:				
Principal	257,923	-	2,337,322	2,595,245
Interest	11,010	-	1,843,382	1,854,392
Other	750	13,150	56,283	70,183
Capital outlay	948,358	3,318,063	137,570	4,403,991
Total expenditures	26,710,189	3,331,213	5,449,978	35,491,380
Excess of Expenditures Over Revenue	(450,913)	(3,139,888)	(473,665)	(4,064,466)
Other Financing Sources (Uses)				
Face value of debt issued (Note 8)	780,334	-	1,560,000	2,340,334
Proceeds from sale of capital assets	2,562	-	-	2,562
Transfers in (Note 7)	75,000	-	398,657	473,657
Payment to bond refunding escrow agent (Note 8)	-	-	(1,563,799)	(1,563,799)
Transfers out (Note 7)	(398,657)	-	(75,000)	(473,657)
Total other financing sources	459,239	-	319,858	779,097
Net Change in Fund Balance	8,326	(3,139,888)	(153,807)	(3,285,369)
Fund Balance - Beginning of year	2,565,225	4,012,450	1,186,573	7,764,248
Fund Balance - End of year	<u>\$ 2,573,551</u>	<u>\$ 872,562</u>	<u>\$ 1,032,766</u>	<u>\$ 4,478,879</u>

Vicksburg Community Schools

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

Year Ended June 30, 2017

Net Change in Fund Balance Reported in Governmental Funds	\$ (3,285,369)
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	1,660,615
Revenue in support of pension contributions made subsequent to the measurement date	(189,208)
Issuing debt, installment notes payable, other liabilities, and additional accreted interest on capital appreciation bonds, net of premiums and discounts, provides current financial resources to governmental funds, but increases long-term liabilities in the statement of net position	(2,863,398)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt); amortization of premium/discounts and inflows/outflows related to bond refundings are not expenses in the governmental funds	5,751,666
Interest expense is recognized in the government-wide statements as it accrues	91,715
Some employee costs (pension, OPEB, compensated absences) do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds	<u>(1,319,051)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (153,030)</u></u>

Vicksburg Community Schools

Fiduciary Funds
Statement of Fiduciary Assets and Liabilities

June 30, 2017

	Student Activities Agency Fund
Assets - Cash and cash equivalents (Note 4)	<u>\$ 488,737</u>
Liabilities - Due to student groups	<u>\$ 488,737</u>

June 30, 2017

Note 1 - Nature of Business

Vicksburg Community Schools (the "School District") is a school district in the state of Michigan which provides educational services to students.

Note 2 - Significant Accounting Policies

Accounting and Reporting Principles

Vicksburg Community Schools follows accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Government Accounting Standards Board.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. In accordance with government accounting principles, there are no separate legal entities appropriate to be reported within these financial statements.

Report Presentation

Governmental accounting principles require that financial reports include two different perspectives - the government-wide perspective and the fund-based perspective. The government-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 and its component units. The government-wide financial statements are presented on the economic resources measurement focus and the full accrual basis of accounting. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The statements also present a schedule reconciling these amounts to the modified accrual based presentation found in the fund-based statements.

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 or segment. Program revenue includes: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

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

Fund Accounting

Governmental Funds

Governmental funds include all activities that provide general governmental services that are not business-type activities. This includes the General Fund, special revenue funds, debt service funds, and capital project funds. The School District reports the following funds as "major" governmental funds:

- The General Fund is the primary operating fund because it accounts for all financial resources used to provide government services other than those specifically assigned to another fund.

Note 2 - Significant Accounting Policies (Continued)

- The 2014 Building and Site Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically designated for remodeling and acquiring new equipment. The fund operates until the purpose for which it was created is accomplished.

Additionally, the School District reports the following fund types:

- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes and derived from sales to customers and dedicated grants from federal and state sources. The School District's special revenue fund is the Food Service Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.
- The Debt Service Funds (1991 Debt, 2007 Debt, 2014 Debt, and 2015 Debt) are used to record tax, interest, other revenue for payment of interest and principal, and other expenditures on the School District's bond issue.
- The Building and Site Fund is a nonbond fund used to account for resources specifically designed for remodeling and improvements to facilities.

Fiduciary Funds

The School District maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students and accounted for on the accrual basis.

Interfund Activity

During the course of operations, the School District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

Basis of Accounting

The governmental funds use the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting is intended to better demonstrate accountability for how the government has spent its resources.

Expenditures are reported when the goods are received or the services are rendered. Capital outlays are reported as expenditures (rather than as capital assets) because they reduce the ability to spend resources in the future; conversely, employee benefit costs that will be funded in the future (such as pension and retiree healthcare-related costs or sick and vacation pay) are not counted until they come due for payment. In addition, debt service expenditures, claims, and judgments are recorded only when payment is due.

Note 2 - Significant Accounting Policies (Continued)

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.

Fiduciary funds use the economic resources measurement focus and the full accrual basis of accounting.

Specific Balances and Transactions

Cash and Cash Equivalents

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

Inventories and Prepaid Items

Inventories are valued at cost, on a first-in, first-out basis, except USDA donated commodities, which are recorded at fair market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

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 Fund are required to be set aside for future bond principal and interest payments. These cash balances have been classified as restricted assets.

Capital Assets

Capital assets, which include property, buildings, equipment, and buses, are reported in the applicable governmental activities column in the government-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 estimated acquisition value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

	Depreciable Life - Years
Buildings and improvements	10 to 40 years
Furniture and equipment	5 to 20 years
Buses and other vehicles	10 to 15 years

Long-term Obligations

In the government-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 expensed at the time they are incurred. In the fund financial statements, governmental fund types recognize bond issuances as an “other financing source,” as well as bond premiums and discounts. The debt service fund is generally used to liquidate governmental long-term debt.

Note 2 - Significant Accounting Policies (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element 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 deferred outflows of resources related to deferred charges on refundings and deferred pension plan expenses.

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 will not be recognized as an inflow of resources (revenue) until that time. The School District has deferred inflows of resources related to its pension plan and revenue in support of pension payments made subsequent to the measurement date.

Net Position

Net position of the School District is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital or restricted.

Net Position Flow Assumption

The School District will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

The School District will sometimes fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Furthermore, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The School District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School District's highest level of decision-making authority. The Board of Education is the highest level of decision-making authority for the School District that can commit fund balance by passing a resolution. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

June 30, 2017**Note 2 - Significant Accounting Policies (Continued)**

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as committed. The School District has by resolution authorized the assistant superintendent to assign fund balance. The Board of Education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Property Tax Revenue

Property taxes are assessed as of December 31, and approximately one-half of the related property taxes are levied and become a lien on July 1. The remaining taxes are levied and become a lien on December 1 of the following year. 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.

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.

Pension

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 the 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 expenses when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

Compensated Absences (Vacation and Sick Leave)

It is the School District's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick pay is accrued for the estimated amount that the School District will pay upon employment termination; vacation pay is accrued when incurred. Both of these are reported in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. Generally, the funds that report each employee's compensation are used to liquidate the obligations. Unpaid sick leave is not paid to employees upon termination. Vacation days are paid to employees for unused days up to twice their yearly allowance at the time of severance from employment.

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.

Note 2 - Significant Accounting Policies (Continued)

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 Statement No. 84, *Fiduciary Activities*. This statement 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.

Note 3 - 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 special revenue fund. 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 state aid and other funding changes.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds

The School District did not have significant expenditure budget variances.

Capital Projects Fund Compliance

The 2014 Building and Site Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

Note 4 - 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 financial institutions 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 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. At year end, the School District's deposit balance of \$3,881,353 included \$3,339,358 of bank deposits (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.

Note 5 - Unavailable/Unearned Revenue

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 School District had no unavailable revenue and had approximately \$74,000 of unearned revenue, primarily related to categorical aid payments received prior to meeting all eligibility requirements.

June 30, 2017

Note 6 - Capital Assets

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

	Balance July 1, 2016	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 147,402	\$ -	\$ -	\$ -	\$ 147,402
Construction in progress	969,167	(969,167)	58,082	-	58,082
Subtotal	1,116,569	(969,167)	58,082	-	205,484
Capital assets being depreciated:					
Buildings and improvements	40,453,509	969,167	2,189,248	-	43,611,924
Furniture and equipment	4,913,117	-	123,376	-	5,036,493
Buses and other vehicles	2,569,515	-	789,094	(315,312)	3,043,297
Subtotal	47,936,141	969,167	3,101,718	(315,312)	51,691,714
Accumulated depreciation:					
Buildings and improvements	17,447,685	-	1,091,283	-	18,538,968
Furniture and equipment	2,971,707	-	256,988	-	3,228,695
Buses and other vehicles	1,658,255	-	150,914	(315,312)	1,493,857
Subtotal	22,077,647	-	1,499,185	(315,312)	23,261,520
Net capital assets being depreciated	25,858,494	969,167	1,602,533	-	28,430,194
Net capital assets	\$ 26,975,063	\$ -	\$ 1,660,615	\$ -	\$ 28,635,678

Depreciation was not charged to activities, as the School District considers its assets to impact multiple activities and allocation is not practical.

Construction Commitments (OPEN)

The School District has active construction projects at year end. The projects include the various high school projects. At year end, the School District's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
High school renovations	\$ -	\$ 341,792

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Primary Government			Total
	Fund Due From			
	General Fund	2014 Building and Site Fund	Nonmajor Funds	
General Fund	\$ -	\$ 1,799	\$ 141,504	\$ 143,303
Nonmajor funds	208,550	-	-	208,550
Total	\$ 208,550	\$ 1,799	\$ 141,504	\$ 351,853

June 30, 2017

Note 7 - Interfund Receivables, Payables, and Transfers (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Paying Fund (Transfer Out)	Receiving Fund (Transfer In)	Amount
General Fund	Nonmajor funds	\$ 398,657
Nonmajor funds	General Fund	75,000
	Total	<u>\$ 473,657</u>

The Food Service Fund transferred \$75,000 to the General Fund for reimbursement of indirect costs. The General Fund transferred \$398,657 to the 2005 Debt Service Fund, 2007 Debt Service Fund, and the Building and Site Fund for the purposes of making principal and interest debt payments and to set aside resources specifically designed for remodeling and improvements to facilities.

Note 8 - Long-term Debt

Long-term debt activity for the year ended June 30, 2017 can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable:					
General obligations	\$ 16,729,170	\$ 1,560,000	\$ (3,842,322)	\$ 14,446,848	\$ 2,152,923
Unamortized bond premiums	52,937	-	(13,235)	39,702	13,235
Total bonds payable	16,782,107	1,560,000	(3,855,557)	14,486,550	2,166,158
Installment purchase agreement	-	780,334	(257,923)	522,411	259,790
Other loans	13,500	13,500	-	27,000	27,000
Accreted interest on capital appreciation bonds	6,158,676	509,564	(1,602,678)	5,065,562	1,787,077
Compensated absences	74,015	10,613	-	84,628	-
Total governmental activities long-term debt	<u>\$ 23,028,298</u>	<u>\$ 2,874,011</u>	<u>\$ (5,716,158)</u>	<u>\$ 20,186,151</u>	<u>\$ 4,240,025</u>

General Obligation Bonds and Contracts

The School District issues general obligation bonds 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. General obligations outstanding at June 30, 2017 are as follows:

Purpose	Remaining Annual Installments	Interest Rate(s) (Percent)	Maturing	Outstanding
1993 Building & Site Capital Appreciation Bonds	\$512,923-\$533,925	6.14 - 6.19	May 1, 2020	\$ 1,571,848
2013 Refunding Bonds	\$370,000-\$570,000	1.75	May 1, 2020	1,410,000
2014 Building & Site Bonds	\$90,000-\$925,000	0.70 - 2.60	November 1, 2024	5,005,000
2015 Refunding Bonds	\$235,000-\$240,000	0.95 - 1.70	May 1, 2020	715,000
2016 Building & Site Bonds	\$115,000-\$1,250,000	0.85 - 2.60	May 1, 2026	4,185,000
2016 Refunding Bonds	\$210,000-\$465,000	1.30	May 1, 2022	1,560,000
Total governmental activities				<u>\$ 14,446,848</u>

Note 8 - Long-term Debt (Continued)

The installment purchase agreement consisted of 2016 Purchase Agreements for buses, \$780,334, due in annual installments of \$265,484 including interest a 1.09 percent through June 15, 2019.

At June 30, 2017, the School District has deferred outflows of \$90,189 related to deferred charges on bond refunding.

Debt Service Requirements to Maturity

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

Years Ending December 31	Governmental Activities		
	Principal	Interest	Total
2018	\$ 2,152,923	\$ 2,014,185	\$ 4,167,108
2019	1,930,000	2,180,579	4,110,579
2020	1,758,925	2,351,860	4,110,785
2021	2,635,000	157,784	2,792,784
2022	2,135,000	114,590	2,249,590
2023-2026	3,835,000	140,130	3,975,130
Total	<u>\$ 14,446,848</u>	<u>\$ 6,959,128</u>	<u>\$ 21,405,976</u>

Bond Refunding

During the year, the School District issued \$1,560,000 in general obligation bonds with an average interest rate of 1.30 percent. The proceeds of these bonds were used to advance refund \$1,505,000 of outstanding 2007 energy conservation bonds with an average interest rate of 4.23 percent. The net proceeds of \$1,563,798 (after payment of \$28,041 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities 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 general long-term debt account group. The advance refunding reduced total debt service payments by approximately \$211,000, which represents an economic gain of approximately \$174,400. At June 30, 2017, \$1,505,000 of bonds outstanding are considered defeased (related to current year advanced refundings).

Note 9 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; employee injuries (workers' compensation); and natural disasters. The School District does not consider the cost of general liability insurance to be economically justifiable, and participates in the MASB SET/SEG Risk Sharing Pool for liability, auto, property damage, errors and omissions, and workers' compensation insurance risks. The School District pays an annual premium to the pool for its general insurance coverage. The pooling agreement provides that the pool will be self sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

The pooling agreement allows the pool to make additional assessments to make the pool self sustaining. There have been no such assessments in any of the past three fiscal years. It is not possible to estimate the amount of possible future assessments. The MASB SET/SEG has published its own financial report for the year ended June 30, 2017, which can be obtained from the Controller, MASB SET/SEG, 415 West Kalamazoo, Lansing, Michigan 48933.

June 30, 2017

Note 9 - Risk Management (Continued)

The School District participates with the West Michigan Health Insurance Pool to provide health benefits to all eligible staff members. The West Michigan Health Insurance Pool is a self-insurance program with approximately 50 public entities pooling together to insure various groups of employees for health insurance including medical coverage, of which hospitalization is a component, and a prescription drug coverage. The pool pays the first \$300,000 of claims for each participant. These claims are paid out of a loss fund collected from member districts. Excess insurance has been purchased to cover individual and aggregate claims.

Note 10 - Michigan Public School Employees' Retirement System

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS 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.

Benefits Provided

Benefit provisions of the defined benefit (DB) 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 pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation times years of services 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 to 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.

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.

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.

The 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 is as follows:

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 contributions to the plan for the year ended June 30, 2017 were \$3,713,846, 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 \$1,201,031 in 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.

Net Pension Liability

At June 30, 2017, the School District reported a liability of \$38,476,546 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, 2016, the School District's proportion was 0.154220 percent.

June 30, 2017

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

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

For the year ended June 30, 2017, the School District recognized pension expense of \$4,199,529, 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	\$ 479,519	\$ (91,190)
Changes in assumptions	601,551	-
Net difference between projected and actual earnings on pension plan investments	639,480	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	1,584,776	(24,035)
The School District's contributions to the plan subsequent to the measurement date	3,064,016	-
Total	\$ 6,369,342	\$ (115,225)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2018	\$ 835,234
2019	784,945
2020	1,342,422
2021	227,498
Total	\$ 3,190,099

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

In addition, the School District had deferred inflows of resources related to revenue in support of pension payments made subsequent to the measurement date totaling \$1,201,031 at June 30, 2017.

Actuarial Assumptions

The total pension liability as of September 30, 2016 is based on the results of an actuarial valuation as of September 30, 2015 and rolled forward. The total pension liability was determined using the following actuarial assumptions:

Actuarial cost method	Entry age normal, cost actuarial cost method
Investment rate of return	7.00% - 8.00% Net of investment expenses based on the groups
Salary increases	3.50% - 12.30% Including wage inflation of 3.50 percent
Mortality basis	RP2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost-of-living pension adjustments	3.00% Annual noncompounded for MIP members

Assumption changes as a result of an experience study for the periods from 2007 to 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

June 30, 2017

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00 - 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 School District contributions will be made at statutorily 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 of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.00 %	5.90 %
Private equity pools	18.00	9.20
International equity pools	16.00	7.20
Fixed-income pools	10.50	0.90
Real estate and infrastructure pools	10.00	4.30
Real return, opportunistic, and absolute pool	15.50	6.00
Short-term investment pools	2.00	-
Total	100.00 %	

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 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 - 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 percentage point lower (6.00 - 7.00 percent) or 1 percentage point higher (8.00 - 9.00 percent) than the current rate:

	1 Percent Decrease (6.00 - 7.00%)	Current Discount Rate (7.00 - 8.00%)	1 Percent Increase (8.00 - 9.00%)
Net pension liability of the School District	\$ 49,548,106	\$ 38,476,546	\$ 29,142,156

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued MPSERS financial report.

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 \$512,492 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 6.40 percent to 6.83 percent of covered payroll for the period from July 1, 2016 to September 30, 2016 and from 5.69 percent to 5.91 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 403(b) 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 \$788,000, \$670,000, and \$335,000, 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 - 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 \$143,000 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 \$108,000 in reimbursements from the State of Michigan. The School District is not reimbursed for lost revenue from the debt service millages. There are no abatements made by the School District.

Required Supplemental Information

Vicksburg 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	\$ 2,284,000	\$ 2,414,123	\$ 2,396,958	\$ (17,165)
State sources	21,158,463	21,371,937	21,342,852	(29,085)
Federal sources	390,000	418,951	376,552	(42,399)
Intergovernmental	2,235,075	2,142,259	2,142,914	655
Total revenue	26,067,538	26,347,270	26,259,276	(87,994)
Expenditures				
Current:				
Instruction:				
Basic programs	12,975,597	12,979,411	12,882,229	(97,182)
Added needs	2,630,184	2,586,420	2,615,952	29,532
Adult/Continuing education	122,728	107,811	88,665	(19,146)
Support services:				
Pupil	1,323,735	1,322,961	1,290,712	(32,249)
Instructional staff	1,201,358	1,281,746	1,237,383	(44,363)
General administration	486,929	527,574	520,207	(7,367)
School administration	1,544,582	1,592,048	1,579,866	(12,182)
Business	442,765	431,886	419,425	(12,461)
Operations and maintenance	1,891,947	2,069,821	2,001,548	(68,273)
Pupil transportation services	2,267,786	2,199,439	2,187,631	(11,808)
Central	580,776	642,491	659,003	16,512
Athletics	578,564	627,504	613,423	(14,081)
Community services	277,822	325,539	344,462	18,923
Debt service	284,000	266,236	269,683	3,447
Total expenditures	26,608,773	26,960,887	26,710,189	(250,698)
Excess of Revenue Under Expenditures	(541,235)	(613,617)	(450,913)	162,704
Other Financing Sources (Uses)				
Face value of debt issued	900,000	780,334	780,334	-
Proceeds from sale of capital assets	-	-	2,562	2,562
Transfers in	75,000	75,000	75,000	-
Transfers out	(398,657)	(398,657)	(398,657)	-
Total	576,343	456,677	459,239	2,562
Net Change in Fund Balance	35,108	(156,940)	8,326	165,266
Fund Balance - Beginning of year	2,565,225	2,565,225	2,565,225	-
Fund Balance - End of year	<u>\$ 2,600,333</u>	<u>\$ 2,408,285</u>	<u>\$ 2,573,551</u>	<u>\$ 165,266</u>

Vicksburg Community Schools

Required Supplemental Information Schedule of the School District's Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement Plan

	Last Three Fiscal Years For the Plan Year Ended September 30		
	2016	2015	2014
School District's proportion of the net pension liability	0.15422 %	0.15163 %	0.14356 %
School District's proportionate share of the net pension liability	\$ 38,476,546	\$ 37,034,886	\$ 31,620,785
School District's covered employee payroll	\$ 13,166,315	\$ 12,692,135	\$ 12,601,034
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	292.23 %	291.79 %	250.94 %
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.01 %	62.92 %	66.20 %

Note: The amounts presented for each fiscal year were determined as of September 30 of the preceding year. GASB Statement No. 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Vicksburg Community Schools

Required Supplemental Information
Schedule of Pension Contributions
Michigan Public School Employees' Retirement Plan

	Last Three Fiscal Years		
	Year Ended June 30		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 3,678,708	\$ 2,300,371	\$ 2,131,936
Contributions in relation to the statutorily required contribution	<u>3,678,708</u>	<u>2,300,371</u>	<u>2,131,936</u>
Contribution Deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's Covered Employee Payroll	\$ 13,130,947	\$ 12,746,056	\$ 12,220,047
Contributions as a Percentage of Covered Employee Payroll	28.02 %	18.05 %	17.45 %

Note: GASB Statement No. 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Vicksburg Community Schools

Notes 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.

Changes in Size or Composition of the Covered Population

There were no significant changes in size or composition of the covered population in 2016.

Other Supplemental Information

Vicksburg Community Schools

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2017

	Special Revenue Fund	Debt Service Funds				Capital Projects Fund	Total
	Food Service	1991 Debt	2007 Debt	2014 Debt	2015 Debt	Building and Site	
Assets							
Cash and investments	\$ 470,636	\$ -	\$ -	\$ -	\$ -	\$ 6,664	\$ 477,300
Receivables	2,165	1,089	-	386	38	16,110	19,788
Due from other funds	57,810	-	-	-	88,000	62,740	208,550
Inventories	10,286	-	-	-	-	-	10,286
Restricted assets	-	413,545	-	101,679	1,275	-	516,499
Total assets	\$ 540,897	\$ 414,634	\$ -	\$ 102,065	\$ 89,313	\$ 85,514	\$ 1,232,423
Liabilities							
Accounts payable	\$ 4,362	\$ -	\$ -	\$ 500	\$ -	\$ -	\$ 4,862
Due to other funds	118,012	17,386	-	6,106	-	-	141,504
Accrued payroll and other liabilities	37,534	-	-	-	-	-	37,534
Unearned revenue	15,757	-	-	-	-	-	15,757
Total liabilities	175,665	17,386	-	6,606	-	-	199,657
Fund Balances							
Nonspendable - Inventories	10,286	-	-	-	-	-	10,286
Restricted:							
Debt service	-	397,248	-	95,459	89,313	-	582,020
Food service	354,946	-	-	-	-	-	354,946
Assigned - Capital project improvements	-	-	-	-	-	85,514	85,514
Total fund balances	365,232	397,248	-	95,459	89,313	85,514	1,032,766
Total liabilities and fund balances	\$ 540,897	\$ 414,634	\$ -	\$ 102,065	\$ 89,313	\$ 85,514	\$ 1,232,423

Vicksburg Community Schools

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds

Year Ended June 30, 2017

	Special Revenue Fund	Debt Service Funds				Capital Projects Fund	Total
	Food Service	1991 Debt	2007 Debt	2014 Debt	2015 Debt	Building and Site	
Revenue							
Local sources	\$ 502,147	\$ 2,744,753	\$ -	\$ 956,289	\$ 91	\$ 91,369	\$ 4,294,649
State sources	57,602	-	-	-	-	-	57,602
Federal sources	624,062	-	-	-	-	-	624,062
Total revenue	1,183,811	2,744,753	-	956,289	91	91,369	4,976,313
Expenditures							
Current:							
Food services	1,075,421	-	-	-	-	-	1,075,421
Debt service:							
Principal	-	1,172,322	120,000	820,000	225,000	-	2,337,322
Interest	-	1,639,166	16,979	174,840	12,397	-	1,843,382
Other	-	20,049	28,040	7,694	500	-	56,283
Capital outlay	61,586	-	-	-	-	75,984	137,570
Total expenditures	1,137,007	2,831,537	165,019	1,002,534	237,897	75,984	5,449,978
Excess of Revenue Over (Under) Expenditures	46,804	(86,784)	(165,019)	(46,245)	(237,806)	15,385	(473,665)
Other Financing Sources (Uses)							
Face value of debt issued	-	-	1,560,000	-	-	-	1,560,000
Transfers in	-	-	168,818	-	210,000	19,839	398,657
Payment to bond refunding escrow agent	-	-	(1,563,799)	-	-	-	(1,563,799)
Transfers out	(75,000)	-	-	-	-	-	(75,000)
Total other financing (uses) sources	(75,000)	-	165,019	-	210,000	19,839	319,858
Net Change in Fund Balances	(28,196)	(86,784)	-	(46,245)	(27,806)	35,224	(153,807)
Fund Balances - Beginning of year	393,428	484,032	-	141,704	117,119	50,290	1,186,573
Fund Balances - End of year	<u>\$ 365,232</u>	<u>\$ 397,248</u>	<u>\$ -</u>	<u>\$ 95,459</u>	<u>\$ 89,313</u>	<u>\$ 85,514</u>	<u>\$ 1,032,766</u>

Vicksburg Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness

Year Ended June 30, 2017

June 30	1993 Capital Appreciation Bonds	2013 Refunding Bonds	2015 Refunding Bonds	2014 General Obligation	2016 General Obligation	2016 Refunding Bonds
	Principal	Principal	Principal	Principal	Principal	Principal
2018	\$ 512,923	\$ 570,000	\$ 235,000	\$ 310,000	\$ 315,000	\$ 210,000
2019	525,000	470,000	240,000	90,000	395,000	210,000
2020	533,925	370,000	240,000	-	400,000	215,000
2021	-	-	-	925,000	1,250,000	460,000
2022	-	-	-	920,000	750,000	465,000
2023	-	-	-	920,000	580,000	-
2024	-	-	-	920,000	250,000	-
2025	-	-	-	920,000	115,000	-
2026	-	-	-	-	130,000	-
Total principal	\$ 1,571,848	\$ 1,410,000	\$ 715,000	\$ 5,005,000	\$ 4,185,000	\$ 1,560,000
Principal payments due	May 1	May 1	May 1	November 1	November 1	May 1
Interest payments due	May 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	6.14% to 6.19%	1.75%	0.95% to 1.70%	0.70% to 2.60%	0.85% to 2.60%	1.30%