

Waverly Community Schools

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

Waverly Community Schools

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Issued Under
Separate
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Independent Auditor's Report

To the Board of Education
Waverly Community Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waverly 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 Waverly 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Waverly 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.

To the Board of Education
Waverly Community Schools

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 schedule, the schedule of the School District's contributions to the Michigan Public School Employees' Retirement System (MPERS), and the schedule of the School District's proportionate share of the net pension liability to MPERS, 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 opinions on the financial statements that collectively comprise Waverly 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2017 on our consideration of Waverly 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 Waverly Community Schools' internal control over financial reporting and compliance.

Plante & Moran, PLLC

October 5, 2017

Waverly Community Schools

Management's Discussion and Analysis

This section of Waverly 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 Waverly 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 funds - the General Fund and the Debt Service 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.

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 Waverly Community Schools' Proportionate Share of the Net Pension Liability of
the Michigan Public School Employees' Retirement System Determined as of the
Plan Year Ended September 30, 2016

Schedule of Waverly Community Schools' Contributions to the Michigan Public School
Employees' Retirement System Determined as of the Year Ended June 30, 2017

Other Supplemental Information

Waverly 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 liabilities, 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 Fund - 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 other funds to help it control and manage money for particular purposes (the Food Service and Community Service 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).

Waverly Community Schools

Management's Discussion and Analysis (Continued)

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 in 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 to 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.

Waverly 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	
	June 30	
	2017	2016
	(in millions)	
Assets		
Current and other assets	\$ 12.4	\$ 12.7
Capital assets	<u>48.3</u>	<u>48.3</u>
Total assets	60.7	61.0
Deferred Outflows of Resources	<u>8.0</u>	<u>6.1</u>
Total assets and deferred outflows of resources	68.7	67.1
Liabilities		
Current liabilities	4.2	3.9
Long-term liabilities	<u>74.8</u>	<u>77.4</u>
Total liabilities	79.0	81.3
Deferred Inflows of Resources	<u>2.9</u>	<u>3.0</u>
Total liabilities and deferred inflows of resources	<u>81.9</u>	<u>84.3</u>
Net Position		
Net investment in capital assets	25.8	22.6
Restricted	0.9	0.9
Unrestricted	<u>(39.9)</u>	<u>(40.7)</u>
Total net position	<u>\$ (13.2)</u>	<u>\$ (17.2)</u>

Waverly Community Schools

Management's Discussion and Analysis (Continued)

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 \$(13.2) million and \$(17.2) million at June 30, 2017 and 2016, respectively. Net investment in capital assets totaling \$25.8 million and \$22.6 million at June 30, 2017 and 2016, respectively, 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 \$(39.9) million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. 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 (Table 2), which shows the changes in net position for fiscal years 2017 and 2016.

Table 2

	Governmental Activities	
	Year Ended June 30	
	2017	2016
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.8	\$ 0.6
Operating grants and contributions	7.8	6.1
General revenue:		
Property taxes	15.2	14.8
State foundation allowance	15.2	14.6
Other	0.2	0.2
Total revenue	<u>39.2</u>	<u>36.3</u>
Functions/Program Expenses		
Instruction	20.2	19.3
Support services	11.6	10.5
Athletics	0.8	0.7
Food services	1.3	1.2
Community services	0.3	0.1
Interest on long-term debt	1.0	1.0
Payments to other public schools	-	0.1
Total functions/program expenses	<u>35.2</u>	<u>32.9</u>
Increase in Net Position	4.0	3.4
Net Position - Beginning of year	<u>(17.2)</u>	<u>(20.6)</u>
Net Position - End of year	<u><u>\$ (13.2)</u></u>	<u><u>\$ (17.2)</u></u>

Waverly Community Schools

Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$35.2 million. Certain activities were partially funded from those who benefited from the programs (\$0.8 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$7.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$15.2 million in taxes, \$15.2 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements). The School District's net position increased by \$4.0 million from the previous year.

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 approximately \$8.3 million, which is a decrease of \$0.7 million from last year. The primary reasons for the decrease are as follows:

The General Fund remained relatively stable with a reported increase of \$0.6 million, or 2.0 percent of the current year operating expenditures. The School District continues to maintain a General Fund fund balance in excess of 10 percent as a strategic effort to absorb significant changes in state funding or a significant decline in enrollment and to minimize the cost of borrowing to meet current cash obligations.

The Special Revenue Funds reported an increase of approximately \$38,000, while returning approximately \$94,000 to the General Fund to offset indirect costs.

The Debt Service Fund decreased by approximately \$58,000. The School District maintains a fund balance less than or equal to 1/12 of annual debt service for the immediately preceding bond year to ensure the School District can maintain sufficient resources to continue the twice yearly principal and interest payments on the outstanding bond issue-related debt service. The twice annual principal and interest payments in November and May allow the School District to reduce overall borrowing costs on the outstanding bond issues.

The 2013 Building and Site Series I capital projects fund balance decreased \$0.2 million from the prior year as the School District continued to spend the proceeds from the 2013 Building and Site bonds.

Waverly Community Schools

Management's Discussion and Analysis (Continued)

The 2016 Building and Site Series II capital projects fund balance decreased \$2.1 million from the prior year as the School District continued to spend the proceeds from the 2016 Building and Site bonds. The School District completed several projects, including a renovation of the high school football locker room, an expansion of the Winans Parking Lot, new furniture and carpeting for Elmwood Elementary and Winans Elementary, and expansion of the 1:1 technology device initiative to support increased student enrollment.

The Board Designated Capital Projects Fund fund balance increased \$0.4 million from the prior year due to an increased appropriation from the General Fund. The board established a capital projects fund to support a long-term capital improvement plan to replace equipment and vehicles and supplement the proceeds from the Sinking Fund for renovations and repairs to school district facilities.

The Sinking Fund capital projects fund balance increased \$0.8 million from the prior year due to unspent property tax revenue levied in the Sinking Fund.

These combined changes account for the majority of the overall decrease in the combined governmental fund balances.

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. 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 of these financial statements.

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

Waverly Community Schools

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2017, the School District had \$83.2 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, equipment, and construction in progress. There were significant additions to building improvements and furniture and equipment during the current year as funds from the 2016 Building and Site Series II bonds were spent.

	2017	2016
Land	\$ 100,500	\$ 100,500
Construction in progress	-	425,224
Buildings and building improvements	75,381,360	73,583,810
Furniture and equipment	5,415,322	4,533,760
Buses and other vehicles	2,315,452	1,956,241
Total capital assets	83,212,634	80,599,535
Less accumulated depreciation	(34,926,707)	(32,351,151)
Net capital assets	<u>\$ 48,285,927</u>	<u>\$ 48,248,384</u>

During the 2017-2018 school year, the School District plans to exhaust the remaining balance of funds from the bond proceeds of the 2013 Building and Site Series I bonds. The School District also plans to continue spending down the proceeds of the 2016 Building and Site Series II bonds. 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 approximately \$25.3 million in bonds outstanding versus approximately \$30.4 million in the previous year - a decrease of 16.8 percent. Bonds outstanding at June 30, 2017 and 2016 consisted of the following:

	2017	2016
2013 School Facility Improvement Bonds	\$ 745,000	\$ 875,000
2013 Building and Site Series I Bonds	10,535,000	10,535,000
2013 Refunding Bonds	10,485,000	15,445,000
2016 Building and Site Series II Bonds	3,500,000	3,500,000
Total	<u>\$ 25,265,000</u>	<u>\$ 30,355,000</u>

Other obligations include accrued vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Waverly Community Schools

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2018 fiscal year budget. 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 2018 fiscal year is 90 percent and 10 percent of the fall 2017 and supplemental 2017 student counts, respectively. The 2018 budget was adopted in June 2017, based on an estimate of students that will be enrolled in fall 2017. Approximately 49 percent of total General Fund revenue is from the foundation allowance. The School District is classified as a hold-harmless district and is allowed to levy property taxes above the state foundation allowance; however, the School District's funding is still 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 increase above the estimates used in creating the 2017-2018 budget. Once the final student count and related per pupil funding are validated, the School District will amend the budget if anticipated revenue is significantly greater than original appropriations or if expenditures are greater than those used to formulate the general appropriations act.

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.

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.

Waverly Community Schools

Statement of Net Position June 30, 2017

	Primary Government Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 5,692,277
Receivables (Note 5)	3,588,322
Inventories	18,449
Prepaid costs	96,276
Restricted assets (Notes 3 and 4)	2,992,455
Capital assets - Net (Note 6)	<u>48,285,927</u>
Total assets	60,673,706
Deferred Outflows of Resources	
Deferred charges on bond refunding	848,113
Deferred outflows related to pensions (Note 10)	<u>7,182,746</u>
Total deferred outflows of resources	<u>8,030,859</u>
Total assets and deferred outflows of resources	68,704,565
Liabilities	
Accounts payable	89,367
Accrued payroll-related liabilities	2,100,502
State aid anticipation note (Note 11)	1,500,000
Other accrued liabilities	109,335
Due to other governmental units	377,620
Unearned revenue (Note 5)	47,050
Noncurrent liabilities:	
Due within one year (Note 8)	5,220,000
Due in more than one year (Note 8)	21,032,893
Net pension liability (Note 10)	<u>48,522,117</u>
Total liabilities	78,998,884
Deferred Inflows of Resources	
Revenue in support of pension contributions made subsequent to the measurement date (Note 10)	1,512,971
Deferred inflows related to pensions (Note 10)	<u>1,403,223</u>
Total deferred inflows of resources	<u>2,916,194</u>
Total liabilities and deferred inflows of resources	<u>81,915,078</u>
Net Position	
Net investment in capital assets	25,846,088
Restricted:	
Debt service	814,051
Capital projects	39,923
Unrestricted	<u>(39,910,575)</u>
Total net position	<u>\$ (13,210,513)</u>

The Notes to Financial Statements are an
Integral Part of this Statement.

Waverly 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	\$ 20,159,605	\$ 3,869	\$ 6,384,369	\$ (13,771,367)
Support services	11,584,796	2,986	292,069	(11,289,741)
Athletics	769,925	67,548	-	(702,377)
Food services	1,301,149	319,816	1,160,739	179,406
Community services	289,651	392,962	-	103,311
Interest	1,028,772	-	-	(1,028,772)
Other	19,159	-	-	(19,159)
Total primary government	\$ 35,153,057	\$ 787,181	\$ 7,837,177	(26,528,699)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				8,798,904
Property taxes, levied for debt service				5,632,230
Property taxes, levied for capital projects				799,296
State aid not restricted to specific purposes				15,202,335
Interest and investment earnings				15,320
Other				115,085
Total general revenue				30,563,170
Change in Net Position				4,034,471
Net Position - Beginning of year				(17,244,984)
Net Position - End of year				\$ (13,210,513)

Waverly Community Schools

Governmental Funds Balance Sheet June 30, 2017

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments (Note 3)	\$ 4,749,669	\$ -	\$ 942,608	\$ 5,692,277
Receivables (Note 5)	3,543,981	-	44,341	3,588,322
Due from other funds (Note 7)	82,474	-	175,094	257,568
Inventories	-	-	18,449	18,449
Prepaid costs	96,276	-	-	96,276
Restricted assets (Notes 3 and 4)	-	923,386	2,069,069	2,992,455
Total assets	\$ 8,472,400	\$ 923,386	\$ 3,249,561	\$ 12,645,347
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 85,301	\$ -	\$ 29,697	\$ 114,998
Accrued payroll-related liabilities	2,082,425	-	18,077	2,100,502
State aid anticipation note (Note 11)	1,500,000	-	-	1,500,000
Due to other governmental units	377,620	-	-	377,620
Due to other funds (Note 7)	175,094	-	56,843	231,937
Unearned revenue (Note 5)	31,324	-	15,726	47,050
Total liabilities	4,251,764	-	120,343	4,372,107
Fund Balances				
Nonspendable:				
Inventory	-	-	18,449	18,449
Prepaid assets	96,276	-	-	96,276
Restricted:				
Capital projects	-	-	2,016,971	2,016,971
Debt service	-	923,386	-	923,386
Food service	-	-	566,272	566,272
Committed - Capital projects	-	-	450,630	450,630
Unassigned	4,124,360	-	76,896	4,201,256
Total fund balances	4,220,636	923,386	3,129,218	8,273,240
Total liabilities and fund balances	\$ 8,472,400	\$ 923,386	\$ 3,249,561	\$ 12,645,347

Waverly 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	\$	8,273,240
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	\$ 83,212,634	
Accumulated depreciation	<u>(34,926,707)</u>	48,285,927
Deferred outflows for pension contributions made subsequent to the measurement date		3,814,121
Deferred outflow related to pensions		3,368,625
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds payable	(25,265,000)	
Compensated absences	<u>(987,893)</u>	(26,252,893)
Accrued interest payable is not included as a liability in governmental funds		(109,335)
Deferred charges on bond refunding		848,113
Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(48,522,117)
Deferred inflows related to revenue in support of pension contributions made subsequent to measurement date are not reported in the governmental funds		(1,512,971)
Deferred inflows related to pension investment returns are not reported in the governmental funds		<u>(1,403,223)</u>
Net Position of Governmental Activities	\$	<u>(13,210,513)</u>

Waverly Community Schools

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

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Revenue				
Local sources	\$ 8,981,251	\$ 5,642,082	\$ 1,524,683	\$ 16,148,016
State sources	18,909,158	19,484	45,849	18,974,491
Federal sources	566,736	-	1,114,890	1,681,626
Intergovernmental	2,645,585	-	-	2,645,585
Total revenue	31,102,730	5,661,566	2,685,422	39,449,718
Expenditures				
Current:				
Instruction	17,925,302	-	141,296	18,066,598
Support services	11,261,940	-	159	11,262,099
Athletics	500,216	-	-	500,216
Food services	-	-	1,301,149	1,301,149
Community services	37,141	-	252,510	289,651
Debt service (Note 8):				
Principal	130,000	4,960,000	-	5,090,000
Interest	16,850	740,460	-	757,310
Other	-	19,159	-	19,159
Capital outlay	425,479	-	2,400,538	2,826,017
Total expenditures	30,296,928	5,719,619	4,095,652	40,112,199
Excess of Revenue Over (Under) Expenditures	805,802	(58,053)	(1,410,230)	(662,481)
Other Financing Sources (Uses)				
Transfers in (Note 7)	94,388	-	350,000	444,388
Transfers out (Note 7)	(350,000)	-	(94,388)	(444,388)
Net Change in Fund Balances	550,190	(58,053)	(1,154,618)	(662,481)
Fund Balances - Beginning of year	3,670,446	981,439	4,283,836	8,935,721
Fund Balances - End of year	\$ 4,220,636	\$ 923,386	\$ 3,129,218	\$ 8,273,240

Waverly 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	\$	(662,481)
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	\$	(2,697,088)
Capitalized capital outlay	<u>2,734,631</u>	37,543
Revenue in support of pension contributions made subsequent to measurement date		(262,190)
Amortization of deferred interest charges is reported as an expense in the funds and amortized in the statement of activities		(282,704)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		5,090,000
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		11,242
Change in pension expense related to deferred items		<u>103,061</u>
Change in Net Position of Governmental Activities	\$	<u>4,034,471</u>

Waverly Community Schools

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

	<u>Agency Funds</u>
Assets	<u>\$ 176,195</u>
Liabilities	
Accounts payable	\$ 1,122
Due to student activities	149,442
Due to other funds (Note 7)	<u>25,631</u>
Total liabilities	<u>\$ 176,195</u>

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies

The accounting policies of Waverly 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.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental 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 government-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 or capital 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 government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Note I - Nature of Business and Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-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 government-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 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, assigned, and unassigned.

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.

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and 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.

Debt Service Fund - The Debt Service Fund is used to record tax and interest revenue and the payment of interest, principal, and other expenditures on bond issuances.

Additionally, the School District reports the following fund types:

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's special revenue funds include the Food Services and Community Service Funds. Revenue in the Food Services Fund is generated from student lunch sales, federal reimbursements, and state aid. Revenue in the Community Service Fund is generated from preschool registration fees and tuition. Any operating deficit generated by these activities is the responsibility of the General Fund.

Capital Project Funds - Capital projects funds are used to record proceeds from the sale of bonds, sinking fund property tax levies, and other revenue and the disbursement of invoices specifically designated for capital project acquisitions associated with the applicable bond issuances and remodeling and repairs. Capital projects funds include the 2013 Building and Site Series I Fund, the 2016 Building and Site Series II Fund, the Board Designated Capital Projects Fund, and the Sinking Fund.

Student Activities Agency Funds - 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 trust 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."

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and 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 July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. 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. Inventories of governmental funds are recorded as expenditures when purchased. United States Department of Agriculture Commodities inventory received by the Food Services Fund is recorded as inventory and expensed. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Restricted Assets - The cash in the Debt Service Fund is legally restricted to pay debt service payments. The unspent bond proceeds and related interest in the 2016 School Building and Site Series II and 2013 Building and Site Series I capital project funds require amounts to be set aside for construction. The unspent property taxes levied and related interest in the Sinking Fund are required to be set aside for approved Sinking Fund projects and disbursements. 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 government-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost or grouping of costs 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 fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset 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	7 to 10 years
Furniture and other equipment	10 to 20 years

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note I - Nature of Business and Significant Accounting Policies (Continued)

Compensated Absences - 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.

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 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 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. Issuance costs are reported as debt service expenditures.

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 or fund balance that applies to a future period and so 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 deferred charges on bond refunding and the deferred outflows of resources related to the pension plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element 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 items that qualify for reporting in this category: deferred inflows of resources related to the pension plan and revenue in support of pension payments made subsequent to the measurement date.

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

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

- 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 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 superintendent, who is authorized by policy approved by the Board of Education to make assignments
- 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.

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

Tax Abatements - The School District evaluated tax abatements under the provisions of GASB No. 77 and considered the total property tax abatements to be insignificant.

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.

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.

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note 2 - Stewardship, Compliance, and Accountability (Continued)

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. There were no significant amendments during the year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School District did not have significant expenditure budget variances.

Capital Projects Fund Compliance - The 2013 Building and Site Series I Capital Projects Fund and 2016 Building and Site Series II 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 - The Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, authorized prior to March 16, 2017, the School District has complied with the applicable provisions of Section 1212 of the Revised School Code.

Note 3 - Cash 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 investment policy adopted by the board in accordance with state statutes has authorized investments in the state authority as listed above.

There are no limitations or restrictions on participant withdrawals for the investment pools that are recorded at amortized cost except for a one-day minimum investment period for the cash management fund and that investments may not be redeemed for at least 14 days with the exception of direct investments of funds distributed by the State of Michigan for the MAX class funds. Redemptions made prior to the applicable 14-day period are subject to a penalty equal of 15 days' interest on the amount redeemed.

Note 3 - Cash and Investments (Continued)

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's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level be used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$9,197,021 had \$8,697,021 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.

Custodial Credit Risk of Investments - Custodial credit risk 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 policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by prequalifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. The School District does not hold investments subject to custodial credit risk at year end.

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 does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note 3 - Cash 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 maturities of investments and the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Rating	Rating Organization
Michigan liquid asset fund (MILAF) - Cash management class	\$ 2	AAAm	Standard & Poor's
MILAF Plus MAX class funds	7,429	AAAm	Standard & Poor's
Total investments	<u>\$ 7,431</u>		

Concentration of Credit Risk - The School District's investment policy does not place a limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

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 - Restricted Assets

The balances for the restricted asset accounts are as follows:

	Governmental Activities
Unspent 2013 Building and Site Series I bond proceeds	\$ 56,790
Unspent 2016 Building and Site Series II bond proceeds	1,241,511
Unspent property taxes levied in the Debt Service Fund	923,386
Unspent property taxes levied in the Sinking Fund	<u>770,768</u>
Total restricted assets	<u>\$ 2,992,455</u>

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note 5 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the School District's individual major funds and the nonmajor funds, in the aggregate, are as follows:

	General Fund	Nonmajor Funds	Total
Receivables:			
Accounts receivable	\$ 18,456	\$ -	\$ 18,456
Due from other governmental units	3,525,525	44,341	3,569,866
Total receivables	<u>\$ 3,543,981</u>	<u>\$ 44,341</u>	<u>\$ 3,588,322</u>

Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At June 30, 2017, payments for services received prior to the related services being provided were \$47,050.

Note 6 - Capital Assets

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

Governmental Activities	Balance July 1, 2016	Reclassifications	Additions	Disposals	Balance June 30, 2017
Capital assets not being depreciated:					
Land	\$ 100,500	\$ -	\$ -	\$ -	\$ 100,500
Construction in progress	425,224	(425,224)	-	-	-
Subtotal	525,724	(425,224)	-	-	100,500
Capital assets being depreciated:					
Buildings and improvements	73,583,810	425,224	1,372,326	-	75,381,360
Furniture and equipment	4,533,760	-	881,562	-	5,415,322
Buses and other vehicles	1,956,241	-	480,743	121,532	2,315,452
Subtotal	80,073,811	425,224	2,734,631	121,532	83,112,134
Accumulated depreciation:					
Buildings and improvements	29,103,959	-	1,888,417	-	30,992,376
Furniture and equipment	1,885,627	-	658,258	-	2,543,885
Buses and other vehicles	1,361,565	-	150,413	121,532	1,390,446
Subtotal	32,351,151	-	2,697,088	121,532	34,926,707
Net capital assets being depreciated	47,722,660	425,224	37,543	-	48,185,427
Net capital assets	<u>\$ 48,248,384</u>	<u>\$ -</u>	<u>\$ 37,543</u>	<u>\$ -</u>	<u>\$ 48,285,927</u>

Depreciation expense was charged to activities of the School District (primary government) as follows:

Governmental activities:

Instruction	\$ 2,157,670
Support services	269,709
Athletics	269,709
Total governmental activities	<u>\$ 2,697,088</u>

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note 6 - Capital Assets (Continued)

Construction Commitments - At June 30, 2017, the School District has commitments totaling \$641,720 outstanding for qualified sinking fund expenditures. The costs of these projects will be financed with sinking fund tax levies and are expected to be completed during 2018.

Note 7 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Fiduciary Fund	Nonmajor Governmental Funds	
Other governmental funds	\$ 175,094	\$ -	\$ -	\$ 175,094
General Fund	-	25,631	56,843	82,474
Total	<u>\$ 175,094</u>	<u>\$ 25,631</u>	<u>\$ 56,843</u>	<u>\$ 257,568</u>

Interfund balances owed to the General Fund represent routine and temporary cash flow assistance from the General Fund until amounts are transferred from fund accounts. Interfund balances owed to other funds represent reimbursements for allocated expenditures.

The composition of interfund transfers during the year is as follows:

Fund Advanced To	Fund Advanced From		Total
	General Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 94,388	\$ 94,388
Nonmajor governmental funds	350,000	-	350,000
Total	<u>\$ 350,000</u>	<u>\$ 94,388</u>	<u>\$ 444,388</u>

The transfer from the nonmajor funds to the General Fund was for overhead cost reimbursement. The transfer from the General Fund to the Board Designated Capital Projects Fund was for capital project appropriations.

Note 8 - Long-term Debt

The School District issues 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. Other long-term obligations include compensated absences.

Waverly Community Schools

Notes to Financial Statements June 30, 2017

Note 8 - Long-term Debt (Continued)

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds	\$ 30,355,000	\$ -	\$ 5,090,000	\$ 25,265,000	\$ 5,220,000
Employee compensated absences	1,016,157	173,060	201,324	987,893	-
Total governmental activities	<u>\$ 31,371,157</u>	<u>\$ 173,060</u>	<u>\$ 5,291,324</u>	<u>\$ 26,252,893</u>	<u>\$ 5,220,000</u>

Years Ending June 30	Governmental Activities		
	Principal	Interest	Total
2018	\$ 5,220,000	\$ 627,167	\$ 5,847,167
2019	5,415,000	487,678	5,902,678
2020	5,440,000	337,570	5,777,570
2021	5,165,000	164,089	5,329,089
2022	3,955,000	65,765	4,020,765
2023	70,000	700	70,700
Total	<u>\$ 25,265,000</u>	<u>\$ 1,682,969</u>	<u>\$ 26,947,969</u>

Governmental Activities

General obligation bonds consist of the following:

2013 School Facility Improvement bonds totaling \$1,170,000, due in semiannual installments of \$65,000 to \$70,000 through November 2022; interest at 2.00 percent	\$ 745,000
2013 Building and Site Series I bonds totaling \$10,535,000, due in semiannual installments of \$85,000 to \$2,760,000 beginning in November 2018 through May 2022; interest at 2.86 percent	10,535,000
2013 Refunding bonds totaling \$23,070,000, due in semiannual installments of \$275,000 to \$2,930,000 through May 2020; interest at 2.62 percent	10,485,000
2016 Building and Site Series II bonds totaling \$3,500,000, due in annual installments of \$1,500,000 to \$2,000,000 beginning in May 2021 through May 2022; interest at 1.86 percent	<u>3,500,000</u>
Total bonded debt	<u>\$ 25,265,000</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 property loss, torts, errors and omissions, and medical benefits claims.

The School District participates in the SEG Self-insurers Workers' Disability Compensation Fund (risk pool) for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

Note 10 - 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.

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.

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

The range of rates is 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 contributions to the plan for the year ended June 30, 2017 was \$4,645,461, 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 \$1,512,971 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS 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.

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.

Waverly Community Schools

Notes to Financial Statements June 30, 2017

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

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 \$48,522,117 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 0.194484 percent.

For the year ended June 30, 2017, the School District recognized pension expense of \$4,498,810, 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	\$ 604,714	\$ (114,999)
Changes of assumptions	758,605	-
Net difference between projected and actual earnings on pension plan assets	806,437	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	1,198,869	(1,288,224)
The School District's contributions subsequent to the measurement date	3,814,121	-
Total	<u>\$ 7,182,746</u>	<u>\$ (1,403,223)</u>

Waverly Community Schools

Notes to Financial Statements June 30, 2017

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

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	\$ 256,155
2019	192,674
2020	1,155,589
2021	360,984
Total	<u>\$ 1,965,402</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.

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 - 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP2000 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

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

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 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.

Waverly 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 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 1.00 percentage point lower (6.0 - 7.0 percent) or 1.00 percentage point higher (8.0 - 9.0 percent) than the current rate:

1.00 Percent Decrease (6.0 - 7.0 Percent)	Current Discount Rate (7.0 - 8.0 Percent)	1.00 Percent Increase (8.0 - 9.0 Percent)
\$ 62,484,273	\$ 48,522,117	\$ 36,750,677

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

Waverly 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 \$541,505 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 6.4 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 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 \$988,262, \$882,877, and \$580,619, 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

During August 2016, Waverly Community Schools borrowed \$1,500,000 on a state aid anticipation note. The note bears interest at a fixed rate of 1.185 percent and has an original due date of August 21, 2017. Subsequent to year end, the obligation was paid in full.

During August 2017, Waverly Community Schools borrowed \$1,500,000 on a state aid anticipation note. The note bears interest at a fixed rate of 1.566 percent. The note, plus interest, is to be paid in full on August 20, 2018.

Note 12 - 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 (GASB) 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.

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. 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, 2021.

Required Supplemental Information

Waverly Community Schools

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

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 9,015,786	\$ 9,043,551	\$ 8,981,251	\$ (62,300)
State sources	18,033,727	18,775,178	18,909,158	133,980
Federal sources	581,357	631,680	566,736	(64,944)
Intergovernmental	2,124,161	2,568,460	2,645,585	77,125
Total revenue	29,755,031	31,018,869	31,102,730	83,861
Expenditures				
Current:				
Instruction:				
Basic program	14,590,987	14,376,419	14,615,334	238,915
Added needs	3,204,485	3,448,225	3,335,826	(112,399)
Total instruction	17,795,472	17,824,644	17,951,160	126,516
Support services:				
Pupil	2,417,284	2,180,689	2,208,277	27,588
Instructional staff	953,577	1,069,761	974,203	(95,558)
General administration	475,069	532,522	579,094	46,572
School administration	1,999,071	2,166,086	2,139,226	(26,860)
Business	566,897	607,853	596,944	(10,909)
Operations and maintenance	3,297,407	3,350,000	3,178,664	(171,336)
Pupil transportation services	954,368	1,179,210	1,153,207	(26,003)
Central	829,472	865,819	807,368	(58,451)
Other	37,850	32,850	-	(32,850)
Total support services	11,530,995	11,984,790	11,636,983	(347,807)
Athletics	518,739	525,834	524,794	(1,040)
Community services	31,408	32,402	37,141	4,739
Debt service	150,850	150,850	146,850	(4,000)
Total expenditures	30,027,464	30,518,520	30,296,928	(221,592)
Excess of Revenue (Under) Over Expenditures	(272,433)	500,349	805,802	305,453
Other Financing Sources (Uses)				
Transfers in	90,000	75,000	94,388	19,388
Transfers out	(250,000)	(350,000)	(350,000)	-
Net Change in Fund Balance	(432,433)	225,349	550,190	324,841
Fund Balance - Beginning of year	3,670,446	3,670,446	3,670,446	-
Fund Balance - End of year	\$ 3,238,013	\$ 3,895,795	\$ 4,220,636	\$ 324,841

Waverly Community Schools

Required Supplemental Information

Schedule of Waverly 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	0.19448 %	0.18841 %	0.19694 %
School District's proportionate share of the net pension liability	\$ 48,522,117	\$ 46,018,023	\$ 43,379,599
School District's covered employee payroll	16,578,967	15,684,300	16,735,115
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	292.67 %	293.40 %	259.21 %
Plan fiduciary net position as a percentage of the total pension liability	63.01 %	62.92 %	66.15 %

Waverly Community Schools

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

	2017	2016	2015
Statutorily required contribution	\$ 4,577,160	\$ 4,394,123	\$ 3,447,307
Contributions in relation to the statutorily required contribution	4,577,160	4,394,123	3,447,307
Contribution deficiency (excess)	-	-	-
School District's covered employee payroll	16,219,099	15,836,354	15,893,807
Contributions as a percentage of covered employee payroll	28.22 %	27.75 %	21.69 %

Waverly Community Schools

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

Benefit Changes - There were no changes of benefit terms in 2016.

Changes in Assumptions - There were no changes of benefit assumptions in 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

Waverly Community Schools

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

	Special Revenue Funds		Capital Projects Fund				Total Nonmajor Governmental Funds
	Food Services	Community Services	2013 Building and Site Series I Fund	2016 Building and Site Series II Fund	Board Designated Capital Projects Fund	Sinking Fund	
Assets							
Cash and investments	\$ 396,667	\$ 95,311	\$ -	\$ -	\$ 450,630	\$ -	\$ 942,608
Receivables	44,341	-	-	-	-	-	44,341
Due from other funds	175,094	-	-	-	-	-	175,094
Inventories	18,449	-	-	-	-	-	18,449
Restricted assets	-	-	56,790	1,241,511	-	770,768	2,069,069
Total assets	\$ 634,551	\$ 95,311	\$ 56,790	\$ 1,241,511	\$ 450,630	\$ 770,768	\$ 3,249,561
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 23,873	\$ 2,890	\$ -	\$ -	\$ -	\$ 2,934	\$ 29,697
Accrued payroll-related liabilities	14,881	3,196	-	-	-	-	18,077
Due to other funds	-	7,679	-	47,239	-	1,925	56,843
Unearned revenue	11,076	4,650	-	-	-	-	15,726
Total liabilities	49,830	18,415	-	47,239	-	4,859	120,343
Fund Balances							
Nonspendable - Inventory	18,449	-	-	-	-	-	18,449
Restricted:							
Capital projects	-	-	56,790	1,194,272	-	765,909	2,016,971
Food service	566,272	-	-	-	-	-	566,272
Committed - Capital projects	-	-	-	-	450,630	-	450,630
Unassigned	-	76,896	-	-	-	-	76,896
Total fund balances	584,721	76,896	56,790	1,194,272	450,630	765,909	3,129,218
Total liabilities and fund balances	\$ 634,551	\$ 95,311	\$ 56,790	\$ 1,241,511	\$ 450,630	\$ 770,768	\$ 3,249,561

Waverly Community Schools

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

	Special Revenue Funds		Capital Projects Fund				Total Nonmajor Governmental Funds
	Food Services	Community Services	2013 Building and Site Series I Fund	2016 Building and Site Series II Fund	Board Designated Capital Projects Fund	Sinking Fund	
Revenue							
Local sources	\$ 322,904	\$ 392,962	\$ 465	\$ 6,197	\$ 628	\$ 801,527	\$ 1,524,683
State sources	45,849	-	-	-	-	-	45,849
Federal sources	1,114,890	-	-	-	-	-	1,114,890
Total revenue	1,483,643	392,962	465	6,197	628	801,527	2,685,422
Expenditures							
Current:							
Instruction	-	141,296	-	-	-	-	141,296
Support services	-	-	-	-	-	159	159
Food services	1,301,149	-	-	-	-	-	1,301,149
Community services	-	252,510	-	-	-	-	252,510
Capital outlay	49,542	-	172,874	2,142,663	-	35,459	2,400,538
Total expenditures	1,350,691	393,806	172,874	2,142,663	-	35,618	4,095,652
Excess of Revenue Over (Under) Expenditures	132,952	(844)	(172,409)	(2,136,466)	628	765,909	(1,410,230)
Other Financing (Uses)							
Sources							
Transfers in	-	-	-	-	350,000	-	350,000
Transfers out	(94,388)	-	-	-	-	-	(94,388)
Total other financing (uses) sources	(94,388)	-	-	-	350,000	-	255,612
Net Change in Fund Balances	38,564	(844)	(172,409)	(2,136,466)	350,628	765,909	(1,154,618)
Fund Balances - Beginning of year	546,157	77,740	229,199	3,330,738	100,002	-	4,283,836
Fund Balances - End of year	<u>\$ 584,721</u>	<u>\$ 76,896</u>	<u>\$ 56,790</u>	<u>\$ 1,194,272</u>	<u>\$ 450,630</u>	<u>\$ 765,909</u>	<u>\$ 3,129,218</u>

Waverly Community Schools

Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2017

June 30	2013 School Facility Improvement Principal	2013 Building and Site Series I Principal	2013 Refunding Bonds Principal	2016 Building and Site Series II Principal
2018	\$ 130,000	\$ -	\$ 5,090,000	\$ -
2019	130,000	4,720,000	565,000	-
2020	135,000	475,000	4,830,000	-
2021	140,000	3,025,000	-	2,000,000
2022	140,000	2,315,000	-	1,500,000
2023	70,000	-	-	-
Total bonded debt	<u>\$ 745,000</u>	<u>\$ 10,535,000</u>	<u>\$ 10,485,000</u>	<u>\$ 3,500,000</u>
Principal payments due	May I and November I	May I and November I Beginning November I, 2018	May I and November I	May I Beginning May I, 2021
Interest payments due	May I and November I	May I and November I	May I and November I	May I and November I
Interest rate	2.00%	2.86%	2.62%	1.86%
Original issue	<u>\$ 1,170,000</u>	<u>\$ 10,535,000</u>	<u>\$ 23,070,000</u>	<u>\$ 3,500,000</u>

Waverly Community Schools

**Federal Awards
Supplemental Information
June 30, 2017**

Waverly Community Schools

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Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance
Independent Auditor's Report

To the Board of Education
Waverly Community Schools

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waverly 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. We issued our report thereon dated October 5, 2017, which contained unmodified opinions on the financial statements of the School District. Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 5, 2017.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the Uniform Guidance, and not a required part of the basic financial statements. Such 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. The 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 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

October 5, 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
Waverly Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Waverly 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 5, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Waverly 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
Waverly Community Schools

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 5, 2017

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance
Independent Auditor's Report

To the Board of Education
Waverly Community Schools

Report on Compliance for Each Major Federal Program

We have audited Waverly Community Schools' (the "School District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on its major federal program for the year ended June 30, 2017. Waverly Community Schools' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Waverly Community Schools' major federal program based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Waverly Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Waverly Community Schools' compliance.

To the Board of Education
Waverly Community Schools

Opinion on Each Major Federal Program

In our opinion, Waverly Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Waverly Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Waverly Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

October 5, 2017

Waverly Community Schools

Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Program Title/Project Number/Subrecipient Name	CFDA Number	Project/Award ID	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2016	Federal Funds/		Accrued Revenue at June 30, 2017	Current Year Cash Transferred to Subrecipient
						Payments In-kind Received	Expenditures		
Clusters:									
Child Nutrition Cluster -									
U.S. Department of Agriculture - Passed through the Michigan Department of Education:									
Noncash assistance -									
National School Lunch Program - Commodities	10.555	N/A	\$ 83,357	\$ -	\$ -	\$ 83,357	\$ 83,357	\$ -	\$ -
Cash assistance:									
National School Breakfast Program:	10.553								
2015-2016		161970	322,569	322,569	12,837	12,837	-	-	-
2016-2017		171970	338,452	-	-	325,202	338,452	13,250	-
National School Lunch Program:	10.555								
2015-2016		161960 / 161980	637,387	637,387	21,389	21,389	-	-	-
2016-2017		171960 / 171980	686,503	-	-	665,414	686,503	21,089	-
Summer Food Service Program	10.559	160900 / 161900	6,578	-	-	5,013	6,578	1,565	-
Cash assistance subtotal			1,991,489	959,956	34,226	1,029,855	1,031,533	35,904	-
Total Child Nutrition Cluster			2,074,846	959,956	34,226	1,113,212	1,114,890	35,904	-
Special Education Cluster - U.S. Department of Education - Passed through the Ingham ISD - Preschool Incentive:									
Preschool Incentive - 2015-2016	84.173	160460-1516	25,745	25,745	25,745	25,745	-	-	-
Preschool Incentive - 2016-2017		170460-1617	16,020	-	-	-	16,020	16,020	-
Total Special Education Grants cluster			41,765	25,745	25,745	25,745	16,020	16,020	-
Medicaid Cluster - U.S. Department of Health and Human Services - Passed through the Ingham ISD - Medicaid Outreach: 2016-2017									
	93.778	N/A	16,146	-	-	16,146	16,146	-	-
Total clusters			2,132,757	985,701	59,971	1,155,103	1,147,056	51,924	-

See Notes to Schedule of Expenditures of Federal Awards.

Waverly Community Schools

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2017

Program Title/Project Number/Subrecipient Name	CFDA Number	Project/Award ID	Approved Awards Amount	(Memo Only) Prior Year Expenditures	Accrued Revenue at July 1, 2016	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2017	Current Year Cash Transferred to Subrecipient
Other federal awards:									
U.S. Department of Education - Passed through the Michigan Department of Education:									
Title I, Part A:									
	84.010								
Title I, Part A - 2014-2015		151530-1415	\$ 493,626	\$ 466,339	\$ -	\$ (975)	\$ (975)	\$ -	\$ -
Title I, Part A - 2015-2016		161530-1516	521,563	480,458	109,087	119,591	10,504	-	-
Title I, Part A - 2016-2017		171530-1617	482,875	-	-	351,418	412,862	61,444	-
Total Title I, Part A			1,498,064	946,797	109,087	470,034	422,391	61,444	-
Title II A - Improving Teacher Quality:									
	84.367								
Title II, Part A - 2014-2015		150520-1415	119,701	116,512	-	(6,261)	(6,261)	-	-
Title II, Part A - 2015-2016		160520-1516	110,484	105,640	40,239	40,239	-	-	-
Title II, Part A - 2016-2017		170520-1617	108,839	-	-	96,830	108,839	12,009	-
Total Title II A - Improving Teacher Quality			339,024	222,152	40,239	130,808	102,578	12,009	-
Total U.S. Department of Education noncluster programs passed through the Michigan Department of Education			1,837,088	1,168,949	149,326	600,842	524,969	73,453	-
U.S. Department of Education - Passed through Okemos Public Schools									
Title III - Limited English Proficient Students - 2016-2017	84.365	170580-1617	9,601	-	-	-	9,601	9,601	-
Total federal awards			\$ 3,979,446	\$ 2,154,650	\$ 209,297	\$ 1,755,945	\$ 1,681,626	\$ 134,978	\$ -

See Notes to Schedule of Expenditures of Federal Awards.

Waverly Community Schools

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Waverly Community Schools under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Waverly Community Schools, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Waverly Community Schools.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Waverly Community Schools has elected not to use the 10 percent *de minimus* indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Grant Auditor Report

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.

Note 4 - Noncash Assistance

The value of the noncash assistance received was determined in accordance with the provisions of the Uniform Guidance.

Waverly Community Schools

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)? Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

Waverly Community Schools

Report to the Board of Education

June 30, 2017

To the Board of Education
Waverly Community Schools

We have recently completed our audit of the basic financial statements of Waverly Community Schools (the "School District") as of and for the year ended June 30, 2017. In addition to our audit report, we are providing the following results of the audit and informational items which impact the School District:

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Results of the Audit	1-4
Informational Items	5-17

We are grateful for the opportunity to be of service to Waverly Community Schools. We would also like to extend our thanks to Evan Nuffer and the entire business office for their assistance and preparedness during the audit. We recognize that preparing for the audit is carried out in addition to your staff's normal daily activities. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Plante & Moran, PLLC

October 5, 2017

Results of the Audit

October 5, 2017

To Board of Education
Waverly Community Schools

We have audited the financial statements of Waverly Community Schools (the "School District") as of and for the year ended June 30, 2017 and have issued our report thereon dated October 5, 2017. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 10, 2017, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Our audit of School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we are obligated to communicate certain matters that come to our attention related to our audit to those responsible for the governance of School District, including compliance with certain provisions of laws, regulations, contracts, grant agreements, certain instances of error or fraud, illegal acts applicable to government agencies, and significant deficiencies in internal control that we identify during our audit. Toward this end, we issued a separate letter dated October 5, 2017 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 24, 2017.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the School District are described in Note I to the financial statements. As discussed in Note I to the basic financial statements, the School District adopted Governmental Accounting Standards Board Statement No. 77.

We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

The most sensitive estimate affecting the financial statements was the School District's share of the MPSERS pension plan net pension liability recorded on the government-wide statements for the implementation of GASB Statement No. 68. The School District's estimate as of June 30, 2017 is \$48,522,117, based on data received from the Office of Retirement Services. We evaluated the key factors and assumptions used to develop the accounting estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not detect any misstatements as a result of audit procedures.

Significant Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the School District, and business plans and strategies that may affect the risks of material misstatement with management each year prior to our retention as the School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

As required by 2 CFR Part 200, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 CFR Part 200 dated October 5, 2017.

Management Representations

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

Management Consultations with Other Independent Accountants

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

This information is intended solely for the use of the Board of Education and management of Waverly Community Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Michael D. Foster". The signature is written in a cursive style with a prominent initial "M".

Michael D. Foster, CPA
Partner

Informational Items

State Aid Funding

State Aid and the Foundation Allowance

State of Michigan funding for public schools continued to focus on several recurring themes for the fiscal year ended June 30, 2017: limited increases in the foundation allowance; additional funding boosts for districts at the minimum foundation; continued student count blending formula; and additional resources dedicated to assisting with funding the district's retirement/postretirement healthcare obligation (MPERS). One change worth noting was the increase in the number of required school days to 180, up from 175 days, but without a change in the number of required hours of instruction. Many districts were already providing 180 days of instruction, and for those districts, the change did not have an impact.

2016-2017 Foundation: For the 2016-2017 fiscal year, the base foundation increased by \$60, from \$8,169 to \$8,229. The State continued its use of the "2X formula", providing districts at the minimum foundation with an increase of \$120 per pupil to \$7,511. The School District's foundation allowance was increased to \$8,562. For comparison purposes, the School District's foundation prior to the \$470 cut was \$8,873, meaning the current foundation is \$311/per pupil below the 2011 foundation allowance. In the 2016-2017 State Aid Act, a minimum funding provision continued (Section 20f). This section recognizes that the funding shift toward paying the growing MPERS expense could significantly harm some districts. Just as in 2015-2016, this categorical guarantees at least a \$25 per pupil increase after giving account to the funding changes. For many districts, the increase in the per pupil foundation was significantly offset by the previous elimination of Best Practice and Performance funding. The School District did receive funding under this section, meaning that the net resources under the formula only increased by \$25/pupil. This provision continues for 2017-2018.

2017-2018 Foundation: For the 2017-2018 fiscal year, the base foundation, once again, increases by \$60, from \$8,229 to \$8,289. Additionally, using the "2X formula", the minimum foundation allowance increases by \$120 per pupil to \$7,631. Based on these changes, your School District will receive a \$60 increase in its foundation allowance, representing an increase of .7 percent. New for 2017-2018, an additional per pupil allocation, Section 22n, was created for students counted in high school. For those students, a new categorical providing additional funding of \$25 per pupil was created. This funding is not rolled into the foundation calculation.

Foundation Calculations for Hold Harmless Districts: Due to an inflationary cap on Hold Harmless District Foundation Allowances, which was put in statute along with the school funding reforms tied to Proposal A in 1994, Hold Harmless districts (currently foundation allowances greater than \$8,229) are capped. Last year, the State Aid Act provided funding under Section 20m, which allows the difference between each Hold Harmless district's inflationary increase and the \$60 increase in the base foundation allowance to be allocated under a separate calculation. This supplemental payment allows Hold Harmless districts to receive the same minimum funding increase as other districts in 2016-2017. For 2017-2018, this allocation has been added back into the district's foundation allowance, allowing full funding of the foundation for Hold Harmless Districts.

Waverly Community Schools

Informational Items (Continued)

Pupil Membership Blend for 2016-2017 and 2017-2018: The method for counting students was the same for 2016-2017 and for 2017-2018. The funding formula uses calendar year counts with a weighting of 90 percent of the fall count and 10 percent of the February count. 2016 calendar year counts were used for the 2016-2017 fiscal year funding and 2017 calendar year counts are used for the 2017-2018 fiscal year funding. One significant change for 2017-2018 was an enrollment count cap of .75 for students enrolled in a shared-time program. As a result, the district cannot generate more than a .75 FTE for a student participating in a shared-time program.

At-Risk Funding: For 2017-2018, several changes were made to the funding and use of At-Risk Funds. A few key items include: an increase of about \$120 million allocated to At-Risk (approximately a 30 percent increase), use of funds to support third grade reading proficiency and eighth grade math proficiency, definition of eligible pupils expanded to include all pupils considered economically disadvantaged, and inclusion of Hold Harmless and Out of Formula districts in the At-Risk funding formula for the first time, but at 30 percent of the funding that what would otherwise be available.

MPSERS Cost Support: Retirement system contributions are a significant part of a district's labor costs. The contribution rate the School District is required to pay continues to rise, though the growth rate has slowed. The School District has no ability to influence the rate and no choice regarding its participation in the program. To aid a district in meeting its obligation, the 2016-2017 State Aid Act continued to include funding to help pay for some of the increased cost. The categorical aid is formula driven using the School District's MPSERS payroll participation data. This funding is provided in two separate sections of the State Aid Act: Section 147a and section 147c. The School District received a total of \$234,263 of 147a and \$2,075,975 of 147c categorical aid to help offset the impact of its retirement costs. Section 147c was designed to fund approximately 10 percent of covered payroll and does not increase district resources. Instead, the funding is recognized as revenue and then returned directly to the retirement system. In general terms, this means that the total cost of the retirement system contributions in 2016-2017, representing approximately 36 percent of covered payroll, is recognized as an expenditure in the School District's financial statements along with related revenue that was previously considered state support to the system. The net effect is that the School District is responsible for approximately a 26 percent contribution to the retirement system. The School District budgeted for additional state revenue and additional retirement expenditures in order to accommodate this funding mechanism, but may encounter some budget variances due to the fact the state revenue provided is based on prior year school district payroll information.

This retirement funding approach will continue into 2017-2018. However, there are key changes that will impact retirement contributions. The first is the fact that the assumed rate of return within the retirement plan will be decreasing to 7.5 percent from 8 percent. When this assumption is reduced, it has the net effect of increasing the value of the retirement obligation for the plan. This then increases the required contributions to fund the plan. A total of \$48 million has been provided in 147a to pay school districts to offset the impact of this change. Second, for staff hired on or after February 1, 2018, the default employee election will be into a defined contribution (DC) plan; however, an employee can elect the hybrid plan within a specified timeframe. District contributions and state support are also modified for employees electing the DC plan. This will create a change in the district's cost of the benefit for employees new to the retirement system in February 2018. Additional funding is provided under a new State Aid Act, Section 147e, to help support the shift to the new design.

Waverly Community Schools

Informational Items (Continued)

Other State Aid Act Changes Impacting 2017-2018

The amendments to the State Aid Act made several other changes impacting school districts. Several changes we identified that could impact the School District include the following:

Partnership Model - Section 21h provides new funding to assist districts assigned by the MDE to participate in a partnership to improve student achievement, including funds for professional development, increased instructional time, mentors, and other costs impacting student achievement.

MEAP/M-STEP - The MDE is required to make the Kindergarten Entry Assessment (KEA) available to districts in 2017-2018.

Repayments to State - If a district is overpaid by the State of Michigan, it is required to repay the State. If the repayment creates a hardship, a request for extending payments can be made. In 2017-2018, the amount of time the MDE may grant for a district to repay any overpayments has increased from four to nine years.

Enrollment after Fall Count Day - After the 2016-2017 School Aid amendments were passed, which eliminated the ability to prorate a pupil enrolled after the count day, a supplemental appropriation (HB 5291) was passed, reinstating the opportunity to prorate a student added after the count day. For 2017-2018, the ability to prorate student count for pupils added after the count day continues.

Transparency Reporting Requirements - These content posting requirements continue and include, but are not limited to, deficit elimination plans, enhanced deficit elimination plans, district credit card information, budget information, procurement and reimbursement policies, and out-of-state travel information. Transparency reports must be updated on the district's website within 15 days of the change.

Adult Education - Several changes were made to the funding formula and eligibility requirements. From now to 2019-2020, funding will shift toward allocations to prosperity regions and subregions. As a result, for districts with significant adult education programs, a careful review of the changes will be important for planning future operations.

State Aid Planning Considerations for 2018-2019 and Beyond

Michigan's economy is steady, but, based on Revenue Estimating Conference predictions, there are financial challenges ahead for the State. As we have seen by the School Aid Fund, revenue continues to grow at a slow pace, but the General Fund projections are at a slower pace. The governor's executive recommendations and legislative actions have provided some increases for general operations, but, for many districts, actual increases to support general school operations have been at or below inflation rates. In the last few years, increases have been concentrated in early childhood, At-Risk, and in funding for the increasing retirement obligation. While the final State Aid Act amendments provided additional funds for operations in 2017-2018, because of the elimination of performance funding and best practices, for many the net increase in funding was \$25/pupil from the levels in place when best practice and performance were provided. In addition, since the 2017-2018 amendments to the State Aid Act were not signed until July 2018, it is possible the revenue estimates used in the initial 2017-2018 school district budget may need to be revised. As the legislature and governor continue to modify tax policy, plan for State General Fund resource needs, modify the retirement system benefits, and revisit School Aid Fund resource allocations, the growth and availability of School Aid Fund resources to fund K-12 operations is likely to continue to be less than the rate of inflation.

Waverly Community Schools

Informational Items (Continued)

Clearly, the key issue facing the future of school funding is the need to cover the cost of the retirement system. For 2017-2018, modifications to the retirement system have projected to create significant increased costs. While it appears the legislature has provided resources through the School Aid Fund to cover the cost, it means those resources are not available to fund other K-12 operations. The funding theme in the future will likely continue to be how to use School Aid Fund resources to cover the retirement obligation. Funding this obligation will continue to impact the School District's ability to receive additional resources to fund general education initiatives, and monitoring legislative action in this area will be important in predicting future resource available for the School District.

Careful planning will continue to be key for the School District to create a cost structure that is sustainable. The use of budget modeling will be essential, especially as the district looks to determine actual state funding available to fund operations. In addition, it is important to segregate resources required to fund specific activities, such as federal funding, special education, or At-Risk, when assessing the resources available to fund continuing operations. We recommend the School District fully analyze the projected revenue available to fund operations when entering into multi-year expenditure agreements.

School Aid Fund Dynamics

In the last six years, public education has seen more change in the substance of school funding than in the last 14 years. Proposal A, as passed, was a K-12 funding mechanism. Prior to 2011, there was a series of small changes to the funding model. Some activities, previously funded with the State's General Fund, were moved to school aid. General Fund earmarks for the School Aid Fund have been reduced since 1994. Prorations became commonplace as the School Aid Fund's ability to generate new revenue slowed. Over time, some categorical revenue was eliminated and some was created. During the downturn, federal funds were added on a temporary basis to supplement state funding shortfalls. Essentially, the changes were viewed as incremental modifications.

Beginning with the 2011-2012 amendments to the State Aid Act, we experienced a redefinition of the funding model. Districts experienced a \$470 per pupil funding cut which actually "revalued" the foundation and created a new base. Along with the governor's education initiatives, the concepts of "best practice" and "rewarding" student performance were entered into the funding scheme, and then removed. Furthermore, the increased cost of the retirement system diverted funds that would have been available to fund operations. And most significantly, the funding for higher education was moved from the General Fund into the School Aid Fund along with a restructuring of tax policy. This comprehensive view and approach to the management and funding of education created a new definition of reality for Michigan schools. This new reality continued into the amendments to the State Aid Act for 2017-2018.

Implications from the restructure of the State's funding approach are substantial and impact how a district will be able to generate additional state funding into the future. The additional revenue identified after the May 2017 Revenue Estimating Conference created a 2X funding formula increase of \$60-\$120 per pupil, similar to the previous year. As part of the restructure, a funding floor categorical allocation was added. It provides a minimum per pupil increase of \$25 per pupil. Once again, more funds were also set aside to provide additional contributions to the retirement system. It is clear, based on future projections from the retirement system, including the implications from the restructure of the hybrid plan and the reduction in the assumed rate of return, that the increased costs of the system will absorb significant resources from the School Aid Fund or from district operating budgets. Based on the funding priorities from this legislative session, it appears the focus will continue to be on the costs of the retirement system, and real dollar increases to fund general operations are likely to be limited.

Waverly Community Schools

Informational Items (Continued)

As the School District continues to evaluate and select its operational and educational initiatives, it will be increasingly important to monitor the implications from legislative action. As the governor and legislature move forward with their education agenda and attempt to balance it with growing General Fund needs, it is likely there will be new elements producing a significant impact on the funds received by the School District from the State. The key question will continue to be “what resources will be available for the district to fund its recurring operations?”

Food Service Fund Bad Debt Policy Requirements

The School District should ensure that its policies include guidelines on the treatment of bad debt in the School Meals Program. Per 2 CFR §200.426, bad debts arising from uncollectible accounts are unallowable costs. Given that these costs are unallowable, any bad debts should be transferred out of the Nonprofit School Food Service Fund.

The Michigan Department of Education has clarified its position on this topic in Administrative Policy No. 6 (school year 2016-2017). A distinction is made between delinquent debt and bad debt. An account is deemed to be bad debt when it is uncollectable at the end of the school year in which the debt was incurred. Any costs incurred to collect on these bad debts would also be unallowable. On the other hand, delinquent accounts that occur periodically during the year are not considered bad debt until an assessment is done at the end of the school year. With this definition of bad debt, an adjustment to the School Food Service Fund is not needed until the end of each fiscal year.

Once an account is determined to be bad debt, a nonfederal funding source must reimburse the School Food Service Fund for the total amount of the bad debt. The district has discretion on how it will handle the bad debt once it is transferred out of the School Food Service Fund. Additional collection procedures may take place, but they cannot be at the expense of Food Service. Any future collections on the bad debt would belong to the fund into which they were transferred (i.e., the General Fund). The district should also make sure the Point of Sale system reflects any adjustments for bad debt transferred.

The School District should have a written policy to address food service bad debt. This should be included in the School District’s meal charge policy as required under the Healthy, Hunger-Free Kids Act of 2010. Additional guidance can be found in *USDA Memo SP 46-2016 Unpaid Meal Charged: Local Meal Charge Policies*.

Fund Balance

Given the current focus of state funding does not provide significant new resources for operations, we feel that it is important for the School District to maintain an appropriate level of fund equity. We believe that the benefit of the School District maintaining an appropriate amount of fund equity is that it allows the School District the ability to maintain its current level of programs, while being able to meet unforeseen circumstances, like the implementation of state aid proration or a significant change in enrollment. This becomes especially important due to the funding caps imposed by school finance reform, increasing retirement and healthcare costs, other cost pressures the School District is facing, and cash flow needs due to the fact about 18 percent of the School District’s state aid is received after the school year has ended, as well as concerns over the allocation of resources within the School Aid Fund in the future and the fact that the State is increasing its monitoring of each school district’s financial health, including implications from the Early Warning requirements.

Waverly Community Schools

Informational Items (Continued)

During the 2016-2017 school year, the School District's General Fund revenue exceeded expenditures by approximately \$550,000. This resulted in increasing the General Fund equity to approximately \$4,220,636 at June 30, 2017. Fund balance goals are often stated in terms of a percentage of total expenditures (excluding transfers out). As a point of reference, the statewide average for school districts at June 30, 2016 (excluding Detroit) is approximately 11.37 percent of expenditures (excluding transfers out). Fund equity of 5.5 percent of expenditures would approximately equal the School District's average accounts payable and payroll for a three-week period, while 11 percent would approximately equal six weeks. The School District's fund equity percentage is 14 percent and equals approximately 7.5 weeks of operation. Clearly, the School District will continue to face difficult budget challenges in 2017-2018 to fund recurring operating costs. Given the current focus of how state funding is appropriated, budget planning and fund balance management will continue to be essential elements for the School District's success.

Budgeting for Sustainability

With stagnant revenue and costs that have already been cut and revised year after year, it becomes increasingly more difficult to budget for sustainability. The State has put an emphasis on striving for sustainability. Through the Early Warning Legislation, any indicators in decline, even in budgets, are being closely scrutinized by the State Treasury. Many districts continue to use fund balance, an unsustainable practice. Looking forward, districts must evaluate long-term plans, including technology plans, capital plans, staff contract plans, and what needs the district will have. It must then be assessed with revenue projections, based on facts as we know them, to determine if the district will be able to address these needs. In order to maintain a healthy fund balance, the district must be proactive and plan strategically in managing contracts, offering programs to attract students, and investing in technology and infrastructure. Districts are faced with the challenge of thinking outside the box in order to find ways to compose sustainable budgets for the future. As the School District pursues its financial management, we encourage a continued focus on sustainability.

GASB Statement No. 75 - Postemployment Benefits Other Than Pensions (OPEB)

Effective for the School District's June 30, 2018 financial statements is GASB Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This upcoming GASB 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 government-wide financial statements its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The statement is expected to have a similar impact on the statement of net position as did GASB No. 68 when it was adopted in 2015. Just like GASB No. 68, it is not expected to have an impact on the modified accrual funds (General Fund) and should not impact the School District's budget process. The statement also enhances accountability and transparency through revised note disclosures and required supplementary (or supplemental) information (RSI).

Waverly Community Schools

Informational Items (Continued)

IT Items

Cyber Security

Public schools are not exempt from cyberattacks in which systems and critical data are compromised. School systems store personal information of staff, underage students, and students' parents in addition to other confidential data. It is important that schools protect themselves from both external and internal threats, whether they are intentional or accidental threats. For example, ransomware attacks are on the rise and gain media attention with their ability to cripple an organization, including schools and universities. It may be the hacks of large, multi-million companies that we see exposed on the evening news, but public schools can be an enticing target with the amount of data and limited budget to protect themselves.

Here are some questions to think about regarding cybersecurity issues:

- Do you receive a lot of junk email?
- Are you allowed to access risky or unsafe websites?
- Have you attended any security awareness trainings?
- In the event of an incident, are you familiar with who should be contacted?
- Is there a plan in place in the event of a breach and student records are lost?

Because of the many access points within a school district's IT environment, continued assessment of cybersecurity issues is an essential part of the district's overall data security assessment.

Waverly Community Schools

Informational Items (Continued)

Multi-line Phone Systems and Enhanced 911

For the past several years, the State of Michigan has been seeking to adopt legislation regarding the capabilities of multi-line telephone systems (MLTS) to provide location information on where calls originate from when calling 911 for emergency services. Under the new legislation, any call placed to 911 must include specific location information to emergency dispatchers, beyond the basic address information that has been provided in the past. This information is to include detail on the location of the origination of the call within the building from which it was dialed. An example follows:

	Requirement Prior to New Legislation	Requirement Under New Legislation
Originating Number	Main Phone Number (248) 555-1000	Actual Originating Number or Extension (248) 555-1234 or (248) 555-1000 ext. 1234
Customer's Name	Anytown School District	Anytown School District
Address	Address of Primary Switching Equipment 123 Main St.	Address of Call Origination 123 Main St. - Building B
Location	Not Required	Physical Location of Originating Phone West Wing, 2 nd Floor, Room 201
City and State	City and State of Primary Switching Equipment Anytown, MI 12345	City and State of Originating Phone Anytown, MI 12345

This example highlights a critical challenge that many districts are facing, in particular those districts that operate aging phone systems. Many older phone systems are not capable of storing specific location information for all phones, nor are they capable of automatically sending that information to emergency dispatchers when a 911 call is placed, resulting in districts being compelled to invest in new phone systems.

The new legislation is currently planned to be enforced beginning on December 31, 2019. While enforcement has already been deferred several times, this is a critical item that should be included in your budget planning to ensure that the School District is compliant.

Waverly Community Schools

Informational Items (Continued)

ORS 3 Percent Healthcare Contribution

Effective July 1, 2010, Public Act 75 required school districts withhold 3 percent from each employee's compensation and forward it to the Michigan Office of Retirement Services (ORS) for deposit into a healthcare trust. In 2012, the Michigan legislature passed Public Act 300, which changed employee retirement and retiree medical alternatives. Under the retiree medical alternative, an employee could elect to continue the 3 percent contribution.

Initially, there was much uncertainty regarding the taxation and withholding requirements related to the 3 percent contribution. Law firms have provided guidance that the required contribution is not subject to federal, state, or FICA taxation, and therefore is not subject to withholding; Plante & Moran, PLLC supports this conclusion. However, many districts withheld FICA taxes as a result of the tax treatment uncertainty. Some of these districts have filed FICA refund claims with the IRS, and some have not. Some districts continue to withhold FICA taxes pending (1) final conclusion of the appeals process related to the constitutionality of the withholding, and (2) IRS determination of the 3 percent contribution tax treatment through a private letter ruling request. At this time, each district's tax treatment of the 3 percent contributions should generally have merit and support; the basis for the district's decision on this issue should be documented in its files.

In April 2011, the Michigan Court of Claims ruled withholding of the 3 percent contribution, required under Public Act 75, is unconstitutional. However, the Court required districts to continue withholding and forwarding the funds to ORS, but provided that the funds were to be placed in a special escrow account and the funds cannot currently be used to pay benefits. In August 2012, the Michigan Court of Appeals affirmed the decision by the Court of Claims. This decision was appealed to the Michigan Supreme Court.

Also, Public Act 300 was challenged in the Michigan courts. In January 2014, the Michigan Court of Appeals ruled that the Public Act 300 changes made to employee contribution options under MPSERS did not interfere with teacher union contracts. This decision was appealed to the Michigan Supreme Court. On April 8, 2015, the Michigan Supreme Court upheld the constitutionality of Public Act 300 and the 3 percent retiree healthcare contributions made by public school employees beginning with the first payroll in February 2013.

On June 30, 2015, the Michigan Supreme Court remanded the Public Act 75 issue to the Michigan Court of Appeals with direction to reconsider Public Act 75 in light of the Supreme Court's ruling on Public Act 300. In June 2016, the Michigan Court of Appeals ruled Public Act 75 was unconstitutional and ordered return of the 3 percent contributions, with interest, to employees. On July 19, 2016, the State of Michigan filed a request with the Michigan Supreme Court to hear an appeal of the June 2016 decision by the Michigan Court of Appeals. On May 31, 2017, the Michigan Supreme Court agreed to hear the State's appeal. Consequently, the constitutional status of 3 percent contributions made prior to the first payroll in February 2013 remains unclear.

Waverly Community Schools

Informational Items (Continued)

During 2016, the Internal Revenue Service (IRS) flip-flopped on the tax treatment of the 3 percent contributions. During the first few months of 2016, the IRS informed some Michigan school districts the Public Act 300 3 percent contributions were subject to income and FICA tax withholding. By August 2016, the IRS reversed its position and was regularly issuing refunds of FICA taxes paid on 3 percent contributions. We are aware the IRS has consistently refunded FICA taxes on 3 percent contributions for the period from the first payroll in 2013 through December 31, 2015. Also, some school districts have applied for and received FICA tax refunds for 3 percent contributions withheld in 2016. The IRS denied a request by the State of Michigan for a private letter ruling on the taxation of the 3 percent contributions under both Public Act 75 and Public Act 300 because the State was not the employer of employees subject to the 3 percent contributions. Consequently, a Michigan school district is requesting an IRS private letter ruling on the taxation of the 3 percent contributions. Also, the IRS has informed some districts a decision about taxation of Public Act 75 3 percent contributions will be held in abeyance pending final resolution of the validity of these contributions in the Michigan Courts.

Districts had until April 15, 2017 to file amended Forms 941 to recoup 2013 FICA tax collected and paid to the IRS, if necessary. Alternatively, a district can file a protective claim to extend the deadline for filing a refund request for FICA collected. Protective claims for 2013 were required to be filed with the IRS by April 15, 2017. A protective claim for FICA paid in 2014 is required to be filed with the IRS by April 15, 2018. There are specific steps required to claim these refunds, so we recommend the School District ask for assistance, if necessary.

Cost Saving Observations and Suggestions

As part of the audit process, we attempt to identify opportunities to help the School District optimize its resources. The following are some areas of potential benefit to the School District:

Energy Costs

School districts are continuously monitoring energy costs and reviewing different opportunities to reduce these costs. School districts continue to face challenges in managing energy usage and reducing energy costs. Effective April 20, 2017, Act No. 341 was passed which could inhibit the School District's ability to utilize Electric Choice, which has proven to be a significant cost saver to the School District. The act keeps a 10 percent cap on energy choice and establishes a 15 percent renewable requirement by 2021. The School District should evaluate if this act will have a significant impact on its energy costs and continue to look for ways to reduce energy costs.

Allowable Use of School Funds

In April 2015, a new law was passed on the allowable use of school funds. This law defines items on which the School District cannot expend its funds. It states a person shall not use district funds or other public funds for purchasing alcoholic beverages, jewelry, gifts, fees for golf, or any item the purchase or possession of which is illegal. However, this does not prohibit the use of funds for a trophy or plaque for award recognition of an employee, as long as the purchase does not exceed \$100. Violation of this law is a misdemeanor. Often, school districts are requesting clarification on the types of transactions the district is allowed to execute. This law serves to answer some of those questions, but likely not all. The School District should carefully review this law to ensure it is in compliance with its requirements.

Waverly Community Schools

Informational Items (Continued)

Sinking Funds

In November 2016, a long-awaited amendment to the Sinking Fund Law was approved by the governor, and took effect in March 2017. The State of Michigan Sinking Fund legislation (Sec 1212) was amended to expand what levied dollars are authorized to pay for, as well as placing new limits on the number of mills allowed and the duration those mills can be levied.

Authorized purchases under the law now include:

- 1) Acquisition or upgrading of technology (consistent with the definition of technology under 1351a bond programs)
- 2) School security improvement, which includes capital improvements, as well as mobile telephone applications to provide the capability for personnel to communicate on-site and connect to 911

The tax levied cannot exceed 3 mills (was 5 mills), and the levy cannot exceed 10 years (was 20 years).

This was exciting news for districts that are planning to put sinking fund millage requests out to their community for vote. Unfortunately, the law amendment is not retroactive and the attractive amendments apply only on a prospective basis (new sinking funds approved by voters after March 2017). Districts that already have a sinking fund in place have an opportunity to potentially layer on an additional sinking fund and take advantage of the new authorized purchases. If you are considering the School District's ability to utilize a sinking fund in the future, or want to strategize how a new sinking fund may work best in conjunction with an existing one, please contact us.

Federal Programs

Written Procedures for Grants - Required for School District Federal Grant Participation

As part your annual single audit, we are required to assess the written procedures that exist related to the specific compliance requirements for the federal programs that are selected for testing. The Federal Uniform Guidance, which was effective during the 2014-2015 school year, outlines various requirements related to written procedures and policies. It is important for the School District to be aware of the comprehensive list of required written (board) policies and (administrative) procedures required for federal grant participation. These requirements are described in 2 CFR Part 200 and include the following:

- Written Cash Management Procedures [§200.302(b)(6)]: To implement the requirements of §200.305 payment
- Written Allowability Procedures [§200.302(b)(7)]: To determine the allowability of costs in accordance with Subpart E - Cost Principles
- Written Travel Policy [§200.474(b)]: To ensure costs incurred by employees for travel are reasonable and allowable
- Written Conflict of Interest Policy [§200.318(c)]*: To maintain standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts

Waverly Community Schools

Informational Items (Continued)

- Written Procurement Procedures [§200.319(c)]*: To ensure that all solicitations include the following requirements:
 - i. Incorporate clear and accurate descriptions of technical requirements for the material product or service to be procured
 - ii. Identify all requirements which must be fulfilled
 - iii. Ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition
- Written Procedures for Conducting Technical Evaluations of Proposals and Selecting Participants [§200.320(d)(3)]*: To maintain a method for evaluation proposals received
 - * In the Federal Register published on September 10, 2015 (Vol. 80, No. 175), the procurement procedures noted above were formally delayed via an initial two-year grace period. On May 17, 2017, the OMB extended the delay of implementation for an additional year. Therefore, the School District is not required to implement these requirements until July 1, 2018. However, if the extended delay is elected, the School District *must* document this in writing.

The School District should be aware that the aforementioned requirements for written procedures are more extensive in nature than those required for a financial statement audit, which focuses on key controls related to grants management. The Michigan Department of Education has indicated that districts that do not have the requisite written policies and procedures in place may be excluded from future participation in the grants program. In addition, absence of policies and procedures required under the Uniform Guidance could result in single audit findings.

We encourage the School District to review its policies and procedures to ensure that the items listed above have been addressed and are easily accessible for use and in the event of a fiscal monitoring. Many, if not all, of the items may already be addressed in various forms throughout the School District's policies and procedures; however, it is important the School District be aware of where the written documentation resides. If any items are not currently addressed, we recommend the School District establish the required procedures and document them accordingly.

If you would like further guidance on the requirements related to written policies and procedures, please let us know; we would be happy to provide you with some guidance and resources. Additionally, a group consisting of personnel from various districts throughout the state, audit firms, and MDE representatives was formed to update the model procedures manual. Once completed, the manual will be available on the Michigan School Business Officials website. This tool will provide information about the changes required and how to utilize the manual to assist with customizing your existing policies and procedures.