Countryside Academy

Financial Report
June 30, 2017

KRUGGEL LAWTON CPA
St. Joseph, MI

Countryside Academy
Benton Harbor, Michigan
June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Countryside Academy
Benton Harbor, Michigan

Report to the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 Countryside Academy as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8, the budgetary comparison information on page 34, the Schedule of Countryside Academy's Proportionate Share of the Net Pension Liability on page 35, and the Schedule of Countryside Academy's Contributions on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Respectfully submitted,

Kruggel, Lawton & Company, LLC

Certified Public Accountants

St. Joseph, Michigan
October 11, 2017

Countryside Academy (the "School"), a K-12 Public School Academy located in Berrien County, Michigan, has adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement 34. The Management's Discussion and Analysis, a requirement of GASB Statement 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2017 of the management of Countryside Academy.

Generally accepted accounting principles in the United States of America ("GAAP") and GASB Statement 34 require the reporting of two types of financial statements: School-wide Financial Statements and Fund Financial Statements.

School-Wide Financial Statements

The School-wide financial statements are full accrual basis statements. They report all of the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short and long term, regardless if they are "currently available" or not. Capital assets and long-term obligations of the School are reported in the Statement of Net Position of the School-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets and deferred outflows of resources that are "measurable" and "currently available" are reported. Liabilities and deferred inflows of resources are recognized to the extent they are normally expected to be paid with current financial resources.

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

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

The School as Trustee — Reporting the School's Fiduciary Responsibilities

The School is the trustee, or fiduciary, for its student activity funds and private purpose trust fund. All of the School's fiduciary activities are reported in separate statements of fiduciary net position. These are excluded activities from the School's other financial statements because the School cannot use these assets to finance its operations. The School is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Summary of Net Position

The School's net deficit was $715,893 and $1,092,040 as of June 30, 2017 and 2016, respectively, and is summarized in the table below:

	2017	2016
Assets		
Current assets	$ 2,684,124	$ 2,458,531
Capital assets, net	4,549,819	4,667,240
Total Assets	$ 7,233,943	$ 7,125,771
Deferred Outflows of Resources		
Deferred outflows of resources from pensions	$ 1,647,444	$ 1,298,064
Liabilities		
Current liabilities	$ 781,826	$ 745,870
Long-term liabilities	8,795,419	8,749,331
Total Liabilities	$ 9,577,245	$ 9,495,201
Deferred Inflows of Resources		
Deferred inflows of resources from pensions	$ 20,035	$ 20,674
Net Position (Deficit)		
Net investment in capital assets	$ 2,082,961	$ 1,747,102
Unrestricted	(2,798,854)	(2,839,142)
Total Net Position (Deficit)	$ (715,893)	$ (1,092,040)

Analysis of Financial Position

During fiscal year ended June 30, 2017, the School's net position increased by $376,147.

Current assets increased $225,593 from prior year, primarily due to increased amounts due from other governments at year-end and increased cash balances. Capital assets decreased $117,421, primarily due to asset depreciation and lack of major capital asset acquisitions during the fiscal year.

Current liabilities remained relatively consistent with the prior year, increasing by $35,956 due to an increase in accounts payable. Long-term liabilities increased overall $46,088 as a result of an increase of the School's share of the MPSERS net pension liability offset by the continued pay down of long-term debt principal throughout the year.

Analysis of Financial Position, Concluded

A few of the significant factors affecting net position during the year are discussed below:

A. General Fund Operations

The School's General Fund revenues and financing sources exceeded expenditures and other financing uses by $184,852 for the fiscal year ended June 30, 2017.

Total General Fund revenues increased $498,934 from the prior year due to; 1) reimbursements of $86,850 from the Universal Service Fund for telecommunication services and 2) an increase of $342,031 in unrestricted state aid as a result of the increase in student count and the state foundation allowance.

B. Debt Activity

During the year ended June 30, 2017, the School continued to make principal and interest payments on the two outstanding notes payable to First State Bank of Middlebury and one outstanding note payable to Greenstone Farm Credit Services. During the current year, the School made principal and interest payments totaling $453,280 and $131,198, respectively, on those existing notes.

C. Net Investment in Capital Assets

The School's net investment in capital assets decreased by $117,421, the net result of current year additions of $23,038 and depreciation of $140,459. Activity for the fiscal year is summarized in the following table:

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Capital Assets	$ 7,156,685	$ 23,038	$ -	$ 7,179,723
Less: accumulated depreciation	(2,489,445)	(140,459)	-	(2,629,904)
Net Capital Assets	$ 4,667,240	$ (117,421)	$ -	$ 4,549,819

Results of Operations

The School-wide results of operations for the fiscal years ended June 30th are summarized in the table below:

	2017	2016
Revenues		
General Revenues:		
State of Michigan	$ 5,136,012	$ 4,783,415
Other general revenues	5,249	8,960
Total general revenues	$ 5,141,261	$ 4,792,375
Operating Grants:		
Federal	$ 713,327	$ 684,965
State of Michigan	783,561	731,156
Other operating grants	144,309	40,759
Total operating grants	$ 1,641,197	$ 1,456,880
Charges for Services:		
Food service	$ 15,278	$ 9,394
Total revenues	$ 6,797,736	$ 6,249,255
Expenses		
Instruction	$ 2,853,287	$ 2,759,688
Support services	2,879,530	2,474,317
Athletics	89,810	71,608
Food service	327,305	309,580
Interest on long-term debt	131,198	151,850
Depreciation (unallocated)	140,459	139,399
Total expenses	$ 6,421,589	$ 5,906,442
Change in Net Position	$ 376,147	$ 352,207
Net Position (Deficit) - Beginning of Year	(1,092,040)	(1,444,247)
Net Position (Deficit) - End of Year	$ (715,893)	$ (1,092,040)

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

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

a. State of Michigan State Aid Act per student foundation allowance,

b. Student Enrollment - Blended at 90 percent of current year fall count and 10 percent of prior year winter count, and

c. The School's non-homestead levy.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The School's foundation allowance for the fiscal year 2017 was $7,511 per student which was $120 more than the previous year.

Student Enrollment

The School's student enrollment for the fall count of 2016-2017 was 696 students. The School's enrollment increased from the prior year count by 38 students. The following summarizes fall student enrollments in the past five years:

Fiscal Year	Student FTE	FTE Change from Prior Year
2016 - 2017	696	38
2015 - 2016	658	19
2014 - 2015	639	45
2013 - 2014	594	19
2012 - 2013	575	75

Subsequent to year-end June 30, 2017, preliminary student enrollments for 2017-2018 indicate that enrollments may decrease by approximately 13 students from 2016-2017.

B. Food Sales to Students & Adults (School Lunch Program)

Compared to the prior school year, the School's food and milk sales to students and adults increased by $5,884, or approximately 63%. Food prices remained relatively consistent with prior years.

The total revenues for Food Service operations exceeded total expenditures for the year by $34,694.

C. General Fund Expenditures Budget Vs. Actual Five Year History

	Expenditures Preliminary Budget	Expenditures Final Budget	Expenditures Final Audit	Variance: Audit vs. Prelim. Budget	Variance: Audit vs. Final Budget
2016 - 2017	$ 5,636,182	$ 6,424,252	$ 6,251,449	10.92%	-2.69%
2015 - 2016	5,530,153	6,011,801	5,957,565	7.73%	-0.90%
2014 - 2015	4,845,041	5,369,596	5,659,251	16.81%	5.39%
2013 - 2014	4,565,826	4,959,790	4,830,899	5.81%	-2.60%
2012 - 2013	4,100,043	5,036,635	4,956,836	20.90%	-1.58%
	Five Year Average: Over (Under) Budget			12.43%	-0.48%

D. General Fund Revenues Budget Vs. Actual Five Year History

	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Variance: Audit vs. Prelim. Budget	Variance: Audit vs. Final Budget
2016 - 2017	$ 5,754,905	$ 6,446,553	$ 6,436,301	11.84%	-0.16%
2015 - 2016	5,540,665	5,936,124	5,937,368	7.16%	0.02%
2014 - 2015	4,875,126	5,580,585	5,606,406	15.00%	0.46%
2013 - 2014	4,573,982	4,960,094	4,990,960	9.12%	0.62%
2012 - 2013	4,124,693	4,610,973	4,603,716	11.61%	-0.16%
	Five Year Average: Over (Under) Budget			10.95%	0.16%

E. Original vs. Final Budget

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

As a matter of practice, Countryside Academy amends its budget during the school year. For the fiscal year ended June 30, 2017, the budget was amended twice. The June 2017 budget amendment was the final budget for the fiscal year.

F. Factors Bearing on the School's Future

Enrollment for the 2017-2018 school year is expected to decrease by approximately 13 students. Based on the expected 2017-2018 foundation allowance of $7,522, this would result in a decrease of approximately $97,786 of unrestricted state funding.

G. Contacting the School's Financial Management

The financial report is designed to provide users of the report with a general overview of the School's finances. If you have questions about this report or need additional information, please contact the Business Office at Countryside Academy.

STATEMENT OF NET POSITION
JUNE 30, 2017

		Governmental Activities
Assets		
Current assets:		
Cash and cash equivalents	$	1,571,708
Prepaid items		700
Due from other governments		1,111,716
Total current assets	$	2,684,124
Noncurrent assets:		
Capital assets, net	$	4,549,819
Total Assets	$	7,233,943
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	$	1,647,444
Liabilities		
Current liabilities:		
Accounts payable	$	31,909
Accrued payroll and other liabilities		325,493
Long-term debt, due within one year		424,424
Total current liabilities	$	781,826
Noncurrent liabilities:		
Long-term debt, due in more than one year	$	2,042,434
Net pension liability		6,752,985
Total noncurrent liabilities	$	8,795,419
Total Liabilities	$	9,577,245
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	$	20,035
Net Position (Deficit)		
Net investment in capital assets	$	2,082,961
Unrestricted		(2,798,854)
Total Net Position (Deficit)	$	(715,893)

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Primary government -				
Governmental activities:				
Instruction	$ 2,853,287	$ -	$ 1,151,281	$ (1,702,006)
Support services	2,879,530	-	144,309	(2,735,221)
Athletics	89,810	-	-	(89,810)
Food services	327,305	15,278	345,607	33,580
Interest on long-term debt	131,198	-	-	(131,198)
Depreciation (unallocated)	140,459	-	-	(140,459)
	$ 6,421,589	$ 15,278	$ 1,641,197	$ (4,765,114)

General revenues:	
State aid not restricted to specific purposes	$ 5,136,012
Interest and investment earnings	3,197
Other	2,052
Total general revenues	$ 5,141,261
Change in Net Position	$ 376,147
Net Position (Deficit) - beginning of year	(1,092,040)
Net Position (Deficit) - end of year	$ (715,893)

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

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Non-Major Funds: Capital Projects Fund	Non-Major Funds: Special Revenue - Food Service Fund	Total
Assets				
Cash and cash equivalents	$ 1,411,793	$ 70,209	$ 89,706	$ 1,571,708
Prepaid items	700	-	-	700
Due from other governments	1,111,716	-	-	1,111,716
Due from other governmental funds	-	-	949	949
Total Assets	$ 2,524,209	$ 70,209	$ 90,655	$ 2,685,073
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 28,602	$ 3,307	$ -	$ 31,909
Accrued payroll and other liabilities	325,493	-	-	325,493
Due to other governmental funds	949	-	-	949
Total Liabilities	$ 355,044	$ 3,307	$ -	$ 358,351
Fund Balances				
Non-spendable - prepaid items	$ 700	$ -	$ -	$ 700
Restricted for food service	-	-	90,655	90,655
Committed for capital projects	-	66,902	-	66,902
Unassigned	2,168,465	-	-	2,168,465
Total Fund Balances	$ 2,169,165	$ 66,902	$ 90,655	$ 2,326,722
Total Liabilities and Fund Balances	$ 2,524,209	$ 70,209	$ 90,655	$ 2,685,073

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

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balances - Governmental Funds	**$ 2,326,722**
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 the capital assets	7,179,723
Accumulated depreciation	(2,629,904)
Deferred outflows of resources related to pension contributions made after measurement date	650,106
Deferred outflows related to pensions	997,338
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Notes and land contract payable	(2,466,858)
Net pension liability	(6,752,985)
Deferred inflows of resources related to pension differences between expected and actual experience	(20,035)
Total Net Position (Deficit) - Governmental Activities	**$ (715,893)**

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Non-Major Funds: Capital Projects Fund	Non-Major Funds: Special Revenue - Food Service Fund	Total
Revenues				
Local sources	$ 149,008	$ 461	$ 15,367	$ 164,836
State sources	5,914,673	-	4,900	5,919,573
Federal sources	372,620	-	340,707	713,327
Total Revenues	$ 6,436,301	$ 461	$ 360,974	$ 6,797,736
Expenditures				
Instruction	$ 2,760,735	$ -	$ -	$ 2,760,735
Supporting services	2,891,749	-	326,280	3,218,029
Debt service:				
Principal payments	453,280	-	-	453,280
Interest	131,198	-	-	131,198
Capital outlay	-	32,933	-	32,933
Total Expenditures	$ 6,236,962	$ 32,933	$ 326,280	$ 6,596,175
Excess (Deficiency) of Revenues over (under) Expenditures	$ 199,339	$ (32,472)	$ 34,694	$ 201,561
Other Financing Sources (Uses)				
Operating transfers in	$ -	$ 14,487	$ -	$ 14,487
Operating transfers out	(14,487)	-	-	(14,487)
Total Other Financing Sources (Uses)	$ (14,487)	$ 14,487	$ -	$ -
Net Change in Fund Balances	$ 184,852	$ (17,985)	$ 34,694	$ 201,561
Fund Balances - Beginning of year	1,984,313	84,887	55,961	2,125,161
Fund Balances - End of year	$ 2,169,165	$ 66,902	$ 90,655	$ 2,326,722

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

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances - Total Governmental Funds	**$**	**201,561**
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives and reported as deprecation expense.		
Capital outlay		23,038
Depreciation expense		(140,459)
Repayment of notes and land contract payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Principal payments on long-term debt		453,280
Change in pension expense related to pension		(161,273)
Change in Net Position of Governmental Activities	**$**	**376,147**

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

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	Private Purpose Trust Fund-Scholarship Fund	Agency Fund-Student Activities	Total
Assets			
Cash and cash equivalents	$ 1,493	$ 27,556	$ 29,049
Total assets	$ 1,493	$ 27,556	$ 29,049
Liabilities and Net Position			
Liabilities			
Due to student groups	$ -	$ 27,556	$ 27,556
Net Position			
Reserved for scholarship	$ 1,493	$ -	$ 1,493
Total liabilities and net position	$ 1,493	$ 27,556	$ 29,049

COUNTRYSIDE ACADEMY

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Private Purpose Trust Fund-Scholarship Fund
Additions	
Interest	$ 8
Deductions	
Scholarships awarded	(250)
Change in net position	$ (242)
Net Position-Beginning	1,735
Net Position-Ending	$ 1,493

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Countryside Academy (the “School”) conform to accounting principles generally accepted in the United States of America (“GAAP”) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the School:

Reporting Entity

The School is governed by an appointed seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (“GASB”) 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 Schools’ reporting entity, and which organizations are legally separate, component units of the School. Based on the application of the criteria, the School does not contain any component units.

School - Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. 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. Intergovernmental payments, and other items not properly included among program revenues 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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

School-Wide Statements — The School-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

School-Wide Statements (concluded) — Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 inter-fund activity has been eliminated from the School-wide financial statements.

Fund Based 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

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 government. The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School reports the following major governmental fund:

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

Additionally, the government reports the following fund types:

Capital Project Fund is used by the School to fund and utilize for future capital projects.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School maintains full control of these funds. The School Service Fund maintained by the School is the Food Service Fund.

Fiduciary Funds are used to account for assets held by the School in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the school-wide statements. Agency Funds are custodial in nature and do not involve measurement of results of operations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Based Statements (concluded) — The School presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes and are segregated and held in trust for the students and parents. The School also maintains a Scholarship Fund used for scholarships for students attending four year colleges.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

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

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

State Aid — The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The School also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories — Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Prepaid Items — Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 government as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The School does not have infrastructure type assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

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

Compensated Absences — The liability for compensated absences, if any, reported in the School-wide statements consists of unpaid, accumulated annually, vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future, to receive such payments upon termination are included.

Long-Term Obligations — In the School-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Inflows of Resources — In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of sources (revenue) until that time. The School has one deferred inflow of resources related to the pension plan.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity — The School follows the provisions of GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The following are the School's fund balance classifications:

Non-spendable fund balance — includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted fund balance — includes amounts that can be spent only for specific purposes stipulated by what the external resource provides (for example grant providers, constitutionally, or through enabling legislation). Effectively, restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance — includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed constraint originally.

Assigned fund balance — includes amounts that are constrained by the government's intent to be used for a specific purpose, but are neither restricted nor committed.

Unassigned fund balance — is the residual classification for General Fund. This classification represents governmental fund balances that have not been assigned to other funds or that have not been restricted, committed, or assigned to specific purposes within the respective governmental fund balances.

The School's board has not adopted a formal fund balance policy.

When multiple components of fund balance are available for the expenditure (for example, a project has both restricted and unrestricted funds available for it), spending will occur in this order – restricted, committed, assigned and unassigned.

Comparative Data — Comparative data is not included in the School's financial statements.

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

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Estimates — The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenditures.

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. All annual appropriations lapse at fiscal year-end.

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

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

Excess of Expenditures Over Appropriations in Budgeted Funds — The School had expenditures that exceeded appropriations in the following budgeted functions:

	Final Budget	Actual	Variance
General Fund			
Supporting Services:			
General administration	$ 824,669	$ 846,583	$ (21,914)
Transportation	475,872	485,511	(9,639)
Debt Service:			
Interest	94,763	131,198	(36,435)

Funds sufficient to provide for excess expenditures were made available from other functions in the fund, and the excess had no impact on the financial results of the School.

Net Position Deficit – As of June 30, 2017, the Government-wide Statement of Net Position had a cumulative net position deficit of $715,893.

NOTE 3. CASH AND INVESTMENTS

As of June 30, 2017, the captions on the financial statements relating to cash and cash equivalents are as follows:

	Governmental Activities	Fiduciary Funds	Total
Cash on hand	$ 150	$ -	$ 150
Deposits	1,282,485	29,049	1,311,534
Investments (money market funds)	289,073	-	289,073
Cash and cash equivalents	$ 1,571,708	$ 29,049	$ 1,600,757

Bank Deposits:

All cash of the School is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid money funds.

Custodial Credit Risk—Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2017, $1,177,884 of the School's bank balances of $1,431,414 was exposed to custodial credit risk, because it was uninsured and collateralized with securities held by the pledging financial institution's trust depart or agent, but not in the School's name.

Investments: Michigan law permits investments in: 1) Bonds and other obligations of the United States Governments, 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively, 3) Certain commercial paper, 4) United States Government repurchase agreements, 5) Banker's acceptance of the United States Bank, and 6) Certain mutual funds. The School has put further restrictions on those investments through its current policy. At June 30, 2017, the School held cash investments in money market funds totaling $289,073 (unrestricted). These funds invest primarily in government repurchase agreements and have an average maturity of one day.

Interest Rate Risk: In accordance with its investment policy, the School will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, 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's cash requirements.

NOTE 3. CASH AND INVESTMENTS (CONCLUDED)

Credit Risk: State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by Nationally Recognized Statistical Rating Organizations ("NRSRO's"). The School's money market funds are unrated.

Concentration of Credit Risk: The School will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All investments held at year end are reported above.

Fair Value Measurement: The School categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

In instances whereby inputs used to measure the fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The School's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The School had no assets with recurring fair value measurements as of June 30, 2017.

NOTE 4. RECEIVABLES AND PAYABLES

Receivables as of year-end for the School's individual major funds, and the non-major funds and fiduciary funds in the aggregate, including any allowance for uncollectible amounts are as follows:

	General Fund
Receivables:	
Intergovernmental	$ 1,111,716

Payables as of year-end for the School's individual major funds, and the non-major and fiduciary funds in the aggregate, are as follows:

	General Fund	Capital Projects Fund	Total
Payables:			
Trade	$ 28,602	$ 3,307	$ 31,909

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NOTE 5. CAPITAL ASSETS

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Assets not being depreciated:				
Land	$ 212,919	$ -	$ -	$ 212,919
Construction in progress	-	4,775	-	4,775
Subtotal	$ 212,919	$ 4,775	$ -	$ 217,694
Capital assets being depreciated:				
Building and building improvements	$ 5,856,680	$ 18,263	$ -	$ 5,874,943
Land improvements	81,986	-	-	81,986
Buses and other vehicles	22,500	-	-	22,500
Furniture and equipment	982,600	-	-	982,600
Subtotal	$ 6,943,766	$ 18,263	$ -	$ 6,962,029
Accumulated depreciation:				
Building and building improvements	$ 1,545,775	$ 119,532	$ -	$ 1,665,307
Land improvements	25,873	7,262	-	33,135
Buses and other vehicles	22,500	-	-	22,500
Furniture and equipment	895,297	13,665	-	908,962
Subtotal	$ 2,489,445	$ 140,459	$ -	$ 2,629,904
Net capital assets being depreciated	$ 4,454,321			$ 4,332,125
Net capital assets	$ 4,667,240			$ 4,549,819

Depreciation expense of $140,459 was not charged to specific activities, as the School considers its assets to impact multiple activities and allocation is not practical.

NOTE 6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The amount due to the Food Service Fund from the General Fund relates to state aid payments for the School's lunch and breakfast programs that are received by the General Fund, but are for Food Service Fund revenues.

The General Fund made transfers to the Capital Projects Fund to fund future capital projects.

The composition of interfund balances and transfer is as follows:

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
Food Service Fund	General Fund	$ 949

Interfund Transfers:

Transfer In:	Transfer Out:	Amount
Capital Projects Fund	General Fund	$ 14,487

NOTE 7. LONG-TERM DEBT

The School's long-term debt activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Notes Payable - First State Bank of Middlebury	$ 2,886,082	$ -	$ (444,842)	$ 2,441,240	$ 415,532
Greenstone Land Contract	34,056	-	(8,438)	25,618	8,892
Total notes payable	$ 2,920,138	$ -	$ (453,280)	$ 2,466,858	$ 424,424

Annual debt requirements to maturity for the School's long-term debt are as follows:

Governmental Activities:

	Principal	Interest	Total
2018	$ 424,424	$ 122,355	$ 546,779
2019	437,297	109,067	546,364
2020	457,229	84,598	541,827
2021	473,405	58,771	532,176
2022	497,930	31,998	529,928
2023	176,573	9,926	186,499
	$ 2,466,858	$ 416,715	$ 2,883,573

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NOTE 7. LONG-TERM DEBT (CONCLUDED)

Interest expense of $131,198 was not charged to activities as the School considers its debt to impact multiple activities and allocation is not practical.

Governmental Activities:

Long-term debt consists of:

$3,222,181 - Mortgage note payable with First State Bank of Middlebury, payable in monthly installments ranging from $817 to $41,938 beginning July 23, 2014 through February 22, 2023; interest ranging from 4.75% to 5.50%. Secured by the assets of the School.	$ 2,134,710
$526,807 - Unsecured note payable with First State Bank of Middlebury, payable in monthly installments of $380 to $5,937 beginning March 22, 2013 through February 22, 2023; interest at 4.75%.	306,530
$44,000 - Land contract with Greenstone Farm Credit Services, payable in monthly installments of $835, beginning April 1, 2015 through March 1, 2020; interest at 5.25%, secured by land.	25,618
Total long-term debt	$ 2,466,858

NOTE 8. RISK MANAGEMENT

The School is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School has purchased commercial insurance for health claims and for claims relating to workers' compensation and property/casualty claims.

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Plan Description – The School is a participating employer in the Michigan Public School Employees' Retirement System ("MPSERS" or "System"), a cost-sharing multi-employer plan, of which substantially all of School's employees are covered. MPSERS's pension plan was established by the State of Michigan to provide retirement, survivor and disability benefits to public school employees. In addition, MPSERS's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. Financial statements, required supplementary information, and full actuarial assumptions of the MPSERS plan are included in the MPSERS's comprehensive annual financial report. Copies of the report can be obtained by writing to 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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 determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Member Contributions – Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions – Each School or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

Contributions – The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits ("OPEB"). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability.

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Contributions (concluded) – Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded(overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2016.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.95%
Member Investment Plan	3.0 - 7.0%	18.95%
Pension Plus	3.0 - 6.4%	17.73%
Defined Contribution	0.00%	14.56%

Proportionate Share of Reporting Unit's Net Pension Liability – At June 30, 2017, the School reported a liability of $6,752,985 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The School's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period. At September 30, 2016, the School's proportion was 0.02707 percent, which was an increase of 0.00151 percent from its proportion measured as of September 30, 2015.

Long-Term Expected Return on Plan Assets – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
TOTAL	100.0%	

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

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NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

Discount Rate – The discount rate used to measure the total pension liability was 7% - 8% depending on the plan option. The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
$ 8,696,145	$ 6,752,985	$ 5,114,714

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

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions	
Valuation Date:	September 30, 2015, rolled forward
Actuarial Cost Method:	Entry age normal cost actuarial 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

Notes:

- The actuarial assumptions used for the September 30, 2015 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2015. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273
- Recognition period for assets in years: 5.0000
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2017, the School recognized total pension expense of $872,590. At June 30, 2017, the School reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 84,160	$ 16,005
Changes of assumptions	105,578	-
Net difference between projected and actual earnings on pension plan investments	112,235	-
Changes in proportion and differences between School contributions and proportionate share of contributions	695,365	4,030
School contributions subsequent to the measurement date*	650,106	-
Total	$ 1,647,444	$ 20,035

*This amount, reported as deferred outflows of resources related to pensions resulting from the School's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year Ending June 30	Amount:
2018	$ 282,126
2019	273,256
2020	347,873
2021	74,048
	$ 977,303

Payables to the Pension Plan – As of June 30, 2017, the School has payables to the MPSERS pension plan of $42,741 for the outstanding amount of contributions due to the pension plan required for the year ended June 30, 2017.

MPSERS Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR.

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONCLUDED)

Post-Employment Benefits Other than Pensions - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 20 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the School's total contribution to the MPSERS plan discussed above. The School's contribution rates vary depending on which plan the employee is enrolled in. For the period of July 1, 2016 to September 30, 2016 the contribution rates ranged from 6.4% to 8.35% of covered payroll. For the period of October 1, 2016 to September 30, 2017, the contribution rates ranged from 5.69% to 5.91% of covered payroll. The School's contributions to the MPSERS plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were $161,936, $138,286, and $91,045, respectively. In addition, a portion ranging from 35% - 100% of the MPSERS Unfunded Actuarial Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

NOTE 10. UPCOMING 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. This pronouncement applies to post-retirement health care provided to School employees that is provided through MPSERS. This OPEB standard will require the School to recognize on the face of the financial statements (School-wide 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 supplementary information (RSI). The provisions of this statement are effective for School's financial statements for the year ending June 30, 2018. The School is currently evaluating what impact the standard will have on its financial statements once adopted.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of all state and local governments. Any activity meeting the criteria should be reported in the fiduciary fund in the basic financial statements. The School 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's financial statements for the year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*, which improves the 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 receivable and a deferred inflow of resources. The School 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's financial statements for the year ending June 30, 2021.

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NOTE 11. CONTINGENT LIABILITIES

Grants – In the normal course of operations, the School receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent to the granting funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 12. SUBSEQUENT EVENTS

The School has evaluated subsequent events through October 11, 2017, the date the financial statements were available to be issued. No events or transactions occurred during this period which requires recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE — GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Original Budget	Final Amended Budget	Actual	Variance
Revenues				
Local sources	$ 2,100	$ 52,095	$ 149,008	$ 96,913
State sources	5,339,830	5,918,148	5,914,673	(3,475)
Federal sources	372,975	436,310	372,620	(63,690)
Total Revenues	$ 5,714,905	$ 6,406,553	$ 6,436,301	$ 29,748
Expenditures				
Instruction:				
Basic instruction	$ 2,264,611	$ 2,560,377	$ 2,455,319	$ 105,058
Added needs	292,530	319,198	305,416	13,782
Supporting services:				
Pupil support services	163,556	204,704	193,432	11,272
Instructional staff	20,000	21,350	17,684	3,666
General administration	678,531	824,669	846,583	(21,914)
School administration	418,898	433,117	422,208	10,909
Business services	147,351	155,101	144,440	10,661
Athletics	83,933	90,903	88,132	2,771
Operations and maintenance	314,133	317,656	279,495	38,161
Transportation	345,529	475,872	485,511	(9,639)
Other	320,852	420,560	414,264	6,296
Debt service:				
Principal payments	491,495	491,495	453,280	38,215
Interest	94,763	94,763	131,198	(36,435)
Total Expenditures	$ 5,636,182	$ 6,409,765	$ 6,236,962	$ 172,803
Excess (Deficit) of Revenues Over (Under) Expenditures	$ 78,723	$ (3,212)	$ 199,339	$ 202,551
Other Financing Sources (Uses)				
Operating transfers out	$ -	$ (14,487)	$ (14,487)	$ -
Proceeds from debt issuance	40,000	40,000	-	(40,000)
Total other financing sources (uses)	$ 40,000	$ 25,513	$ (14,487)	$ (40,000)
Net Change in Fund Balances	$ 118,723	$ 22,301	$ 184,852	$ 162,551
Fund Balances - Beginning of year	1,984,313	1,984,313	1,984,313	-
Fund Balances - End of year	$ 2,103,036	$ 2,006,614	$ 2,169,165	$ 162,551

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF COUNTRYSIDE ACADEMY'S 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's proportion of net pension liability	0.02707%	0.02556%	0.02258%
School's proportionate share of net pension liability	$ 6,752,985	$ 6,241,693	$ 4,974,571
School's covered-employee payroll	$ 2,357,865	$ 2,400,226	$ 2,163,532
School's proportionate share of net pension liability as a percentage of its covered-employee payroll	286.40%	260.05%	229.93%
Plan fiduciary net position as a percentage of total pension liability	63.01%	62.92%	66.20%

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF COUNTRYSIDE ACADEMY'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
DETERMINED AS OF THE YEAR ENDED JUNE 30

	2017	2016	2015
Statutorily required contributions	$ 722,110	$ 639,662	$ 482,608
Contributions in relation to statutorily required contributions	722,110	639,662	482,608
Contribution deficiency (excess)	$ -	$ -	$ -
School's covered-employee payroll	$ 2,633,884	$ 2,634,268	$ 2,324,032
Contributions as a percentage of covered-employee payroll	27.42%	24.28%	20.77%

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

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

Management Compliance Letter

KRUGGEL LAWTON CPA

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

To the Board of Education of
Countryside Academy
Benton Harbor, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Countryside Academy as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Countryside Academy's basic financial statements and have issued our report thereon dated October 11, 2017.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (Finding 2017-003).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies (Finding 2017-001 and 2017-002).

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

Compliance and Other Matters

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

Countryside Academy's Response to Findings

Countryside Academy's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Countryside Academy's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Respectfully submitted,

Kruggel, Lawton & Company, LLC

Certified Public Accountants

St. Joseph, Michigan
October 11, 2017

SECTION I – STATUS OF PRIOR YEAR FINDINGS

2016-001: **Significant Deficiency – Controls Over Financial Reporting Process**

Criteria: Internal controls should be in place to provide reasonable assurance to the School that prepare, monitor, and report annual financial activity without auditor intervention.

Condition: Personnel responsible for financial reporting have time and monetary constraints that require assistance in preparing the financial statements and related footnotes. The staff of the School does understand all information included in the annual financial statements, but obtains assistance in the preparation.

Cause: School does not staff individuals with appropriate expertise to prepare complete financial statements in compliance with GAAP.

Effect: The effect of this condition places a reliance on the independent auditor to be part of the School's internal controls over financial reporting.

Recommendation: The School should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Planned Action: We are aware of this deficiency. However, due to budgetary constraints, we have not developed these processes. We intend to re-evaluate if additional funding becomes available.

Status of Finding: No change in status from prior year.

2016-002: **Significant Deficiency – Segregation of Duties Amongst Incompatible Accounting Functions**

Criteria: The School should devise an organizational structure that will enable them to appropriately segregate incompatible accounting functions.

Condition: The School lacks an appropriate segregation of certain incompatible duties with appropriate control objectives.

Cause: Limitations on number of accounting and finance personnel.

Effect: The effect of this condition subjects the School to increased risk of misstatements within the financial statements and misappropriation of assets.

Recommendation: The School should devise an organizational structure that will enable them to appropriately segregate incompatible accounting functions.

Planned Action: We are aware of this deficiency. However, given the size of our entity and our available resources, it is difficult to provide for appropriate segregation of incompatible duties for all accounting functions. We will evaluate available options to administer limited segregation of duties for key accounting functions and ensure the continued close oversight by the Board of Directors.

Status of Finding: No change in status from prior year.

SECTION II – FINANCIAL STATEMENT FINDINGS

2017-001: See prior year financial statement finding 2016-001.

2017-002: See prior year financial statement finding 2016-002.

2017-003: **Material Weakness – Material Audit Adjustments**

Criteria: The School is responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition: During the audit, it was discovered that there were material audit adjustments required to reflect accurate ending balances in the General Fund for accounts receivable.

Cause: During the 2017 fiscal year, the School did not recognize a receivable for Universal Service Fund reimbursements.

Effect: Without the proposed audit adjustments, the financial statements would have been materially misstated.

Recommendation: The School has already reviewed and approved the necessary correcting journal entries, and their effect is properly included in the audited financial statements. Accordingly, no further corrective action is necessary.

Planned Action: The School understands that revenues earned during the fiscal year should be recognized in the proper period and will accrue for such items in the future. We feel that this was an oversight that was found during the audit.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The School has spent under the $750,000 threshold for federal expenditures and is not required to have a single audit under the Uniform Guidance.