



**Kent County, Michigan**

Annual Financial Report

For the year ended June 30, 2017

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Table of Contents**

Year ended June 30, 2017

---

Financial Section

<i>Independent Auditor's Report</i> .....	1
<i>Management's Discussion and Analysis</i> .....	4
<i>Basic Financial Statements</i> .....	12
District-wide Financial Statements:	
Statement of Net Position .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet .....	15
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities .....	16
Statement of Revenues, Expenditures and Changes in Fund Balances .....	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund .....	19
Fiduciary Funds:	
Statement of Fiduciary Net Position .....	20
Statement of Changes in Fiduciary Net Position .....	21
Notes to Basic Financial Statements .....	22
<i>Required Supplementary Information</i>	
Schedule of the District's Proportionate Share of the Net Pension Liability .....	52
Schedule of District Contributions .....	53
Notes to Required Supplementary Information .....	54

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Table of Contents**

Year ended June 30, 2017

---

*Supplementary Information*

Combining and Individual Fund Statements and Schedules:

General Fund .....	56
Comparative Balance Sheet .....	57
Comparative Schedule of Revenues .....	58
Comparative Schedule of Expenditures .....	60
Nonmajor Governmental Funds .....	66
Combining Balance Sheet .....	67
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances .....	69
Schedules of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual:	
Food Service Special Revenue Fund .....	71
Child Care Special Revenue Fund .....	72
Special Revenue Funds .....	73
Food Service Special Revenue Fund:	
Comparative Balance Sheet .....	74
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances .....	75
Child Care Special Revenue Fund:	
Comparative Balance Sheet .....	76
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances .....	77
Debt Service Funds .....	78
Combining Balance Sheet .....	79
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances .....	81
Capital Projects Fund .....	83
2015 Construction Fund:	
Comparative Balance Sheet .....	84
Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances .....	85
Agency Fund .....	86
Student Activities Agency Fund:	
Statement of Changes in Assets and Liabilities .....	87

**Federal Financial Assistance Programs Supplemental Information ..... Issued Under Separate Cover**

## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

October 16, 2017

The Board of Education  
Kelloggsville Public 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 Kelloggsville Public Schools (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District'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 Kelloggsville Public Schools as of June 30, 2017, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed 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, 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 assurance.

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kelloggsville Public Schools' basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017 on our consideration of Kelloggsville Public 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 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 Kelloggsville Public Schools' internal control over financial reporting and compliance.



Certified Public Accountants

**This Page Intentionally Left Blank**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



As management of the Kelloggsville Public Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

### Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
  - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
  - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

### District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflow of resources, liabilities, and deferred inflow of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position, and how it has changed. Net position - the difference between the District's asset, deferred outflow of resources, liabilities, and deferred inflow of resources - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

**Condensed District-wide Financial Information**

The Statement of Net Position provides financial information on the District as a whole.

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets	\$ 16,987,924	\$ 35,045,409
Net capital assets	46,972,528	29,824,470
<b>Total Assets</b>	<b>63,960,452</b>	<b>64,869,879</b>
<b>Deferred Outflows of Resources</b>	<b>4,896,983</b>	<b>4,062,898</b>
<b>Liabilities</b>		
Current liabilities	2,652,548	4,951,553
Long-term liabilities	33,681,157	33,604,758
Net pension liability	33,120,251	32,339,949
<b>Total Liabilities</b>	<b>69,453,956</b>	<b>70,896,260</b>
<b>Deferred Inflows of Resources</b>	<b>364,767</b>	<b>470,983</b>
<b>Net Position</b>		
Net investment in capital assets	24,315,843	24,285,749
Restricted	178,396	4,198
Unrestricted (deficit)	(25,455,527)	(26,724,410)
<b>Total Net Position</b>	<b>\$ (961,288)</b>	<b>\$ (2,434,460)</b>

The Statement of Activities presents changes in net position from operating results:

	<u>2017</u>	<u>2016</u>
<b>Program Revenues</b>		
Charges for services	\$ 671,746	\$ 482,759
Operating grants	8,212,501	8,064,274
<b>General Revenues</b>		
Property taxes	5,656,791	5,519,310
State school aid, unrestricted	13,508,775	13,131,731
Interest and investment earnings	220,313	87,630
Other	175,800	135,721
<b>Total Revenues</b>	<u>28,445,926</u>	<u>27,421,425</u>
<b>Expenses</b>		
Instruction	14,528,023	13,875,905
Supporting services	9,167,223	8,428,599
Community services	266,228	288,228
Food service	1,593,072	1,639,104
Other	18,644	5,415
Interest on long-term debt	1,395,492	1,343,961
Depreciation – unallocated	4,066	3,977
<b>Total Expenses</b>	<u>26,972,748</u>	<u>25,585,189</u>
Increase in net assets	1,473,178	1,836,233
<b>Net Position</b> , Beginning of Year	<u>(2,434,466)</u>	<u>(4,270,699)</u>
<b>Net Position</b> , End of Year	<u><u>\$ (961,288)</u></u>	<u><u>\$ (2,434,466)</u></u>

#### Financial Analysis of the District as a Whole

Total revenues exceeded expenses by \$1,473,178, increasing total net position from a deficit of \$2,434,466 to a deficit of \$961,288. Unrestricted net assets increased by \$1,268,883 to a deficit of \$25,455,527 at June 30, 2017. The District's net pension liability, including deferred outflows and inflows of resources, decreased by \$153,570 during the fiscal year.

Property taxes and state aid accounted for most of the District's revenue, contributing about 67 cents of every dollar raised. Another 29 percent came from state and federal aid for specific programs and the remainder from fees charged for services and miscellaneous sources.

The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (62 percent).

- Total revenues surpassed expenses, increasing net position \$1,473,178 from the prior year.
- The cost of all governmental activities this year was \$26,972,748.

- Some of the costs were financed by the users of the District's programs totaling \$671,746.
- Federal and state governments subsidized certain programs with grants and contributions of \$8,212,501.
- The balance of the District's costs were financed by District taxpayers, state school aid, interest earnings and other revenue, totaling \$19,561,682.
- These general revenues consisted of \$5,656,791 of property taxes, \$13,508,775 of unrestricted state aid based on the state-wide education aid formula, investment earnings of \$220,313, and other revenues of \$175,803.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship Funds and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

### Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Rockford Public School's funds are described as follows:

#### Major Funds

##### General Fund

The General Fund is our primary operating fund. The General Fund had total revenues of \$23,892,617, total financing sources of \$99,050, total expenditures of \$22,706,455, and total other financing uses of \$200,000. It ended the fiscal year with a fund balance of \$3,880,023, up from \$2,794,811 at June 30, 2016.

##### Capital Projects Fund

The 2015 Construction Capital Projects Fund accounts for bond proceeds and voter approved capital improvement projects. The fund had total revenues of \$217,003, with total expenditures of \$18,474,534 for the fiscal year. The fund balance at year end was \$10,276,957.

#### Nonmajor Funds

##### Special Revenue Funds

The District operates two Special Revenue Funds, for the food service and child care programs. Total revenue of all special revenue funds was \$1,812,787, and total expenditures of \$1,767,560. Of the ending fund balances, \$191,780 is attributable to the Food Service Fund, and \$24,098 is attributable to the Child Care Fund.

##### Debt Service Funds

The District operates three Debt Service Funds. Total revenues were \$2,478,809, and total expenditures were \$2,477,970. Transfers from other District funds totaled \$205,538 and refunding bonds of \$870,000 were issued. Transfers to other funds were \$39,588 and payment to escrow agent was \$853,036. The ending fund balances totaled \$187,863.

##### Fiduciary Funds

The Student Activity Fund and the Scholarship Fund are operated as Fiduciary Funds of the District. The assets of these funds are being held for the benefit of the District's students. Balances on hand at June 30, 2017 totaled \$258,067. The Student Activities portion was \$176,454 and the Scholarship Funds portion was \$81,613.

### General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget three times to comply with Michigan Department of Education guidelines. These budget amendments fall into two categories:

- Changes made in January to account for the final student enrollment that determines how much foundation grant state school aid will be received during the fiscal year.
- Changes in May and final changes in June for increases in appropriations to prevent budget overruns.
- Actual revenues were \$142,131 over budget than expected which is a result of not expending all of our grant funds.
- Final expenditures were \$433,485 higher than anticipated due to the increase in expected payables and not expending all of our grant funds.

### Capital Asset and Debt Administration

#### Capital Assets

At June 30, 2017, the District had a \$61,253,075 investment in a broad range of capital assets, including school buildings, athletic facilities, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in the Notes to Basic Financial Statements.)

Capital asset purchases totaled \$16,905,563 in the fiscal year. Accumulated depreciation increased \$567,794. The net book value of capital assets at June 30, 2017 is detailed as follows:

Land	\$ 11,767,057
Construction in process	21,930,290
Land improvements	504,993
Buildings and additions	12,030,925
Vehicles	531,769
Furniture and equipment	<u>207,494</u>
<b>Net Capital Assets</b>	<b><u><u>\$ 46,972,528</u></u></b>

### Long-term Debt

At year end, the District had \$33,681,157 in general obligation bonds and other long-term debt outstanding – a net decrease of \$1,163,239 from last year. The District continued to pay down its debt, retiring \$1.9 million of outstanding bonds.

The District's bond rating for General Obligation, Unlimited Tax debt was upgraded to an "A" Standard and Poor's rating. The District's other obligations include compensated absences. There is more detailed information about long-term liabilities in the Notes to Basic Financial Statements.

### **Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The uncertainty of student foundation funding levels, as well as funding for other K-12 education programs, reflects the economic difficulties faced by the State of Michigan. The impact of the State's economic problems is demonstrated by the number of families below the poverty level and an increasing percentage of Kelloggsville students who qualify for free and reduced-cost school lunches. Analysts are predicting a slow recovery to the situation. Furthermore, the economic difficulties are resulting in jobs leaving the State which ultimately leads to families moving and a loss of students for the District.
- 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 revenues to fund its appropriation to school districts. The State periodically holds a revenue estimating conference to estimate revenues.
- With lack of stability in the funding stream from the State, and rising costs in many areas including employee health insurance, retirement contribution costs, and utilities, District Administration continues to be diligent in maintaining a reasonable level of reserves (fund balance). Measures to accomplish this include, but are not limited to: cooperative agreements with Kent Intermediate School District as well as neighboring public and parochial schools, and application for and use of grant funding for programs to improve the education of our students.

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

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Kelloggsville Public Schools, 242 – 52nd Street, Kentwood, MI, 49508.

## **BASIC FINANCIAL STATEMENTS**



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Net Position**  
**June 30, 2017**

	Governmental Activities
<b>Assets</b>	
Cash	\$ 300
Cash equivalents, deposits and investments (Note B)	13,371,396
Accounts receivable	60,465
Due from other governmental units (Note C)	3,497,861
Inventory	4,122
Prepaid expenses	53,780
Capital assets not being depreciated (Note E)	33,697,347
Capital assets being depreciated, net (Note E)	13,275,181
	<b>Total Assets</b>
	63,960,452
<b>Deferred Outflows of Resources</b>	
Loss on advance bond refundings, net	6,429
Deferred pension amounts	4,890,554
	<b>Total Deferred Outflows of Resources</b>
	4,896,983
<b>Liabilities</b>	
Accounts payable	162,114
Due to other governmental units	902,137
Accrued interest payable	225,345
Salaries payable	1,362,453
Unearned revenue	499
Long-term liabilities (Note G):	
Due within one year	1,252,257
Due in more than one year	32,428,900
Net pension liability	33,120,251
	<b>Total Liabilities</b>
	69,453,956
<b>Deferred Inflows of Resources</b>	
Deferred pension amounts	364,767
	<b>Total Deferred Inflows of Resources</b>
	364,767
<b>Net Position</b>	
Net investment in capital assets	24,315,843
Restricted for:	
Debt service	(37,482)
Child care	24,098
Food service	191,780
Unrestricted (deficit)	(25,455,527)
	<b>Total Net Position</b>
	\$ (961,288)

See accompanying notes to basic financial statement.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Activities**  
**For the year ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
<b>Governmental Activities</b>				
Instruction	\$ 14,528,023	\$ 15,857	\$ 6,357,377	\$ (8,154,789)
Supporting services	9,167,223	277,009	421,423	(8,468,791)
Community services	266,228	101,753	13,668	(150,807)
Food service	1,593,072	277,127	1,420,033	104,088
Other	18,644	-	-	(18,644)
Interest on long-term debt	1,395,492	-	-	(1,395,492)
Depreciation - unallocated*	4,066	-	-	(4,066)
<b>Total Governmental Activities</b>	<b>\$ 26,972,748</b>	<b>\$ 671,746</b>	<b>\$ 8,212,501</b>	<b>(18,088,501)</b>
<b>General Revenues</b>				
Taxes:				
				3,178,673
				2,478,118
				13,508,775
				220,313
				175,800
				<b>19,561,679</b>
				<b>1,473,178</b>
				<b>(2,434,466)</b>
				<b>\$ (961,288)</b>

\*This amount excludes direct depreciation expenses of the various programs.

See accompanying notes to basic financial statement.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2017**

<b>Assets</b>	<u>General</u>	<u>2015 Construction</u>	<u>Nonmajor</u>	<u>Total</u>
Cash	\$ 300	\$ -	\$ -	\$ 300
Cash equivalents, deposits and investments (Note B)	2,703,425	10,276,957	391,014	13,371,396
Accounts receivable	60,465	-	-	60,465
Due from other governmental units (Note C)	3,489,256	-	8,605	3,497,861
Inventory	-	-	4,122	4,122
Prepaid expenditures	53,780	-	-	53,780
<b>Total Assets</b>	<b><u>\$ 6,307,226</u></b>	<b><u>\$10,276,957</u></b>	<b><u>\$ 403,741</u></b>	<b><u>\$16,987,924</u></b>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 162,114	\$ -	\$ -	\$ 162,114
Due to other governmental units	902,137	-	-	902,137
Salaries payable	1,362,453	-	-	1,362,453
Unearned revenue	499	-	-	499
<b>Total Liabilities</b>	<b><u>2,427,203</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>2,427,203</u></b>
<b>Fund Balances (Note A)</b>				
Nonspendable	53,780	-	4,122	57,902
Restricted	-	10,276,957	396,638	10,673,595
Assigned for subsequent year expenditures	-	-	2,981	2,981
Unassigned	3,826,243	-	-	3,826,243
<b>Total Fund Balances</b>	<b><u>3,880,023</u></b>	<b><u>10,276,957</u></b>	<b><u>403,741</u></b>	<b><u>14,560,721</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 6,307,226</u></b>	<b><u>\$10,276,957</u></b>	<b><u>\$ 403,741</u></b>	<b><u>\$16,987,924</u></b>

See accompanying notes to basic financial statement.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Reconciliation of Total Governmental Fund Balances to**  
**Net Position of Governmental Activities**  
**June 30, 2017**

<b>Total governmental fund balances</b>	<b>\$ 14,560,721</b>
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$61,253,075 and accumulated depreciation is \$14,280,547.	46,972,528
Bond refunding losses are not expensed but are amortized over the life of the new bond issue.	6,429
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
General obligation bonds	\$(31,525,000)
Installment purchase agreement	(167,564)
Bond premium	(1,247,507)
Severance pay	(170,624)
Accumulated sick leave	(570,462)
	(33,681,157)
Accrued interest is not included as a liability in governmental funds.	(225,345)
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:	
Net pension liability	(33,120,251)
Deferred outflows	4,890,554
Deferred inflows	(364,767)
	(28,594,464)
<b>Total net position - governmental activities</b>	<b>\$ (961,288)</b>

See accompanying notes to basic financial statement.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2017**

	General	2015 Construction	Nonmajor	Total
<b>Revenues</b>				
Local sources	\$ 3,605,042	\$ 217,003	\$ 2,857,895	\$ 6,679,940
State sources	17,030,529	-	62,016	17,092,545
Federal sources	1,551,359	-	1,371,685	2,923,044
Interdistrict sources	1,705,687	-	-	1,705,687
<b>Total Revenues</b>	<b>23,892,617</b>	<b>217,003</b>	<b>4,291,596</b>	<b>28,401,216</b>
<b>Expenditures</b>				
Current:				
Instruction	14,414,904	-	-	14,414,904
Supporting services	8,109,701	10,850	-	8,120,551
Community services	122,644	-	124,264	246,908
Food service	-	-	1,643,296	1,643,296
Capital outlay	-	18,463,684	-	18,463,684
Interdistrict	1,000	-	-	1,000
Debt service:				
Principal repayment	53,587	-	1,060,000	1,113,587
Interest and fiscal charges	4,619	-	1,400,935	1,405,554
Bond issuance costs	-	-	17,035	17,035
<b>Total Expenditures</b>	<b>22,706,455</b>	<b>18,474,534</b>	<b>4,245,530</b>	<b>45,426,519</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>1,186,162</b>	<b>(18,257,531)</b>	<b>46,066</b>	<b>(17,025,303)</b>
<b>Other Financing Sources (Uses)</b>				
Refunding bonds issued	-	-	870,000	870,000
Other	-	-	159	159
Transfers in	99,050	-	205,538	304,588
Transfers out	(200,000)	-	(104,588)	(304,588)
Payment to escrow agent	-	-	(853,036)	(853,036)
<b>Total Other Financing Sources (Uses)</b>	<b>(100,950)</b>	<b>-</b>	<b>118,073</b>	<b>17,123</b>
<b>Net Change in Fund Balances</b>	<b>1,085,212</b>	<b>(18,257,531)</b>	<b>164,139</b>	<b>(17,008,180)</b>
<b>Fund Balances, Beginning of Year</b>	<b>2,794,811</b>	<b>28,534,488</b>	<b>239,602</b>	<b>31,568,901</b>
<b>Fund Balances, End of Year</b>	<b>\$ 3,880,023</b>	<b>\$10,276,957</b>	<b>\$ 403,741</b>	<b>\$14,560,721</b>

See accompanying notes to basic financial statement.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the year ended June 30, 2017**

---

**Net change in fund balances - total governmental funds** \$(17,008,180)

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, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which exceeded capital depreciation outlays in the current period.

	Capital outlays	\$ 17,724,487	
	Depreciation expense	<u>(567,794)</u>	17,156,693

In the Statement of Activities, only the loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the assets sold/retired. (8,635)

Bond premium is amortized over the life of the new bond issue on the Statement of Activities. 44,554

Losses on advanced bond refundings are amortized over the life of the new bond issue in the Statement of Activities. 6,426

Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position. (870,000)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not effect the Statement of Activities:

Repayment of bonds	1,905,000	
Repayment of installment purchase agreement	<u>53,587</u>	1,958,587

Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid. 10,062

In the Statement of Net Position, severance pay and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits used/paid (\$183,422) exceeded the amounts earned (\$153,321). 30,101

The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds. 153,570

**Total changes in net position - governmental activities** \$ 1,473,178

See accompanying notes to basic financial statement.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2017**

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 3,154,335	\$ 3,610,615	\$ 3,605,042	\$ (5,573)
State sources	16,249,044	17,031,023	17,030,529	(494)
Federal sources	1,406,020	1,430,669	1,551,359	120,690
Interdistrict sources	1,508,220	1,678,179	1,705,687	27,508
<b>Total Revenues</b>	<b>22,317,619</b>	<b>23,750,486</b>	<b>23,892,617</b>	<b>142,131</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	10,804,590	11,197,437	11,097,086	100,351
Added needs	3,116,088	3,451,738	3,317,818	133,920
Supporting services:				
Pupil services	1,121,431	1,233,883	1,189,885	43,998
Instructional staff services	584,180	674,779	595,224	79,555
General administrative services	424,767	416,418	408,424	7,994
School administrative services	1,532,432	1,595,177	1,591,659	3,518
Business services	561,138	473,601	470,398	3,203
Operation and maintenance services	1,675,489	1,896,747	1,844,861	51,886
Pupil transportation services	1,006,574	998,546	942,241	56,305
Central services	498,111	468,708	493,008	(24,300)
Other support services	576,778	566,430	574,001	(7,571)
Community services	109,156	108,269	122,644	(14,375)
Interdistrict	-	2,000	1,000	1,000
Debt service:				
Principal repayment	53,587	53,587	53,587	-
Interest and fiscal charges	3,300	4,620	4,619	1
<b>Total Expenditures</b>	<b>22,067,621</b>	<b>23,141,940</b>	<b>22,706,455</b>	<b>435,485</b>
<b>Excess (Deficiency) Of Revenues Over Expenditures</b>	<b>249,998</b>	<b>608,546</b>	<b>1,186,162</b>	<b>577,616</b>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	99,050	99,050	-
Transfers out	(250,000)	(200,000)	(200,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(250,000)</b>	<b>(100,950)</b>	<b>(100,950)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>(2)</b>	<b>507,596</b>	<b>1,085,212</b>	<b>577,616</b>
<b>Fund Balances, Beginning of Year</b>	<b>2,794,811</b>	<b>2,794,811</b>	<b>2,794,811</b>	<b>-</b>
<b>Fund Balances, End of Year</b>	<b>\$ 2,794,809</b>	<b>\$ 3,302,407</b>	<b>\$ 3,880,023</b>	<b>\$ 577,616</b>

See accompanying notes to basic financial statement.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Position**  
**June 30, 2017**

---

<b>Assets</b>	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
Cash equivalents, deposits and investments (Note B)	<u>\$ 81,613</u>	<u>\$ 176,454</u>
<b>Liabilities</b>		
Due to student groups	<u>-</u>	<u>\$ 176,454</u>
<b>Net Assets</b>		
Held in trust for: Individuals and organizations	<u>\$ 81,613</u>	

See accompanying notes to basic financial statement.



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Fiduciary Funds**  
**Statement of Changes in Fiduciary Net Position**  
**For the year ended June 30, 2017**

---

	Private Purpose Trust Fund
<b>Additions</b>	
Interest earnings	\$ 88
Donations	4,694
<b>Total Additions</b>	4,782
<b>Deductions</b>	
Endowment activities - scholarships	15,750
<b>Change In Net Position</b>	(10,968)
<b>Net Position, Beginning of Year</b>	92,581
<b>Net Position, End of Year</b>	\$ 81,613

See accompanying notes to basic financial statement.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

## **Note A – Summary of Significant Accounting Policies**

Kelloggsville Public Schools was organized under the School Code of the State of Michigan and services a population of approximately 2,257 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Kelloggsville Public Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District’s significant accounting policies are described below.

### **1. Reporting Entity**

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

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

**District-wide Financial Statements** – The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net position is reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund and the 2015 Construction Capital Projects Fund are the District's major funds. Non-major funds are aggregated and presented in a single column.

**Fund Financial Statements** – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate statements.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

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 revenues in accordance with state law and accounting principles generally accepted in the United States of America.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

**Governmental Funds**

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

*General Fund*—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

*Special Revenue Funds*—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

*School Service Funds*—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Child Care Special Revenue Funds.

*Debt Service Funds*—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

*Capital Projects Funds*—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code.

**Fiduciary Funds**

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

*Trust Funds*—Trust Fund net position and results of operations are not included in the district-wide financial statements. Trust funds are reported using the economic resources measurement focus.

*Agency Funds*—Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities 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.

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

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

#### **4. Budgets and Budgetary Accounting**

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit Kelloggsville Public Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Kelloggsville Public Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

#### **5. Encumbrances**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

#### **6. Investments**

Investments are recorded at fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

**7. Inventories and Prepaid Items**

Inventories are valued at cost (first-in, first-out). Inventories of the General Fund consist of teaching and custodial supplies. Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

**8. Capital Assets**

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

Land improvements, buildings and improvements, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and improvements	40-50 years
Furniture and equipment	3-10 years
Vehicles	5-10 years

**9. Long-term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

**10. Severance Pay/Accumulated Sick Leave**

Severance pay and accumulated sick leave at June 30, 2017 has been computed and recorded in the district-wide financial statements of the District. Eligible District employees who retire are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused sick days. At June 30, 2017, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for severance pay and accumulated sick leave amounted to \$170,624 and \$570,462, respectively.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

**11. Retirement Plan**

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

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

**12. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net 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 future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two such items that qualify for reporting in this category: the deferred charge on a previous year's bond refunding and the deferred outflows relating to the recognition of net pension liability on the financial statements.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements.

**13. Net Position**

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

#### **14. Fund Balance**

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing 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, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts.
- Assigned - resources that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As Kelloggsville Public Schools has not established a policy for its use of unrestricted fund balance amounts, it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

The District Board of Education has given the Superintendent the authority to assign fund balances. At June 30, 2017, \$2,981 of the Food Service Special Revenue Fund balance has been assigned for subsequent year expenditures encumbered.

#### **15. Interfund Activity**

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

#### **16. Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

**Note B – Cash Equivalents and Investments**

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker’s acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2017 related to cash equivalents and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	\$ 13,371,396
Fiduciary Funds:	
Trust and Agency Funds	<u>258,067</u>
	<u>\$ 13,629,463</u>

**Cash Equivalents**

Depositories actively used by the District during the year are detailed as follows:

1. Chemical Bank

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

Cash equivalents consist of bank interest earning Checking NOW Unlimited Public accounts and non-interest earning Business Checking accounts.

June 30, 2017 balances are detailed as follows:

Cash equivalents	<u>\$ 3,422,649</u>
------------------	---------------------

*Custodial Credit Risk as Related to Cash Equivalents*

Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents was \$3,422,649 and the bank balance was \$3,648,072. Of the bank balance, \$419,725 was covered by federal depository insurance and \$3,228,347 was uninsured and uncollateralized.

**Investments**

As of June 30, 2017, the District had the following investments:

Chemical Bank Cash and Equivalents Money Market:

Fidelity Institutional Treasury Portfolio	<u>\$ 10,206,814</u>
---	----------------------

The Chemical Bank Cash and Equivalents Money Market is an external pooled investment fund that includes qualified investments in accordance with the applicable sections of the Michigan School Code. The fund is not rated, regulated or registered with the Securities Exchange Commission.

*Credit Risk as Related to Investments*

Credit risk is the risk that an issuer, or other counterparty to an investment, will not fulfill its obligation. The District's investment policy does not specifically address credit risk, but minimizes its credit risk by limiting investments to the types allowed by the State.

*Interest Rate Risk*

The District minimizes 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.

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

*Foreign Currency Risk*

The District is not authorized to invest in investments which have this type of risk.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

**Note C – State School Aid/Property Taxes**

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts.

These additional State revenues pass through to Michigan school districts in the form of a per pupil “Foundation Allowance” paid on a “blended count” of District pupil membership in February 2016 and October 2016. The 2016-17 “Foundation Allowance” for Kelloggsville Public Schools was \$7,511 for 2,249 “Full Time Equivalent” students, generating \$16,700,262 in State aid payments to the District, of which \$3,037,234 was paid to the District in July and August 2017 and included in “Due From Other Governmental Units” of the General and Food Service Special Revenue Funds of the District.

Property taxes for the District are levied July 1 and December 1 (the tax lien dates) under a split-levy system by the Cities of Kentwood and Wyoming, and due 75 days after the levy date. The taxes are then collected by each governmental unit and remitted to the District. The County of Kent, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill “Local Enhancement Millage” which must be shared between all local districts in each respective county intermediate district.

Kelloggsville Public Schools’ electors previously approved a five year operating millage extension in May, 2014 for the 18 mill non-homestead property tax.

The District levied 7.32 mills for debt service purposes, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill “School Operating” tax. It is not exempt from the 6 mill “State Education” tax, any voted “Local Enhancement Millage” nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

The District is subject to tax abatements granted by the County of Kent with local businesses under the Plant Rehabilitation and Industrial Development Districts Act, (known as the Industrial Facilities Exemption) PA 198 of 1974, as amended, provides a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assists in the building of new facilities, and promotes the establishment of high tech facilities. An Industrial Facilities Exemption (IFE) certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term up to 12 years as determined by the local unit of government. The agreements entered into by each local unit include claw back provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation. The tax abated property taxes are calculated by applying half the local property tax millage rate on the total IFT taxable value. This amounts to a reduction in property tax revenue of approximately 50%.

For the year ended June 30, 2017, the District's property tax revenues were reduced by approximately \$236,096 under these agreements.

**Note D –Interfund Receivables/Payables and Transfers**

Amounts due from (to) other funds, representing interfund receivables and payables for year-end expenditure allocations not reimbursed at June 30, 2017, are detailed as follows:

Operating transfers between funds during the year ended June 30, 2017 were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Major Funds</b>		
<b>General Fund:</b>		
Special Revenue Fund:		
Food Service Fund	\$ 65,000	\$ -
Debt Service Funds:		
2007 Debt Service Fund	-	177,555
2015 Debt Service Fund	34,050	-
2016 Debt Service Fund	-	22,445
	<u>99,050</u>	<u>200,000</u>
<b>Total Major Funds</b>		

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Nonmajor Funds</b>		
Special Revenue Fund:		
Food Service Fund:		
General Fund	\$ -	\$ 65,000
 Debt Service Funds:		
2007 Debt Service Fund:		
2016 Debt Service Fund:	-	5,538
General Fund	177,555	-
2015 Debt Service Fund:		
General Fund	-	34,050
2016 Debt Service Fund:		
2007 Debt Service Fund:	5,538	-
General Fund	22,445	-
	<u>205,538</u>	<u>104,588</u>
<b>Total Nonmajor Funds</b>		
	<u>\$ 304,588</u>	<u>\$ 304,588</u>
<b>Total All Funds</b>	<u>\$ 304,588</u>	<u>\$ 304,588</u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**Note E – Capital Assets**

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balances July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2017</u>
Capital assets not being depreciated:				
Land	\$ 11,767,057	\$ -	\$ -	\$ 11,767,057
Construction in progress	5,026,942	17,612,413	709,065	21,930,290
Totals capital assets not being depreciated	<u>16,793,999</u>	<u>\$ 17,612,413</u>	<u>\$ 709,065</u>	<u>33,697,347</u>
Capital assets being depreciated:				
Land improvements	2,085,444	\$ -	\$ -	2,085,444
Buildings	21,639,986	655,625	-	22,295,611
Furniture and equipment	1,889,369	154,664	-	2,044,033
Vehicles	1,128,425	10,850	8,635	1,130,640
Totals capital assets being depreciated	<u>26,743,224</u>	<u>\$ 821,139</u>	<u>\$ 8,635</u>	<u>27,555,728</u>
Less accumulated depreciation for:				
Land improvements	1,524,307	\$ 56,144	\$ -	1,580,451
Buildings	9,877,369	387,317	-	10,264,686
Furniture and equipment	1,804,341	32,198	-	1,836,539
Vehicles	506,736	92,135	-	598,871
Total accumulated depreciation	<u>13,712,753</u>	<u>\$ 567,794</u>	<u>\$ -</u>	<u>14,280,547</u>
Total capital assets being depreciated	<u>13,030,471</u>			<u>13,275,181</u>
<b>Net Capital Assets</b>	<u><b>\$ 29,824,470</b></u>			<u><b>\$ 46,972,528</b></u>

Depreciation expense was charged to District activities as follows:

Governmental activities:	
Instruction	\$ 282,642
Supporting services	223,953
Community services	20,920
Food service	36,213
Unallocated	4,066
	<u>\$ 567,794</u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

**Note F – Short-term Debt**

The \$995,000 March 23, 2016 State aid anticipation loan was repaid on December 28, 2016. Interest expense on the loan for the year was \$7,525. There were no new borrowings in 2017.

**Note G – Long-term Debt**

Changes in long-term debt for the year ended June 30, 2017 are summarized as follows:

	<b>Debt Outstanding June 30, 2016</b>	<b>Debt Added</b>	<b>Debt Retired</b>	<b>Debt Outstanding June 30, 2017</b>
General obligation bonds:				
January 1, 2007	\$ 995,000	\$ —	\$ 995,000	\$ —
February 24, 2015	31,565,000	—	910,000	30,655,000
December 28, 2016	—	870,000	—	870,000
Bond premium	1,292,061	—	44,554	1,247,507
Installment purchase agreement	221,148	—	53,584	167,564
Severance pay	134,639	46,209	10,224	170,624
Accumulated sick leave	636,548	107,112	173,198	570,462
	<u>\$ 34,844,396</u>	<u>\$ 1,023,321</u>	<u>\$ 2,186,560</u>	<u>\$ 33,681,157</u>

Long-term bonds, installment purchase agreements and other obligations at June 30, 2017 are comprised of the following:

	<b>Final Maturity Dates</b>	<b>Interest Rates</b>	<b>Outstanding Balance</b>	<b>Amount Due Within One Year</b>
<b>General Obligation Bonds</b>				
\$32,770K Building and Site February 24, 2015:				
Annual maturities of \$610K to \$1,780K	May 1, 2043	3.00 - 5.00	\$ 30,655,000	\$ 955,000
\$870K 2016 Refunding December 28, 2016:				
Annual maturities of \$165K to \$185K	May 1, 2022	1.25 - 2.00	870,000	165,000
Bond premium			1,247,507	44,554
<b>Installment Purchase Agreement</b>				
\$325,047 School Buses June 16, 2014:				
Annual maturities of \$54,703 to \$57,015		2.09	167,564	54,703
<b>Other Obligations</b>				
Severance pay			170,624	3,000
Accumulated sick leave			570,462	30,000
			<u>\$ 33,681,157</u>	<u>\$ 1,252,257</u>



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

Year Ended June 30	Principal	Interest	Total
2018	\$ 1,174,703	\$ 1,355,573	\$ 2,530,276
2019	1,220,847	1,341,605	2,562,452
2020	842,014	1,377,468	2,219,482
2021	820,000	1,400,772	2,220,772
2022	860,000	1,190,022	2,050,022
2023	710,000	1,152,294	1,862,294
2024	745,000	1,116,794	1,861,794
2025	780,000	1,079,544	1,859,544
2026	820,000	1,040,544	1,860,544
2027	845,000	1,015,944	1,860,944
2028	870,000	989,538	1,859,538
2029	900,000	961,263	1,861,263
2030	930,000	930,888	1,860,888
2031	960,000	898,338	1,858,338
2032	995,000	863,538	1,858,538
2033	1,045,000	813,788	1,858,788
2034	1,100,000	761,538	1,861,538
2035	1,150,000	706,538	1,856,538
2036	1,210,000	649,038	1,859,038
2037	1,270,000	588,538	1,858,538
2038	1,335,000	525,038	1,860,038
2039	1,400,000	458,288	1,858,288
2040	1,460,000	400,538	1,860,538
2041	1,520,000	340,313	1,860,313
2042	1,585,000	277,613	1,862,613
2043	1,650,000	212,231	1,862,231
2044	1,715,000	144,169	1,859,169
2045	1,780,000	73,425	1,853,425
	<u>\$ 31,692,564</u>	<u>\$ 22,665,170</u>	<u>\$ 54,357,734</u>

On December 27, 2016 the District issued \$870,000 in general obligations bonds to advance refund \$845,000 of outstanding 2007 refunding serial bonds. The true interest cost of the refunding bonds was 1.89075% resulting in a total net present value savings of \$5,417,603, or 9.61%. The net proceeds of \$853,035 after debt fund contributions of \$1,000, and bond issuance costs of \$17,035, were deposited with an escrow agent and used to retire the outstanding obligations described above. This procedure relieves the District from being primarily liable for the debt and the District is virtually assured of not being required to make further payments with respect to the debt. The final payment of outstanding principal and interest was made on February 1, 2017 from the escrow account. This defeasance procedure allows the District to remove the related assets and liabilities from its financial statements, which it has done for the fiscal year end June 30, 2017.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

**Note G – Retirement Plan**

*Plan Description*

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

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

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

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of pension plans offered by MPSERS are detailed as follows:

<b>Plan Name</b>	<b>Plan Type</b>	<b>Plan Status</b>
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

*Membership*

At September 30, 2016, the System’s membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	187,546
Survivor benefits	17,274
Disability benefits	6,187
<b>Total</b>	<b>211,007</b>
Inactive plan members entitled to but not yet receiving benefits:	
	<b>17,868</b>
Active plan members:	
Vested	104,159
Non-vested	103,486
<b>Total</b>	<b>207,645</b>
<b>Total plan members</b>	<b>436,520</b>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**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 for DB plan members 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.

**Pension Reform 2010**

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

**Pension Reform 2012**

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1 members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members; 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

Option 4 members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Deferred Compensation plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in the 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Deferred Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

### **Regular Retirement**

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012 and is shown below:

Option 1:  $FAC \times \text{total years of service} \times 1.5\%$

Option 2:  $FAC \times 30 \text{ years of service} \times 1.5\% + FAC \times \text{years of service beyond 30} \times 1.25\%$

Option 3:  $FAC \times \text{years of service as of transition date} \times 1.5\% + FAC \times \text{years of service after transition date} \times 1.25\%$

Option 4:  $FAC \text{ as of transition date} \times \text{years of service as of transition date} \times 1.5\%$

A MIP member who became a member of MPSERS prior to July 1, 2010 may retire at:

- age 46 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service; or
- age 60 with 5 years of credited service provided the member has worked through his or her 60<sup>th</sup> birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Pension Plus member who became a member of MPSERS after June 30, 2010 may retire at age 60 with 10 or more years of credited service.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

A Basic Plan member may retire at:

- age 55 with 30 or more years of service; or
- age 60 with 10 or more years of service.

There is no mandatory retirement age.

### **Early Retirement**

A member may retire with an early permanently reduced pension:

- after completing at least 15 but less than 30 years of credited service; and
- after attaining age 55; and
- with credited service in each of the 5 school years immediately preceding the pension effective date.

### **Deferred Retirement**

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

### **Non-Duty Disability Benefit**

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired; first year 100%, next year 102%, etc.).

### **Duty Disability Benefit**

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

### **Forms of Payment**

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An application may select only one of the following options.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

Straight Life Pension – the Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of the retiree’s death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiary.

Survivor Options - Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary predeceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount (“pop-up” provision). If, however, a retiree was single at the time of retirement and subsequently married, the retiree can request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

100% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree’s death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree’s death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

50% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree’s death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

Equated Plan – The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree’s pension to decrease at age 62 by approximately the same amount as that person’s Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree’s death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

**Survivor Benefit**

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

**Post-Retirement Adjustments**

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

On January 1, 1990, pre-October 1, 1981 retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement benefits.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

***Contributions and Funded Status***

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) (See Note I). 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 the method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 21 year period for the 2015 fiscal year.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 10.53% to 11.70% of covered payroll for “MPERS UAAL Stabilization.” This additional contribution is offset by monthly State Aid payments equal to the amounts actually billed by the Office of Retirement Services (ORS). Employer contribution requirements for pension and retiree healthcare, including the MPERS UAAL Stabilization and one-time prepayment rates, ranged from 20.96% to 25.78% of covered payroll. Plan member contribution rates range from 0.0% to 7.0% of covered payroll.

The District’s contributions to MPERS under all pension plans for the year ended June 30, 2017, inclusive of the MSPERS UAAL Stabilization and one-time prepayment, totaled \$3,646,455.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System’s members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members’ paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2016, there were 11,113 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2016. The average remaining length of a contract was approximately 5.7 years for 2016. The short-term receivable was \$20.7 million and the discounted long-term receivable was \$52.8 million at September 30, 2016.

***MPERS Plan Net Pension Liability (in thousands)***

Total Pension Liability	\$	68,970,001
Plan Fiduciary Net Position		43,460,579
Net Pension Liability	\$	25,509,422
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		63.01%
Net Pension Liability as a Percentage of Covered Employee Payroll		299.75%
Total Covered Payroll	\$	8,510,200

***Proportionate Share of Reporting Unit’s Net Pension Liability***

At June 30, 2017, the District reported a liability of \$33,120,251 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 that date. The 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. The District’s proportion was .13240497% at September 30, 2015, and .13275085% at September 30, 2016.



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

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

For the year ended June 30, 2017, the District recognized pension expense of \$3,072,499. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 412,766	\$ 78,496
Changes of assumptions	517,809	—
Net difference between projected and actual earnings on pension plan investment earnings	550,458	—
Changes in proportion and differences between District contributions and proportionate share of contributions	68,396	286,271
District contributions subsequent to the measurement date*	3,341,125	—
<b>Total</b>	<b>\$ 4,890,554</b>	<b>\$ 364,767</b>

\*This amount, reported as deferred outflows of resources related to pensions resulting from Reporting Unit 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:

<b>Year ended June 30</b>	<b>Amount</b>
2018	\$ 176,545
2019	133,257
2020	739,768
2021	135,092

***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.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

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

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2015 valuation. The total pension liability as of September 30, 2016 is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.6273 for non-university employers, 1.2456 for university employers].
- Recognition period for assets in years is 5.000.
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

***Long-Term Expected Rate of Return on Investments***

The long-term expected rate of return on pension plan investments was determined using a 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:

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

<b>Investment Category</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	9.2%
International Equity Pools	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate & Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short-term Investment Pools	2.0%	0.0%
<b>Total</b>	<b>100.0%</b>	

***Discount Rate***

A discount rate of 8.0% was used to measure the total pension liability (7% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine the 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 those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

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

	<b>1% Decrease (Non-Hybrid/Hybrid)* 7.0%/6.0%</b>	<b>Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0%/7.0%</b>	<b>1% Increase (Non-Hybrid/Hybrid)* 9.0%/8.0%</b>
District's proportionate share of the net pension liability	\$ 42,650,546	\$ 33,120,251	\$ 25,085,295

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System September 30, 2016 Comprehensive Annual Financial Report, available here: ([www.michigan.gov/documents/orsschools/MPERS\\_CAFR\\_2016\\_Final\\_510211\\_7.pdf](http://www.michigan.gov/documents/orsschools/MPERS_CAFR_2016_Final_510211_7.pdf)).

***Payables to the Michigan Public School Employee Retirement System (MPERS)***

Payables to the pension plan totaling \$485,024 at June 30, 2017 arise from the normal legally required contributions based on the accrued salaries payable at year-end, expected to be liquidated with expendable available financial resources.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

## **Note H – Other Postemployment Benefits**

### ***Plan Description and Employee Contributions***

Benefit provisions of the post-employment healthcare plan are established by State statute which may be amended. Retirees have the option of health coverage, which, through 2016, is currently funded on a cash disbursement basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Public Act 300 of 2012 granted all active members of MPSERS a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their Section 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) account no later than their first pay date after February 1, 2013.

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare.

Members who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the healthcare funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet the eligibility requirements may request a refund of their contributions.

Under Public Act 300 of 2012, the State no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2% employee contribution into a Section 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years of age at termination or \$1,000 for participants who are less than 60 years of age at termination.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Basic Financial Statements**  
**June 30, 2017**

---

***Employer contributions***

Required contributions for post-employment health care benefits ranged from 6.40% to 6.83% of covered payroll for the fiscal year ended June 30, 2017. The District's required and actual contributions to the Plan for retiree health care benefits for the fiscal years ending June 30, 2017, 2016 and 2015 were \$704,825, \$726,645, and \$313,970, respectively.

***Post-employment Plan Status***

At September 30, 2016, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole was \$12.8 billion. The MPSERS net assets available for these benefits were \$3.5 billion leaving an unfunded actuarial accrued liability of \$9.3 billion. The funded ratio of actuarial liability was 27.5%; covered payroll totaled \$8.3 billion, and unfunded actuarial liability was 112.6% of covered payroll.

**Note J – Risk Management and Benefits**

The 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 District has purchased commercial insurance for property loss, errors and omissions, workers' compensation, health benefits, and dental and vision benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

There were no significant reductions in insurance coverage in fiscal 2016-17, and as of year ended June 30, 2017, there were no material pending claims against the District.

**Note K – Stewardship, Compliance and Accountability**

The District has an unrestricted net position deficit of \$25,455,527 and a total net position deficit of \$961,288, as of June 30, 2017. These deficit net positions result primarily from the net pension liability of \$28,594,464 (net of deferred outflows and inflows of resources related to the pension plan).

**Note L – Commitments**

On June 3, 2015, the District issued \$32,770,000 of general obligation 2015 Construction bonds whose proceeds are being used for land improvements, building renovations and additions and furniture and equipment purchases. At June 30, 2017, unspent balances committed to these construction projects totaled \$10,276,957, which are expected to be fully expended by the year ended June 30, 2018.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**This Page Intentionally Left Blank**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Required Supplementary Information**  
**Schedule of the District's Proportionate Share of the Net Pension Liability**  
**MPERS Cost-sharing Multiple-employer Plan**  
**June 30, 2017**

---

	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2017</u>
District's proportion of the net pension liability	0.13435766%	0.13240497%	0.13275085%
District's proportionate share of the net pension liability	\$ 29,594,294	\$ 32,339,949	\$ 33,120,251
District's covered-employee payroll	\$ 11,397,274	\$ 10,855,140	\$ 11,254,090
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	259.73%	297.92%	294.30%
Plan fiduciary net position as a percentage of the total pension liability	66.15%	62.92%	63.01%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

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

See accompanying notes to required supplementary information.



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Required Supplementary Information**  
**Schedule of District Contributions**  
**MPSERS Cost-sharing Multiple-employer Plan**  
**June 30, 2017**

---

	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2016</u>	<u>Year Ended June 30, 2017</u>
Contractually required contribution	\$ 3,485,798	\$ 3,401,365	\$ 3,646,455
Contributions in relation to the contractually required contribution	<u>3,485,798</u>	<u>3,401,365</u>	<u>3,646,455</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 10,708,777	\$ 11,246,480	\$ 11,768,883
Contributions as a percentage of covered employee payroll	32.55%	30.24%	30.98%

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

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Notes to Required Supplementary Information**  
**June 30, 2017**

---

**Note A – Net Pension Liability and Contributions**

**Changes of benefit terms:** There were no changes of benefit terms in 2016-17.

**Changes of assumptions:** There were no changes of benefit assumptions in 2016-17.

## **SUPPLEMENTARY INFORMATION**

## **GENERAL FUND**

To account for resources which are traditionally associated with the general operation of the District and not required to be accounted for in another fund.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Balance Sheet**  
**June 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Cash	\$ 300	\$ 300
Cash equivalents, deposits and investments	2,703,425	2,466,281
Accounts receivable	60,465	86,994
Due from other funds	-	62,141
Due from other governmental units	3,489,256	3,642,101
Prepaid expenditures	53,780	13,502
	<b>Total Assets</b>	<b>Total Assets</b>
	<b>\$ 6,307,226</b>	<b>\$ 6,271,319</b>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Accounts payable	\$ 162,114	\$ 171,885
State aid anticipation note payable	-	995,000
Due to other governmental units	902,137	936,427
Unearned revenue	499	-
Salaries payable	1,362,453	1,373,196
	<b>Total Liabilities</b>	<b>Total Liabilities</b>
	<b>2,427,203</b>	<b>3,476,508</b>
 <b>Fund Balances</b>		
Nonspendable	53,780	13,502
Unassigned	3,826,243	2,781,309
	<b>Total Fund Balances</b>	<b>Total Fund Balances</b>
	<b>3,880,023</b>	<b>2,794,811</b>
	<b>Total Liabilities and Fund Balances</b>	<b>Total Liabilities and Fund Balances</b>
	<b>\$ 6,307,226</b>	<b>\$ 6,271,319</b>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
Local sources:		
Property taxes:		
Current property taxes	\$ 3,161,246	\$ 3,018,852
Delinquent and other property taxes	15,146	21,104
Interest on delinquent taxes	2,281	3,393
	<u>3,178,673</u>	<u>3,043,349</u>
Interest earnings:		
Interest on deposits and investments	2,413	1,003
Revenue from student activities:		
Athletics admissions	37,124	29,480
Tournament fees	6,423	5,160
	<u>43,547</u>	<u>34,640</u>
Other local revenue:		
Summer school tuition	6,050	3,685
Preschool tuition	9,807	8,311
Beverage consortium commissions	6,981	8,601
Donations	3,630	1,000
Sale of fixed assets	-	10,196
Crossing guard reimbursement	3,894	4,483
Insurance reimbursements	25,876	22,754
Universal service fund	266,134	54,687
Miscellaneous	58,037	56,917
	<u>380,409</u>	<u>170,634</u>
Total local sources	3,605,042	3,249,626
State sources:		
State aid	16,649,213	16,089,940
Special education - transportation	351,335	324,555
Special education - itinerants	13,265	6,236
Technology infrastructure improvement grant	16,716	42,499
Principal educator evaluation	-	17,004
Total state sources	<u>17,030,529</u>	<u>16,480,234</u>
Federal sources:		
Title I	610,926	644,440
Title IIA	26,492	102,469
Title III	37,764	69,203
Title IIB - school leadership	-	9,113
I.D.E.A. program	510,619	496,788
Medicaid - outreach	4,575	2,752
Century 21	88,913	84,299
Counselor grant	272,070	248,570
Total federal sources	<u>1,551,359</u>	<u>1,657,634</u>

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Revenues**  
**For the years ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Interdistrict sources:		
Special education - county	\$ 1,300,589	\$ 1,227,569
Special education - tuition	4,343	1,234
Great Start Readiness Program	200,203	242,455
Medicaid fee for service	177,387	182,153
McKinney Vento Homeless grant	2,039	4,204
Project based learning	-	14,880
Immigrant grant	-	2,637
Other interdistrict sources	21,126	-
Total interdistrict sources	<u>1,705,687</u>	<u>1,675,132</u>
<b>Total Revenues</b>	<u><u>\$ 23,892,617</u></u>	<u><u>\$ 23,062,626</u></u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
Current:		
Instruction:		
Basic programs:		
Elementary:		
Salaries	\$ 3,026,448	\$ 2,703,943
Employee benefits	2,004,356	1,639,176
Purchased services	39,561	61,773
Supplies	185,096	63,273
Capital outlay	468	9,424
	<u>5,255,929</u>	<u>4,477,589</u>
Middle school:		
Salaries	1,260,063	1,387,776
Employee benefits	809,047	913,227
Purchased services	27,692	32,472
Supplies	48,983	41,354
Miscellaneous	4,907	5,703
	<u>2,150,692</u>	<u>2,380,532</u>
High school:		
Salaries	2,011,851	2,005,976
Employee benefits	1,324,137	1,266,699
Purchased services	120,281	102,322
Supplies	114,632	72,092
Capital outlay	4,758	4,415
Miscellaneous	21,379	16,871
Payments to other districts	17,112	18,770
	<u>3,614,150</u>	<u>3,487,145</u>
Preschool:		
Purchased services	4,764	8,791
Supplies	2,857	3,502
Miscellaneous	4,488	4,476
	<u>12,109</u>	<u>16,769</u>
Summer school:		
Salaries	40,170	27,190
Employee benefits	13,267	9,073
Purchased services	4,490	7,962
Supplies	6,279	12,380
	<u>64,206</u>	<u>56,605</u>
Total basic programs	<u>11,097,086</u>	<u>10,418,640</u>
Added needs:		
Special education:		
Salaries	806,666	752,400
Employee benefits	557,208	481,828
Purchased services	4,159	13,151
Supplies	5,091	634
Payments to other school districts	528,962	551,462
	<u>1,902,086</u>	<u>1,799,475</u>
Compensatory education:		
Salaries	924,945	757,313
Employee benefits	480,802	444,472

(Continued)



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
Compensatory education: (Continued)		
Purchased services	\$ 8,885	\$ 33,653
Supplies	1,100	36,725
	<u>1,415,732</u>	<u>1,272,163</u>
Total added needs	<u>3,317,818</u>	<u>3,071,638</u>
Total instruction	14,414,904	13,490,278
Supporting services:		
Pupil services:		
Guidance services:		
Salaries	404,545	342,561
Employee benefits	204,292	175,216
Purchased services	36,736	29,095
Supplies	44,287	46,580
	<u>689,860</u>	<u>593,452</u>
Occupational therapy services:		
Salaries	37,816	38,060
Employee benefits	20,542	20,647
Supplies	545	80
Purchased services	16	-
	<u>58,919</u>	<u>58,787</u>
Psychological services:		
Salaries	-	12,000
Employee benefits	-	918
Purchased services	172	602
Supplies	2,182	1,304
Payments to other school districts	79,185	80,229
	<u>81,539</u>	<u>95,053</u>
Speech pathology services:		
Salaries	57,923	144,125
Employee benefits	4,835	11,026
Supplies	240	1,707
Payments to other school districts	169,367	-
	<u>232,365</u>	<u>156,858</u>
Social worker services:		
Purchased services	845	351
Payments to other school districts	96,832	95,143
	<u>97,677</u>	<u>95,494</u>
Other pupil services:		
Salaries	5,733	4,407
Employee benefits	1,791	1,157
Purchased services	22,001	18,742
	<u>29,525</u>	<u>24,306</u>
Total pupil services	<u>1,189,885</u>	<u>1,023,950</u>

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
Instructional staff services:		
Improvement of instruction:		
Salaries	\$ 6,814	\$ 109,115
Employee benefits	1,375	57,227
Purchased services	10,468	42,050
Supplies	-	624
	<u>18,657</u>	<u>209,016</u>
Library:		
Salaries	12,949	13,633
Employee benefits	991	1,077
Purchased services	32,132	30,928
Supplies	44,757	1,110
	<u>90,829</u>	<u>46,748</u>
Audio - visual:		
Supplies	1,693	-
Supervision of instruction:		
Salaries	242,763	190,753
Employee benefits	139,566	116,394
Purchased services	20,495	23,818
Supplies	81,082	63,276
Miscellaneous	139	286
Payments to other districts	-	784
	<u>484,045</u>	<u>395,311</u>
Total instructional staff services	<u>595,224</u>	<u>651,075</u>
General administrative services:		
Board of education:		
Salaries	19,989	153,862
Employee benefits	25,600	40,285
Purchased services	78,587	67,103
Supplies	1,291	663
Miscellaneous	10,686	7,175
	<u>136,153</u>	<u>269,088</u>
Executive administration:		
Salaries	74,361	70,611
Employee benefits	44,426	41,003
Purchased services	150,992	138,831
Miscellaneous	2,492	2,153
	<u>272,271</u>	<u>252,598</u>
Total general administrative services	<u>408,424</u>	<u>521,686</u>
School administrative services:		
Office of the principal:		
Salaries	951,178	910,192
Employee benefits	602,097	619,934
Purchased services	36,204	26,501
Supplies	425	360
Miscellaneous	1,755	1,893
Total school administrative services	<u>1,591,659</u>	<u>1,558,880</u>

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
Business services:		
Fiscal services:		
Salaries	\$ 218,490	\$ 200,962
Employee benefits	141,596	129,718
Purchased services	44,024	41,125
Supplies	17,487	18,702
Miscellaneous	1,376	841
	422,973	391,348
Other business services:		
Purchased services	26,788	24,943
Miscellaneous	20,637	126,156
	47,425	151,099
Total business services	470,398	542,447
Operation and maintenance services:		
Operation and maintenance:		
Salaries	574,951	527,056
Employee benefits	376,104	372,862
Purchased services	334,358	258,076
Supplies	492,334	386,609
Capital outlay	-	54,628
Miscellaneous	2,059	2,454
	1,779,806	1,601,685
Security services:		
Salaries	2,415	3,326
Employee benefits	783	1,531
Purchased services	61,857	73,970
	65,055	78,827
Total operation and maintenance services	1,844,861	1,680,512
Pupil transportation services:		
Pupil transportation:		
Salaries	221,368	205,901
Employee benefits	131,430	149,545
Purchased services	116,898	105,427
Supplies	35,805	35,649
Capital outlay	-	62,778
Miscellaneous	429	1,313
Payments to other school districts	436,311	465,966
Total pupil transportation services	942,241	1,026,579
Central services:		
Staff/personnel services:		
Purchased services	17,246	2,250

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
Technology services:		
Salaries	\$ 188,749	\$ 183,999
Employee benefits	128,194	129,589
Purchased services	109,560	118,374
Supplies	9,193	2,673
Capital outlay	4,228	72,509
	<u>439,924</u>	<u>507,144</u>
Pupil accounting services:		
Salaries	35,838	36,130
Total central services	<u>493,008</u>	<u>545,524</u>
Other supporting services:		
Athletics:		
Salaries	278,980	269,724
Employee benefits	105,328	101,382
Purchased services	109,166	109,414
Supplies	28,686	26,355
Capital outlay	37,582	30,708
Miscellaneous	14,259	17,470
Total other supporting services	<u>574,001</u>	<u>555,053</u>
Total supporting services	<u>8,109,701</u>	<u>8,105,706</u>
Community services:		
Community activities:		
Salaries	4,106	4,463
Employee benefits	1,365	1,495
Purchased services	7,834	10,825
Supplies	8,993	14,615
Miscellaneous	975	-
	<u>23,273</u>	<u>31,398</u>
Nonpublic school pupils:		
Purchased services	11,473	8,291
Payments to other school districts	3,727	2,636
Supplies	-	304
	<u>15,200</u>	<u>11,231</u>
Community relations/special projects:		
Salaries	39,946	39,615
Employee benefits	13,610	18,605
Purchased services	21,899	46,107
Supplies	8,681	5,015
Miscellaneous	35	-
	<u>84,171</u>	<u>109,342</u>
Total community services	<u>122,644</u>	<u>151,971</u>
Interdistrict:		
Payments to other school districts	1,000	1,000

(Continued)

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**General Fund**  
**Comparative Schedule of Expenditures**  
**For the years ended June 30, 2017 and 2016**

---

	<u>2017</u>	<u>2016</u>
Debt service:		
Principal repayment	\$ 53,587	\$ 52,487
Interest and fiscal charges	4,619	5,719
Total debt service	<u>58,206</u>	<u>58,206</u>
<b>Total Expenditures</b>	<u><u>\$ 22,706,455</u></u>	<u><u>\$ 21,807,161</u></u>

## **NONMAJOR GOVERNMENTAL FUNDS**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue	
	Food Service	Child Care
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 179,053	\$ 24,098
Due from other governmental units	8,605	-
Inventory	4,122	-
	<b>Total Assets</b>	<b>\$ 24,098</b>
	<b>\$ 191,780</b>	<b>\$ 24,098</b>
 <b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other funds	\$ -	\$ -
 <b>Fund Balances</b>		
Nonspendable	4,122	-
Restricted	184,677	24,098
Assigned for subsequent year expenditures	2,981	-
	<b>Total Fund Balances</b>	<b>24,098</b>
	<b>\$ 191,780</b>	<b>\$ 24,098</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 191,780</b>	<b>\$ 24,098</b>

Debt Service			
2007	2015	2016	Total
\$ -	\$ 165,114	\$ 22,749	\$ 391,014
-	-	-	8,605
-	-	-	4,122
<u>\$ -</u>	<u>\$ 165,114</u>	<u>\$ 22,749</u>	<u>\$ 403,741</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
-	-	-	4,122
-	165,114	22,749	396,638
-	-	-	2,981
<u>-</u>	<u>165,114</u>	<u>22,749</u>	<u>403,741</u>
<u>\$ -</u>	<u>\$ 165,114</u>	<u>\$ 22,749</u>	<u>\$ 403,741</u>



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Combining Schedule of Revenues, Expenditures and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**For the year ended June 30, 2017**

	Special Revenue	
	Food Service	Child Care
<b>Revenues</b>		
Local sources:		
Property taxes	\$ -	\$ -
Interest earnings	170	36
Sales and admissions	277,127	-
Other local sources	-	101,753
<b>Total local sources</b>	<b>277,297</b>	<b>101,789</b>
State sources	48,348	13,668
Federal sources	1,371,685	-
<b>Total Revenues</b>	<b>1,697,330</b>	<b>115,457</b>
<b>Expenditures</b>		
Current:		
Food service	1,643,296	-
Community services	-	124,264
Debt service:		
Principal repayment	-	-
Interest and fiscal charges	-	-
Bond issuance costs	-	-
<b>Total Expenditures</b>	<b>1,643,296</b>	<b>124,264</b>
<b>Excess (Deficiency) of Revenues     Over Expenditures</b>	<b>54,034</b>	<b>(8,807)</b>
<b>Other Financing Sources (Uses)</b>		
Refunding bonds issued	-	-
Other	-	159
Payment to escrow agent	-	-
Transfers in	-	-
Transfers out	(65,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(65,000)</b>	<b>159</b>
<b>Net Change in Fund Balances</b>	<b>(10,966)</b>	<b>(8,648)</b>
<b>Fund Balances, Beginning of Year</b>	<b>202,746</b>	<b>32,746</b>
<b>Fund Balances, End of Year</b>	<b>\$ 191,780</b>	<b>\$ 24,098</b>

Debt Service			
2007	2015	2016	Total
\$ -	\$ 2,478,118	\$ -	\$ 2,478,118
5	684	2	897
-	-	-	277,127
-	-	-	101,753
5	2,478,802	2	2,857,895
-	-	-	62,016
-	-	-	1,371,685
5	2,478,802	2	4,291,596
-	-	-	1,643,296
-	-	-	124,264
150,000	910,000	-	1,060,000
22,555	1,373,144	5,236	1,400,935
17,035	-	-	17,035
189,590	2,283,144	5,236	4,245,530
(189,585)	195,658	(5,234)	46,066
870,000	-	-	870,000
-	-	-	159
(853,036)	-	-	(853,036)
177,555	-	27,983	205,538
(5,538)	(34,050)	-	(104,588)
188,981	(34,050)	27,983	118,073
(604)	161,608	22,749	164,139
604	3,506	-	239,602
\$ -	\$ 165,114	\$ 22,749	\$ 403,741

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**For the year ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>			
Local sources	\$ 268,615	\$ 277,297	\$ 8,682
State sources	48,347	48,348	1
Federal sources	1,279,708	1,371,685	91,977
<b>Total Revenues</b>	<u>1,596,670</u>	<u>1,697,330</u>	<u>100,660</u>
<b>Expenditures</b>			
Current:			
Food service	<u>1,578,411</u>	<u>1,643,296</u>	<u>64,885</u>
<b>Excess of Revenues Over Expenditures</b>	<u>18,259</u>	<u>54,034</u>	<u>35,775</u>
<b>Other Financing Uses</b>			
Transfers out	<u>-</u>	<u>(65,000)</u>	<u>(65,000)</u>
<b>Net Change in Fund Balances</b>	18,259	(10,966)	(29,225)
<b>Fund Balances, Beginning of Year</b>	<u>202,746</u>	<u>202,746</u>	<u>-</u>
<b>Fund Balances, End of Year</b>	<u>\$ 221,005</u>	<u>\$ 191,780</u>	<u>\$ (29,225)</u>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Child Care Special Revenue Fund**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
**For the year ended June 30, 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues</b>			
Local sources	\$ 100,081	\$ 101,789	\$ 1,708
State sources	13,194	13,668	474
<b>Total Revenues</b>	<u>113,275</u>	<u>115,457</u>	<u>2,182</u>
<b>Expenditures</b>			
Current:			
Community services	126,328	124,264	2,064
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(13,053)</u>	<u>(8,807)</u>	<u>4,246</u>
<b>Other Financing Sources</b>			
Other	123	159	36
<b>Net Change in Fund Balances</b>	<u>(12,930)</u>	<u>(8,648)</u>	<u>4,282</u>
<b>Fund Balances, Beginning of Year</b>	<u>32,746</u>	<u>32,746</u>	<u>-</u>
<b>Fund Balances, End of Year</b>	<u><u>\$ 19,816</u></u>	<u><u>\$ 24,098</u></u>	<u><u>\$ 4,282</u></u>

## **SPECIAL REVENUE FUND**

Food Service—to account for monies received from food service activities and federal subsidies for use in administering the hot lunch program of the District.

Child Care—to account for user fees and State subsidies for use in administering the child care program of the District.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 179,053	\$ 129,583
Due from other governmental units	8,605	70,166
Inventory	4,122	4,875
	<b>Total Assets</b>	<b>Total Assets</b>
	<b>\$ 191,780</b>	<b>\$ 204,624</b>
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other funds	\$ -	\$ 1,878
<b>Fund Balances</b>		
Nonspendable	4,122	4,875
Restricted	184,677	194,890
Assigned for subsequent year expenditures	2,981	2,981
	<b>Total Fund Balances</b>	<b>Total Fund Balances</b>
	<b>191,780</b>	<b>202,746</b>
	<b>Total Liabilities and Fund Balances</b>	<b>Total Liabilities and Fund Balances</b>
	<b>\$ 191,780</b>	<b>\$ 204,624</b>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Food Service Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
<b>Revenues</b>		
Local sources:		
Food sales:		
Children's lunches	\$ 106,662	\$ 103,120
Adult lunches	4,216	4,661
Milk	2,901	2,625
Ala carte	32,808	32,762
Vending machine	6,602	14,597
Banquets	59,485	54,168
Donations	50,892	44,324
Other	13,561	5,520
	277,127	261,777
Interest earnings:		
Interest on deposits and investments	170	94
Total local sources	277,297	261,871
State sources	48,348	57,673
Federal sources	1,371,685	1,318,380
	1,697,330	1,637,924
<b>Total Revenues</b>	<b>1,697,330</b>	<b>1,637,924</b>
<b>Expenditures</b>		
Current:		
Food service:		
Salaries	442,149	409,040
Employee benefits	199,681	196,921
Purchased services	92,056	86,128
Supplies	808,734	857,883
Equipment and furniture	94,977	52,213
Miscellaneous	5,699	15,342
Payments to other districts	-	4,060
	1,643,296	1,621,587
<b>Total Expenditures</b>	<b>1,643,296</b>	<b>1,621,587</b>
<b>Excess of Revenues Over Expenditures</b>	<b>54,034</b>	<b>16,337</b>
<b>Other Financing Uses</b>		
Transfers out	(65,000)	-
	(65,000)	-
<b>Net Change in Fund Balances</b>	<b>(10,966)</b>	<b>16,337</b>
<b>Fund Balances, Beginning of Year</b>	<b>202,746</b>	<b>186,409</b>
<b>Fund Balances, End of Year</b>	<b>\$ 191,780</b>	<b>\$ 202,746</b>

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Child Care Special Revenue Fund**  
**Comparative Balance Sheet**  
**June 30, 2017 and 2016**

---

	2017	2016
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 24,098	\$ 34,804
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other funds	\$ -	\$ 2,058
<b>Fund Balances</b>		
Restricted	24,098	32,746
<b>Total Liabilities and Fund Balances</b>	<b>\$ 24,098</b>	<b>\$ 34,804</b>



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Child Care Special Revenue Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
<b>Revenues</b>		
Local sources:		
Other local sources:		
Child care fees	\$ 99,428	\$ 103,110
Summer activity fees	2,325	3,465
	<u>101,753</u>	<u>106,575</u>
Interest earnings:		
Interest on deposits and investments	36	29
Total local sources	<u>101,789</u>	<u>106,604</u>
State sources	<u>13,668</u>	<u>6,952</u>
<b>Total Revenues</b>	<u>115,457</u>	<u>113,556</u>
<b>Expenditures</b>		
Current:		
Operation and maintenance services:		
Salaries	-	7,500
Employee benefits	-	2,540
Purchased services	-	545
Supplies	-	1,325
	<u>-</u>	<u>11,910</u>
Child care:		
Salaries	44,386	45,104
Employee benefits	19,369	20,278
Purchased services	59,328	47,253
Supplies	666	395
Capital outlay	515	-
Miscellaneous	-	148
	<u>124,264</u>	<u>113,178</u>
<b>Total Expenditures</b>	<u>124,264</u>	<u>125,088</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(8,807)</u>	<u>(11,532)</u>
<b>Other Financing Sources</b>		
Other	<u>159</u>	<u>300</u>
<b>Net Change in Fund Balances</b>	(8,648)	(11,232)
<b>Fund Balances, Beginning of Year</b>	<u>32,746</u>	<u>43,978</u>
<b>Fund Balances, End of Year</b>	<u>\$ 24,098</u>	<u>\$ 32,746</u>

## **DEBT SERVICE FUNDS**

Debt Service Funds—To accumulate property tax revenues and interest earnings for repayment of the bond issues of the District used to finance new building construction projects.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Debt Service Funds**  
**Combining Balance Sheet**  
**June 30, 2017**

---

	2007	2015	2016
<b>Assets</b>			
Cash equivalents, deposits and investments	\$ -	\$ 165,114	\$ 22,749
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>	\$ -	\$ -	\$ -
<b>Fund Balances</b>			
Restricted	-	165,114	22,749
<b>Total Liabilities and Fund Balances</b>	\$ -	\$ 165,114	\$ 22,749

Totals	
2017	2016
\$ 187,863	\$ 4,110
\$ -	\$ -
187,863	4,110
\$ 187,863	\$ 4,110

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Debt Service Funds**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the year ended June 30, 2017**

	2007	2015	2016
<b>Revenues</b>			
Local sources:			
Property taxes:			
Current property taxes	\$ -	\$ 2,432,416	\$ -
Industrial facilities taxes	-	40,210	-
Delinquent and other property taxes	-	1,864	-
Interest on delinquent taxes	-	1,823	-
Other	-	1,805	-
	-	2,478,118	-
Interest earnings:			
Interest on deposits and investments	5	684	2
<b>Total Revenues</b>	<u>5</u>	<u>2,478,802</u>	<u>2</u>
<b>Expenditures</b>			
Debt service:			
Principal repayment	150,000	910,000	-
Interest and fiscal charges:			
Interest expense	22,555	1,373,144	5,236
Paying agent fees	-	-	-
Tax refunds	-	-	-
Bond issuance costs	17,035	-	-
<b>Total Expenditures</b>	<u>189,590</u>	<u>2,283,144</u>	<u>5,236</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(189,585)</u>	<u>195,658</u>	<u>(5,234)</u>
<b>Other Financing Sources (Uses)</b>			
Refunding bonds issued	870,000	-	-
Transfers in	177,555	-	27,983
Transfers out	(5,538)	(34,050)	-
Payment to escrow agent	(853,036)	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>188,981</u>	<u>(34,050)</u>	<u>27,983</u>
<b>Net Change in Fund Balances</b>	(604)	161,608	22,749
<b>Fund Balances, Beginning of Year</b>	604	3,506	-
<b>Fund Balances, End of Year</b>	<u>\$ -</u>	<u>\$ 165,114</u>	<u>\$ 22,749</u>

Totals	
2017	2016
\$ 2,432,416	\$ 2,421,760
40,210	47,751
1,864	3,195
1,823	3,255
1,805	-
2,478,118	2,475,961
691	459
2,478,809	2,476,420
1,060,000	1,345,000
1,400,935	1,339,725
-	1,500
-	5,956
17,035	-
2,477,970	2,692,181
839	(215,761)
870,000	-
205,538	34,050
(39,588)	-
(853,036)	-
182,914	34,050
183,753	(181,711)
4,110	185,821
\$ 187,863	\$ 4,110

## **CAPITAL PROJECTS FUNDS**

2015 Construction Fund—to account for bond proceeds used to finance building construction and improvement projects.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**2015 Construction Capital Projects Fund**  
**Comparative Balance Sheet**  
**June 30, 2017 and 2016**

---

	2017	2016
<b>Assets</b>		
Cash equivalents, deposits and investments	\$ 10,276,957	\$ 28,592,693
<b>Liabilities and Fund Balances</b>		
<b>Liabilities</b>		
Due to other funds	\$ -	\$ 58,205
<b>Fund Balances</b>		
Restricted	10,276,957	28,534,488
<b>Total Liabilities and Fund Balances</b>	<b>\$ 10,276,957</b>	<b>\$ 28,592,693</b>



**KELLOGGSVILLE PUBLIC SCHOOLS**  
**2015 Construction Capital Projects Fund**  
**Comparative Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**For the years ended June 30, 2017 and 2016**

	2017	2016
<b>Revenues</b>		
Local sources:		
Interest earnings:		
Interest on deposits and investments	\$ 217,003	\$ 86,045
<b>Expenditures</b>		
Supporting services:		
Pupil transportation services:		
Pupil transportation:		
New buses	10,850	171,300
Capital outlay:		
Purchased services	16,830	20,300
Land	4,711	502,056
Site improvement	125,427	4,870
Bond consultant fees	7,200	48,625
Architect fees	234,076	1,264,619
Advertising	708	695
Building improvements	17,284,809	3,182,984
New equipment	782,095	32,612
Bond issuance costs	7,828	42,762
Total capital outlay	18,463,684	5,099,523
<b>Total Expenditures</b>	18,474,534	5,270,823
<b>Net Change in Fund Balances</b>	(18,257,531)	(5,184,778)
<b>Fund Balances, Beginning of Year</b>	28,534,488	33,719,266
<b>Fund Balances, End of Year</b>	\$ 10,276,957	\$ 28,534,488

## **AGENCY FUND**

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

**KELLOGGSVILLE PUBLIC SCHOOLS**  
**Student Activities Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the year ended June 30, 2017**

---

	<u>Balances</u> July 1, 2016	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> June 30, 2017
<b>Assets</b>				
Cash equivalents, deposits and investments	<u>\$ 166,460</u>	<u>\$ 181,049</u>	<u>\$ 171,055</u>	<u>\$ 176,454</u>
<b>Liabilities</b>				
Due to student groups	<u>\$ 166,460</u>	<u>\$ 183,836</u>	<u>\$ 173,842</u>	<u>\$ 176,454</u>

**KELLOGGSVILLE  
PUBLIC SCHOOLS**  
**Kent County, Michigan**

Additional Reports Required by  
the Uniform Guidance

For the year ended June 30, 2017

## ***TABLE OF CONTENTS***

---

### **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2017

<b>Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards .....</b>	<b>1</b>
<b>Independent Auditor’s Report on Compliance for Each Major Program, Report on Internal Control Over Compliance and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance .....</b>	<b>3</b>
<b>Schedule of Expenditures of Federal Awards .....</b>	<b>7</b>
<b>Notes to Schedule of Expenditures of Federal Awards .....</b>	<b>13</b>
<b>Schedule of Findings and Questioned Costs .....</b>	<b>15</b>



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

October 16, 2017

The Board of Education  
Kelloggsville Public Schools  
Kent County, 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, the major fund, and the aggregate remaining fund information of Kelloggsville Public Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Kelloggsville Public Schools' basic financial statements, and have issued our report thereon dated October 16, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Kelloggsville Public 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 Kelloggsville Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Kelloggsville Public Schools' 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 entity'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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Kelloggsville Public 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 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.



Certified Public Accountants  
Grand Rapids, Michigan



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

October 16, 2017

The Board of Education  
Kelloggsville Public Schools  
Kent County, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited Kelloggsville Public Schools’ compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Kelloggsville Public Schools’ major federal programs for the year ended June 30, 2017. Kelloggsville Public Schools’ 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 programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of Kelloggsville Public Schools’ major federal programs 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* (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 Kelloggsville Public 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 Kelloggsville Public Schools’ compliance.



### ***Opinion on Each Major Federal Program***

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

### **Report on Internal Control over Compliance**

Management of Kelloggsville Public 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 Kelloggsville Public 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 Kelloggsville Public Schools' 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 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.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kelloggsville Public Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise of Kelloggsville Public Schools' basic financial statements. We issued our report thereon dated October 16, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole



Certified Public Accountants  
Grand Rapids, Michigan

**This Page Intentionally Left Blank**

## ***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

---

### **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2017

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
<b>U. S. Department of Education</b>		
Direct Award		
Elementary and Secondary School Counseling Program	84.215E	\$ 670,767
Passed through Michigan Department of Education (MDE):		
Title I Cluster:		
Title I:		
161530 1516		658,605
171530 1617		625,878
Total Title I Cluster		1,284,483
Title IIA:		
160520 1516	84.367	105,826
170520 1617		75,986
Total Title IIA		181,812
Title III, Limited English Proficient Students:		
160580 1516	84.365	75,979
170580 1617		59,760
Total Title III, Limited English Proficient Students		135,739
Total Passed Through MDE		
		1,602,034
Passed through Wyoming Public Schools:		
21st Century Community Learning Centers:		
1516	84.287	84,300
1617		88,913
Total 21st Century Community Learning Centers		173,213

*See Notes to Schedule of Expenditures of Federal Awards*

<b>Accrued (Deferred) Revenue At July 1, 2016</b>	<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued (Deferred) Revenue At June 30, 2017</b>
\$ 43,489	\$ 248,570	\$ 272,070	\$ 265,781	\$ 49,778
189,558	644,440	-	189,558	-
-	-	610,926	446,766	164,160
189,558	644,440	610,926	636,324	164,160
56,768	102,470	-	56,768	-
-	-	26,492	26,362	130
56,768	102,470	26,492	83,130	130
43,439	69,203	-	43,439	-
-	-	37,764	29,927	7,837
43,439	69,203	37,764	73,366	7,837
289,765	816,113	675,182	792,820	172,127
13,676	84,300	-	13,676	-
-	-	88,913	73,242	15,671
13,676	84,300	88,913	86,918	15,671

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)***

**KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2017

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award Amount</b>
Passed through Kent Intermediate School District (KISD):		
Special Education Cluster:		
I.D.E.A. Grants to States:		
160450 1516	84.027	\$ 482,235
170450 1617		<u>489,587</u>
Total I.D.E.A. Grants to States		<u>971,822</u>
I.D.E.A. Preschool:		
160460 1516	84.173	14,553
170460 1617		<u>21,032</u>
Total I.D.E.A. Preschool		<u>35,585</u>
<b>Total Special Education Cluster</b>		<u>1,007,407</u>
<b>Total Passed Through KISD</b>		<u>1,007,407</u>
<b>Total U.S. Department of Education</b>		<u>3,453,421</u>
<b>U.S. Department of Health and Human Services</b>		
Passed through Kent Intermediate School District (KISD):		
Medical Assistance Program:		
1617 Medicaid Outreach	93.778	<u>4,575</u>

*See Notes to Schedule of Expenditures of Federal Awards*

<b>Accrued (Deferred) Revenue At July 1, 2016</b>	<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued (Deferred) Revenue At June 30, 2017</b>
\$ 97,891	\$ 482,235	\$ -	\$ 97,891	\$ -
-	-	489,587	359,070	130,517
97,891	482,235	489,587	456,961	130,517
3,287	14,553	-	3,287	-
-	-	21,032	13,390	7,642
3,287	14,553	21,032	16,677	7,642
101,178	496,788	510,619	473,638	138,159
101,178	496,788	510,619	473,638	138,159
448,108	1,645,771	1,546,784	1,619,157	375,735
2,752	2,752	4,575	2,752	4,575

***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)***

**KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2017

<b>Federal Grantor Pass Through Grantor Program Title Grant Number</b>	<b>Federal CFDA Number</b>	<b>Approved Grant Award Amount</b>
<b>U.S. Department of Agriculture</b>		
Passed through Michigan Department of Education (MDE):		
Nutrition Cluster:		
Non-Cash Assistance (U.S.D.A. Commodities):	10.555	
Entitlement Commodities		\$ 112,582
Cash Assistance:		
Lunch Program:	10.555	
1617		896,027
Breakfast Program:	10.553	
1617		281,165
Summer Food Service Program (SFSP)	10.559	
1617		<u>25,701</u>
Total Cash Assistance		<u>1,202,893</u>
Total Nutrition Cluster		<u>1,315,475</u>
Child and Adult Care Food Program (CACFP)	10.558	<u>56,209</u>
<b>Total U.S. Department of Agriculture</b>		<u>1,371,684</u>
<b>Total Federal Financial Assistance</b>		<u>\$ 4,829,680</u>

*See Notes to Schedule of Expenditures of Federal Awards*



<b>Accrued (Deferred) Revenue At July 1, 2016</b>	<b>(Memo Only) Prior Year Expenditures</b>	<b>Current Year Expenditures</b>	<b>Current Year Receipts (Cash Basis)</b>	<b>Accrued (Deferred) Revenue At June 30, 2017</b>
\$ -	\$ -	\$ 112,582	\$ 112,582	\$ -
58,801	-	896,027	954,828	-
	-	281,165	281,165	-
1,268	-	25,701	26,969	-
60,069	-	1,202,893	1,262,962	-
60,069	-	1,315,475	1,375,544	-
-	-	56,209	56,209	-
60,069	-	1,371,684	1,431,753	-
<b>\$ 510,929</b>	<b>\$ 1,648,523</b>	<b>\$ 2,923,043</b>	<b>\$ 3,053,662</b>	<b>\$ 380,310</b>

## ***NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

---

### **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2017

#### **Note A – Basis of Presentation**

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

#### **Note B – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic 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* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

#### **Note C – Indirect Cost Rate**

Kelloggsville Public Schools has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

#### **Note D – Grant Section Auditor Report**

Management has utilized the MDE Cash Management System (CMS) Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

#### **Note E – Non-Cash Assistance**

The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with the SEFA for USDA donated food commodities.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**(Continued)**

**KELLOGGSVILLE PUBLIC SCHOOLS**  
For the year ended June 30, 2017

**Note F - Federal Income Reconciliation**

	<b>Grant Expenditures Per Schedule of Federal Financial Assistance</b>	<b>Federal Revenue Per Financial Statements</b>	<b>Difference</b>
Elementary and Secondary School			
Counseling Program	\$ 272,070	\$ 272,070	\$ -
Title I Cluster	610,926	610,926	-
Title IIA	26,492	26,492	-
Title III, Limited English Proficient Students	37,764	37,764	-
21st Century Community Learning Centers	88,913	88,913	-
Special Education Cluster	510,619	510,619	-
Medical Assistance Program	4,575	4,575	-
Nutrition Cluster	1,315,475	1,315,475	-
Child and Adult Care Food Program	56,209	56,209	-
	<u>\$ 2,923,043</u>	<u>\$ 2,923,043</u>	<u>\$ -</u>

# ***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

---

## **KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2017

### **Section I - Summary of Auditor's Results**

---

#### ***Financial Statements***

Type of auditor's report issued:	<i>Unmodified</i>
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ Yes <u>    X    </u> No
• Significant deficiency(ies) identified?	_____ Yes <u>    X    </u> None reported
Noncompliance material to financial statements noted?	_____ Yes <u>    X    </u> No

#### ***Federal Awards***

Internal control over major programs:	
• Material weakness(es) identified?	_____ Yes <u>    X    </u> No
• Significant deficiency(ies) identified?	_____ Yes <u>    X    </u> None reported
Type of auditor's report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	_____ Yes <u>    X    </u> No

Identification of major programs audited:	<u>Nutrition Cluster</u>
	10.555 Non-Cash Assistance
	(USDA Commodities)
	10.555 Lunch Program
	10.553 Breakfast Program
	10.559 Summer Food Service

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)***

---

**KELLOGGSVILLE PUBLIC SCHOOLS**

For the year ended June 30, 2017

**Section I - Summary of Auditor's Results (Continued)**

---

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$750,000

Auditee qualified as a low-risk auditee?

X

Yes

         No

**Section II - Financial Statements Audit Findings**

---

There are no findings that are required to be reported under *Government Auditing Standards*.

**Section III – Federal Award Programs Findings and Questioned Costs**

---

There are no findings or questioned costs.



October 16, 2017

The Board of Education  
Kelloggsville Public Schools  
Kent County, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Kelloggsville Public Schools for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 1, 2017. Professional standards also require that we communicate to you the following information related to our audit.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Kelloggsville Public Schools are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout:

- We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the lives of capital assets:

- We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. Certain amounts included in capital assets have been estimated by appraisers based on historical information for assets placed in service prior to implementation of GASB Statement No. 34.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing and completing 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. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. There were no significant adjustments derived from the audit process.

### **Disagreements with Management**

For purposes 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.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 16, 2017.

### **Management Consultations with Other Independent Accountants**

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

### **Other Audit Findings or Issues**

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

## **Other Matters**

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

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

## **Other Comments**

The District General Fund balance increased by \$1,085,212 to \$3,880,023 at June 30, 2017. This balance represents approximately 16.21 percent of the District's 2017-18 expenditure budget (up from 12.52 percent at June 30, 2016). Maintaining a fund balance of at least 10 to 20 percent of the ensuing year's expenditure budget is advisable for Kelloggsville Public Schools. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

## **Restriction on Use**

This communication is intended solely for the information and use of the Kelloggsville Public Schools Board of Education and management and is not intended to be, and should not be, used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audited financial statements as required by the State of Michigan.



Certified Public Accountants