Athens Area Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2017

Athens Area Schools

Contents

Independent Auditors' Report ..... i - ii

Management's Discussion and Analysis ..... iii-ix

Basic Financial Statements

District-Wide Financial Statements:
- Statement of Net Position 1
- Statement of Activities 2

Fund Financial Statements:
- Governmental Funds:
  - Balance Sheet 3
  - Reconciliation of the Balance Sheet for Governmental Funds to the Statement of Net Position 4
  - Statement of Revenues, Expenditures, and Changes in Fund Balances 5
  - Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 6
- Fiduciary Funds – Statement of Fiduciary Net Position 7

Notes to Financial Statements 8-24

Required Supplemental Information

Budgetary Comparison Schedule - General Fund 25
Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan 26
Schedule of the District's Contributions to the MPSERS Plan 27
Notes to Required Supplementary Information Pension Schedules 28

Independent Auditors' 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* 29-30

Corrective Action Plan 31

WILLIS & JURASEK
CPAs AND CONSULTANTS

Independent Auditors' Report

Board of Education
Athens Area Schools
Athens, Michigan

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 Athens Area Schools, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements 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.

Auditors' 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 auditors' 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 Athens Area Schools as of June 30, 2017, and the respective changes in financial position, 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, budgetary comparison information, and certain pension 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, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 29, 2017, on our consideration of Athens Area Schools' internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Athens Area Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 29, 2017

Our discussion and analysis of Athens Area Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2017.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the current position of the School District's financial statements and other supplemental information that presents all the School District's revenues and expenditures by program for the General Fund, Food Service Fund, Debt Service Fund, and Capital Projects Funds.

FINANCIAL HIGHLIGHTS

The overall condition of all funds and instructional activities remains sound for the School District. All goals related to the financial activities have been met, and if revenue and expenditure patterns can be maintained, sufficient resources for next year will be available.

Total expenditures for all of our programs were $5,970,077 for the year. Program revenues (charges for services, operating grants and contributions) totaled $1,307,980, leaving a net unfunded cost for the year of $4,662,097. The School District's property taxes, state aid, and other revenue sources were sufficient to cover this total unfunded cost.

USING THIS ANNUAL REPORT

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than government-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

Reporting the School District as a Whole

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting,* which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School District's *net position* – the difference between assets and liabilities, as reported in the Statement of Net Position – as one way to measure the School District's financial health or *financial position.* Over time, *increases* or *decreases* in the School District's net position – as reported in the Statement of Activities – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results.* However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school to assess the *overall health* of the School District.

Reporting the School District's Most Significant Funds

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Debt Service Fund).

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the School District's operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in a separate Statement of Fiduciary Net Position – Agency Funds on page 7. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The School District's net position was ($1,150,314) at June 30, 2017. Of this amount, ($6,045,529) was unrestricted. Restricted net position is reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. On the following pages we focus our attention on the net position (TABLE 1) and changes in net position (TABLE 2) of the School District's governmental activities.

The School District as a Whole (Continued)

TABLE 1 – Net Position

June 30, 2017 and 2016

		2017	2016
Assets			
	Current Assets	$ 2,177,390	$ 1,861,847
	Noncurrent Assets	4,763,139	4,983,617
	Total Assets	6,940,529	6,845,464
Deferred Outflows		1,143,347	984,555
Liabilities			
	Current Liabilities	1,167,898	1,205,856
	Noncurrent Liabilities	7,813,750	7,696,713
	Total Liabilities	8,981,648	8,902,569
Deferred Inflows		$252,542	219,784
Net Position			
	Net investment in Capital Assets	4,292,470	4,335,625
	Restricted	602,745	315,474
	Unrestricted	(6,045,529)	(5,943,433)
	Total Net Position	$ (1,150,314)	$(1,292,334)

The School District as a Whole (Continued)

TABLE 2 – Changes in Net Position

Years Ended June 30, 2017 and 2016

	2017	2016
Program Revenue		
Charges for Services	$ 169,244	$ 168,082
Operating Grants and Contributions	1,138,736	1,010,947
General Revenue		
Property Taxes-General Purposes	1,027,548	906,750
Property Taxes-Debt Service	666,586	731,609
State and Federal School Aid	2,975,668	3,160,803
Gain on Sale of Asset	3,900	1,250
Miscellaneous	130,415	131,534
Total Revenue	6,112,097	6,110,975
Expenses		
Instruction	3,378,280	3,163,807
Support Services	1,793,771	1,801,718
Food Service	241,602	234,623
Community Services	9,109	13,583
Payments to Other Districts	66,823	69,143
Depreciation – Unallocated	387,964	376,057
Capital Outlay	86,045	-
Interest on Long-Term Debt	6,483	7,248
Total Expenses	5,970,077	5,666,179
Increase in Net Position	142,020	444,796
Beginning Net Position	(1,292,334)	(1,737,130)
Ending Net Position	$ (1,150,314)	$ (1,292,334)

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was $5,970,077.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2017, the School District amended the General Fund Budget two times.

General Fund

The actual revenue of the General Fund was $5,243,630, above the original budget estimate of $5,219,412, and the final amended budget of $5,241,570. The increase in revenue between the original and final budget was due to a slightly larger increase in State Aid per pupil, as well as an increase in local tax revenue. Actual revenues were right in line with the final amended budget figure.

The actual expenditures of the General Fund were $5,168,983, below original budget estimates of $5,229,242, and below the final amended budget of $5,300,727. The differences between the actual expenditures and the original and final budgets were due to cost containment in all areas and grants not completely spent in the fiscal year. Even with inflation pressures and rising utility costs, we were still able to reduce our expenditures considerably from what was approved by the Board.

OTHER GOVERNMENTAL FUNDS OPERATING HIGHLIGHTS

Debt Service Fund

The Debt Service Fund experienced a net decrease in fund balance of $48,618 leaving a fund balance of $50,692 as of June 30, 2017. Property tax revenue decreased over the previous year by $625,741 while expenditures decreased over the previous year by $562,691.

Food Service Fund

The Food Service Fund showed an increase in fund balance of $3,320 for the year and a fund balance of $19,562 as of June 30, 2017. Revenues increased over the previous year by $1,897. Expenditures decreased over the previous year by $1,130.

Capital Projects Funds

The Capital Projects Funds showed an increase in fund balance of $335,286 for the year and a fund balance of $554,139. Revenue included property taxes for the 2016 Sinking Fund of $588,841 and expenditures for both the 2016 Sinking Fund and the 2015 Capital Projects Fund totaling $253,555.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2017, the School District had $9,873,483 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by $5,110,344 through June 30, 2017; therefore, we currently have a net book value of $4,763,139.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital assets at year-end were as follows:

Land	$ 109,800
Equipment and Vehicles	1,157,538
Buildings	8,606,145
Less: Accumulated Depreciation	(5,110,344)
Total Capital Assets, Net of Depreciation	$ 4,763,139

At June 30, 2017, the School District had $470,669 in bonds and long-term notes outstanding, as shown below:

General Obligation Bonds	
2015 School Bus Bonds	$ 285,000
Other	
Energy Bond	160,000
Capital leases	25,669
Total	$ 470,669

FACTORS BEARING ON THE DISTRICT'S FUTURE

Four years ago, we were very pleased to report that our school district was off the State's deficit district list and had satisfied our Deficit Elimination Plan with the Michigan Department of Education. We are pleased that for a fourth year we have improved our financial position, after restoring employees who had taken pay cuts four years ago (administrators and administrative staff, bus drivers, and secretaries) to their previous wage and salary levels and giving one-time, off-schedule payments to teachers, paraprofessionals, and cooks. We are currently projecting a fund equity in excess of ten percent for fiscal year 2018.

We continue to guard against "creep," the tendency for spending to creep back into or creep up in the budget when times are good. The simple lesson we have learned, and are happy to share with other school districts is, "You can't spend more than you're taking in." Too many school districts and other local governmental bodies, not to mention non-profits and even businesses, seem to think one can conduct business as usual in the face of declining revenues and increasing costs. Sooner or later, fund equity runs out. The only responsible path is to keep expenditures under revenue.

We also continue to contract and share services with a number of other interests. Information technology (IT) services are contracted with Calhoun Intermediate School District's Department of Technology (CDOT), adding to the number of shared or contracted services which already include: financial services from Calhoun ISD, custodial services with Hi-Tec Building Services, special education out-of-district busing through a Calhoun Area Educators/Calhoun ISD consortium with Dean Transportation, substitute teacher services through Edustaff, one administrative position filled by Good Marks for Schools, boiler maintenance services contracted through Hunter-Prell, student and financial IT and fiber optic services through the Calhoun ISD consortia, study opportunities and curriculum materials as members of the Battle Creek Area Mathematics and Science Center and Calhoun Area Career Center, independently contracted with another local district's bus mechanic, and others.

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

We are pleased that voters approved a bus bond proposal on the November 2014 ballot, which will allow us to renew our fleet with six new buses over the next four years. We have purchased four of the buses already with the final two being purchased in 2018. Newer buses have decreased operational expenses for maintenance and fuel (due to increased efficiency). Voters in August of 2016 passed a 3.39 sinking fund millage that will allow us to make substantial capital renovations to the District's infrastructure, further reducing the need to use General Fund dollars in those areas. This additional millage will allow the Board to keep its commitment to maintain the total debt millage for taxpayers at or under the current 4.5 mills.

Athens Area Schools remains committed to providing the highest quality education to the children of our community, in the safest environment, with fidelity and accountability to our voters and taxpayers.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Athens Area Schools. If you have any questions about this report or need further information, please contact the Central Office at 4320 K Drive S, East Leroy, MI 49051; telephone (269) 729-5427.

Athens Area Schools
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets:	
Cash and investments	$ 1,395,486
Receivables	1,508
Due from other governmental units	764,569
Inventories	15,827
Capital assets:	
Cost of capital assets	9,873,483
Less: accumulated depreciation	(5,110,344)
Net capital assets	4,763,139
Total assets	6,940,529
Deferred Outflows of Resources:	
Pension related	1,143,347
Total deferred outflows of resources	1,143,347
Liabilities:	
State aid anticipation note	420,000
Accounts payable and accrued expenses	546,473
Unearned revenue	13,954
Due to agency fund	2,699
Long-term liabilities:	
Due within one year:	
Bonds, capital leases and contracts	182,686
Accrued interest	2,086
Due in more than one year:	
Bonds, capital leases and contracts	287,983
Compensated absences	124,323
Net pension liability	7,401,444
Total liabilities	8,981,648
Deferred Inflows of Resources:	
Pension related	252,542
Total deferred inflows of resources	252,542
Net Position:	
Net investment in capital assets	4,292,470
Restricted for:	
Capital projects	554,139
Debt service	48,606
Unrestricted	(6,045,529)
Total net position	$ (1,150,314)

See Notes to Financial Statements.

Athens Area Schools

Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Governmental Activities: Net (Expenses) Revenues and Change in Net Position
Primary Government				
Governmental activities				
Instruction	$ 3,378,280	$ -	$ 948,659	$ (2,429,621)
Support services	1,793,771	112,632	13,712	(1,667,427)
Food service activities	241,602	56,612	176,365	(8,625)
Community services	9,109	-	-	(9,109)
Payments to other districts	66,823	-	-	(66,823)
Interest on long-term debt	6,483	-	-	(6,483)
Capital outlay	86,045	-	-	(86,045)
Depreciation (unallocated)	387,964	-	-	(387,964)
Total governmental activities	$ 5,970,077	$ 169,244	$ 1,138,736	(4,662,097)
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,027,548
Property taxes, levied for debt service				666,586
State aid not restricted to specific purposes				2,975,668
Unrestricted investment earnings				3,032
Other				127,383
Gain on sale of asset				3,900
Total general revenues				4,804,117
Change in Net Position				142,020
Net Position - Beginning of Year				(1,292,334)
Net Position - End of Year				$ (1,150,314)

See Notes to Financial Statements.

Athens Area Schools

Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Capital Projects Funds	Nonmajor Debt Service Fund	Nonmajor Food Service Fund	Total Governmental Funds
Assets					
Cash and investments	$ 743,564	$ 594,375	$ 53,879	$ 3,668	$ 1,395,486
Due from other funds	-	3,187	-	5,687	8,874
Receivable from other governments	763,021	-	-	1,548	764,569
Other receivables	1,388	-	-	120	1,508
Inventories	-	-	-	15,827	15,827
Total assets	$ 1,507,973	$ 597,562	$ 53,879	$ 26,850	$ 2,186,264
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 36,299	$ 43,423	$ -	$ 548	$ 80,270
Due to other funds	8,386	-	3,187	-	11,573
State aid anticipation notes	420,000	-	-	-	420,000
Unearned revenue	7,214	-	-	6,740	13,954
Salaries payable	462,836	-	-	-	462,836
Accrued expenditures	3,367	-	-	-	3,367
Total liabilities	938,102	43,423	3,187	7,288	992,000
Fund Balances:					
Nonspendable:					
Inventories	-	-	-	15,827	15,827
Restricted	-	554,139	50,692	3,735	608,566
Unassigned	569,871	-	-	-	569,871
Total fund balances	569,871	554,139	50,692	19,562	1,194,264
Total liabilities and fund balances	$ 1,507,973	$ 597,562	$ 53,879	$ 26,850	$ 2,186,264

See Notes to Financial Statements.

Athens Area Schools

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

Total Fund Balances - Governmental Funds		$ 1,194,264
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		4,763,139
Long-term liabilities not due and payable in the current period and not reported in the funds:		
Long-term debt payable	$ (470,669)	
Accrued interest	(2,086)	
Compensated absences	(124,323)	(597,078)
The pension liability and related deferred inflows and outflows are not due and payable in the current period and therefore are not reported in the funds.		
Net pension liability	(7,401,444)	
Deferred outflows related to pensions	1,143,347	
Deferred inflows related to pensions	(252,542)	(6,510,639)
Total Net Position - Governmental Activities		$ (1,150,314)

Athens Area Schools

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

	General Fund	Capital Projects Funds	Nonmajor Debt Service Fund	Nonmajor Food Service Fund	Total Governmental Funds
Revenues:					
Local sources	$ 1,275,547	$ 588,841	$ 78,468	$ 60,045	$ 2,002,901
State sources	3,547,836	-	-	9,903	3,557,739
Federal sources	158,212	-	-	166,462	324,674
Interdistrict and other	262,035	-	-	-	262,035
Total revenues	5,243,630	588,841	78,468	236,410	6,147,349
Expenditures:					
Instruction	3,257,252	-		-	3,257,252
Support services	1,778,476	-	-	-	1,778,476
Food service activities	-	-	-	239,463	239,463
Community services	9,109	-	-	-	9,109
Payments to other districts	66,823	-	-	-	66,823
Debt service:					
Principal	57,323	-	120,000	-	177,323
Interest and other charges	-	-	7,086	-	7,086
Capital outlay	-	253,555	-	-	253,555
Total expenditures	5,168,983	253,555	127,086	239,463	5,789,087
Revenues Over (Under) Expenditures	74,647	335,286	(48,618)	(3,053)	358,262
Other Financing Sources (Uses):					
Transfers in	-	-	-	6,373	6,373
Transfers out	(6,373)	-	-	-	(6,373)
Total other financing sources (uses)	(6,373)	-	-	6,373	-
Net Changes in Fund Balance	68,274	335,286	(48,618)	3,320	358,262
Fund Balances - Beginning of Year	501,597	218,853	99,310	16,242	836,002
Fund Balances - End of Year	$ 569,871	$ 554,139	$ 50,692	$ 19,562	$ 1,194,264

See Notes to Financial Statements.

Athens Area Schools

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

Net Change in Fund Balances - Total Governmental Funds	$	358,262
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.		
The amount by which depreciation $387,964 was exceeded by capital expenditures $167,486 in the current period.		(220,478)
Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments and amortized bond premium exceeded proceeds.		177,323
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:		
Accrued interest		603
Compensated absences		(71,995)
Governmental Funds report the required pension contributions for the fiscal year June 30, 2017 as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year.		
Changes in pension related liabilities and deferrals		(101,695)
Change in Net Position of Governmental Activities	$	142,020

Athens Area Schools

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Agency Fund
Assets:	
Cash and cash equivalents	$ 115,330
Due from other funds	2,699
Total assets	$ 118,029
Liabilities:	
Due to student groups	$ 118,029
	$ 118,029

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Athens Area Schools (the "School District" or "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide and Fund Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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

District-Wide Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

It is the District's policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, severance pay, claims, and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

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

The School District reports the following major governmental funds:

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

Capital Project Fund – This type of fund is used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. The District maintains two capital project funds, the 2015 Capital Projects Fund and the 2016 Sinking Fund, which has restricted property taxes as its source of revenue. For the 2015 Capital Projects Fund, the School District has complied with the applicable provisions of §1351a of the Revised School Code. For the 2016 Sinking Fund, the School District has complied with the applicable provisions of Section 1212 of the Revised School Code.

Additionally, the government reports the following fund types:

Debt Service Fund – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof related to bond issues. The District maintains one debt fund to record all activity related to the 2015 School Bus Bond Fund.

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

Additionally, the government reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the District is the Food Service Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity (trust funds) or as an agent (agency funds). Fiduciary Fund net position and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held for the students and parents.

Revenues, Assets, Liabilities, and Net Position or Equity

State Revenue - 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 Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2017, the foundation allowance was based on pupil membership counts taken in February 2016 and September 2016.

The State portion of the foundation is provided primarily by a State education property tax millage of six mills on Principal Residence Exemption (PRE) property and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property (non-homestead) taxes which may be levied at a rate of up to 18 mills plus 6 mills on Commercial Personal Property. The State revenue is recognized during the foundation period and is funded through payments from October to August of each year. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

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

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Property Taxes (Continued)

For the year ended June 30, 2017, the District levied the following amounts per $1,000 of assessed taxable valuation:

General Fund – Non-primary residence	18.0000
General Fund – Commercial personal property	6.0000
Debt Fund – All taxable values	0.4600
Capital Projects Fund – All taxable values	3.5000

Tax abatements provided to property tax payers, if any, were not significant, and thus no disclosure was deemed required in accordance with GASB Statement No. 77, *Tax Abatement Disclosures*.

Cash and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB professional standards. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

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

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of $5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

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

Buildings and improvements	20-50 years
Buses and other vehicles	5-8 years
Furniture and equipment	5-20 years

Compensated Absences - In the district-wide financial statements, the District reports a liability for compensated absences which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are reported as a deferred inflow or outflow, separate from liabilities, and are amortized over the life of the bond using the straight-line method. Bond issuance costs are expensed as incurred.

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

Deferred 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 represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to deferred pension plan expenses. Deferred pension plan expenses are recognized in the plan years to which it applies. The District also currently reports deferred outflows of resources from pension payments made subsequent to the measurement date to be recognized as the corresponding time lags are met.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its pension plan. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Defined Benefit 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 Employees' Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value. See Note 10 for detailed information.

Fund Balance – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are not in spendable form or are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Use of Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplemental information section.

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

4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

6. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end.

Note 3 – Cash and Investments

At year-end, the District's cash and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	$ 1,395,486	$ 115,330	$ 1,510,816

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposits)	$ 1,505,716
Petty cash	100
Total	$ 1,505,816

Investment and Deposit Risk – The District's cash and investments are subject to several types of risk, as noted below.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately $1,273,000 of the District's bank balance of $1,523,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District's investment policy does not restrict investment maturities beyond State law.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and

Note 3 – Deposits and Investments (Continued)

Credit Risk (Continued) – qualified external investment pools. The District's investment policy does not have specific limits in excess of State law on investment credit risk.

Concentration of Credit Risk – The District's investment policy does not limit investments with individual issuers.

Foreign Currency Risk – The District does not invest in foreign currency and does not maintain a policy regarding foreign currency risk.

Note 4 – Receivables

Receivables at year-end were approximately $766,000 and consist mainly of amounts due from the State of Michigan and reimbursement for federal grants.

Note 5 – Capital Assets

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

	Beginning Balance	Additions	Disposals	Year-End Balance
Assets not being depreciated:				
Land	$ 109,800	$ -	$ -	$ 109,800
Capital assets being depreciated:				
Buildings and improvements	8,606,145	-	-	8,606,145
Buses and other vehicles	832,250	164,998	(189,140)	808,108
Furniture and equipment	346,942	2,488	-	349,430
Subtotal	9,785,337	167,486	(189,140)	9,763,683
Accumulated depreciation:				
Buildings and improvements	4,170,083	286,969	-	4,457,052
Buses and other vehicles	548,924	40,360	(189,140)	400,144
Furniture and equipment	192,513	60,635	-	253,148
Subtotal	4,911,520	387,964	(189,140)	5,110,344
Net capital assets being depreciated	4,873,817	(220,478)	-	4,653,339
Net capital assets	$ 4,983,617	$ (220,478)	$ -	$ 4,763,139

Depreciation expense, which totaled $387,964 was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Note 6 – Notes Payable

For the fiscal year end June 30, 2017, the School District was issued State Aid anticipation notes that totaled $900,000, with interest rates between .760% and 1.200% and maturity dates of July 20, 2017 and August 21, 2017, as follows:

Note	Amount	Interest Rate	Maturity Date
2016C-1	$ 239,853	1.000%	7/20/2017
2016C-2	360,147	0.760%	7/20/2017
2016C-3	300,000	1.200%	8/21/2017

The State Aid Anticipation Notes are secured by the full faith and credit of the District as well as pledges of State Aid. Note 2016C-1 and 2016C-2 required payments to an irrevocable set-aside account. At year-end, the total of these payments is considered defeased debt and is not included in the year-end balance.

Balance June 30, 2016	Additions	Payments	Balance June 30, 2017
$ 480,000	$ 900,000	$ 960,000	$ 420,000

The District has also approved the issuance of State Aid anticipation notes for the 2017-2018 school year in the amounts of $500,000 and $200,000 with respective interest rates of 1.27% and 1.49% and with maturities dates of July 20, 2018 and August 20, 2018, respectively. Under the agreement, the District will begin making payments on the $500,000 note beginning March 2018.

Note 7 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the Balance Sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
Capital Projects Fund	Debt Service Fund	$ 3,187
Food Service Fund	General Fund	$ 5,687
Agency Fund	General Fund	$ 2,699

A transfer of $6,373 was made from the General Fund to the Food Service Fund to cover receivables considered uncollectible.

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment as well as to account for compensated absences payable. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligations can be summarized as follows.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
General obligation bonds	$ 615,000	$ -	$ 170,000	$ 445,000	$ 175,000
Installment purchases:					
School bus loans/leases	$ 32,992	-	7,323	25,669	$ 7,686
Compensated absences	52,328	71,995	-	124,323	-
Total governmental activities	$ 700,320	$ 71,995	$ 177,323	$ 594,992	$ 182,686

Annual debt service requirements to maturity on the above governmental obligations (excluding compensated absences) are as follows:

	Governmental Activities		
	Principal	Interest	Total
2018	$ 182,686	$ 13,589	$ 196,275
2019	113,066	9,109	122,175
2020	118,466	5,244	123,710
2021	56,451	1,191	57,642
	$ 470,669	$ 29,133	$ 499,802

At June 30, 2017 long-term debt consisted of the following individual issues:

Capital lease obligation, US Bancorp Equipment Finance, secured by office photocopiers, payable in monthly installments of $730 including interest at an imputed rate of 4.844% through August 25, 2021.	$ 25,669
$605,000 Energy Conservation Improvement Bonds, annual installments of $50,000 to $55,000 plus interest at a rate ranging from 3.50% to 4.90% through May 1, 2020.	160,000
2015 School Bus Bonds, annual installments of $50,000 to $125,000 plus interest at a rate ranging from 1.100% to 2.150% through May 1, 2021.	285,000
	$ 470,669

Note 9 – Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injury as well as medical, life and workers' compensation benefits provided to employees. School Board liability, errors and omissions, student accident, and all health and life insurances have been purchased through a combination of self-insurance programs and commercial insurance policies.

The School District is a member of the School Employees Group (SEG), Self-Insured Workers Disability Compensation Fund (the "Fund"), established pursuant to the provisions of Act 138 of Michigan Public Acts of 1982, which authorizes contracts between school districts to form a self-insurance fund, and to prescribe conditions to the performance of these contracts.

The School District pays quarterly premiums to the Fund for workers' disability compensation coverage. The agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will purchase both specific and aggregate insurance to the limits determined necessary by the Fund management.

At June 30, 2017, there were no claims which exceeded insurance coverage, nor have any settled claims during the past three years exceeded insurance coverage. The School District did not have any significant reduction in insurance coverage from previous years.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits

Organization

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System ("MPSERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees and their beneficiaries, and covers substantially all employees of the School District. In addition, the System's health plan provides postemployment healthcare benefits to all retirees and beneficiaries as an elective option including health, dental, and vision coverage. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor plus the State Superintendent of Instruction, who serves as an ex-officio member.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & 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 included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report and are available at www.michigan.gov/mpsers-cafr. Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan's fiduciary net position.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Organization (Continued)

Benefits Provided - Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

Contributions – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

The System is set up with seven different benefit options which are available to plan members (employees) based on date of hire. Depending on the plan selected, plan member contributions range from 0% up to 7% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's contributions are determined based on employee elections. Contribution rates are adjusted annually by ORS. For the reported year, the rates ranged from 14.56% to 18.95% for the period of July 1, 2016 through September 30, 2016 and 15.27% to 19.03% for the period of October 1, 2016 through June 30, 2017.

The District's required and actual contributions to the plan for the year ended June 30, 2017 were $691,857. The District's required and actual contributions include an allocation of $231,274 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended June 30, 2017.

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

Proportionate Share of School District's Net Pension Liability - At June 30, 2017, the District reported a liability of $7,401,444 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2016, the District's proportionate share percent was .02966608 percent, an increase of .00029573 percent from its proportion measured as of September 30, 2015.

Pension Expense - For the year ended June 30, 2017, the School District recognized pension expense of $757,649, exclusive of payments to fund the MPSERS UAAL stabilization rate.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Deferred Outflows and Deferred Inflows - At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 92,242	$ 17,542
Changes of assumptions	115,716	-
Net difference between projected and actual earnings on pension plan investments	123,012	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	158,383	3,726
School District's contributions subsequent to the measurement date	653,994	231,274
Total	$ 1,143,347	$ 252,542

$653,994 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Year Ended June 30	Amount
2018	$ 110,485
2019	100,811
2020	219,418
2021	37,371

Payables to the Pension Plan - The District reported an accrued pension plan payable at June 30, 2017 of $64,154. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2017 but not yet paid.

Actuarial Assumptions

Actuarial Valuations and Assumptions - Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Actuarial Assumptions (Continued)

Actuarial Valuations and Assumptions (Continued) - 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.

A summary of actuarial assumptions as of the latest actuarial valuation follows:

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-hybrid)	8.0%
Pension Plus Plan (hybrid)	7.0%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost of living pension adjustments	3.0% 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 periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 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.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report (**www.michigan.gov/mpsers-cafr**).

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

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Actuarial Assumptions (Continued)

Long-Term Expected Rate of Return on Plan Assets (Continued) – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equity pools	28.0%	5.9%
Alternative investment pools	18.0%	9.2%
International equity	16.0%	7.2%
Fixed income pools	10.5%	0.9%
Real estate and infrastructure pools	10.0%	4.3%
Absolute return pools	15.5%	6.0%
Short-term investment pools	2.0%	0.0%
Total	100.0%	

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

Discount Rate - A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). 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 this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on 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 benefits payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Pension Plus 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 one percentage point lower or one percentage point higher:

Current Single Discount Rate		
1% Decrease (Non-Hybrid/Hybrid)* 7.0%/6.0%	Assumption (Non-Hybrid/Hybrid)* 8.0%/7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0%/8.0%
$9,531,197	$7,401,444	$5,605,858

*The Basic Plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)

Related Subsequent Events

On February 23, 2017, in accordance with PA 300 of 1980, as amended, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8% to 7.5% effective for the fiscal year 2016 valuation and following.

The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the employer contribution for fiscal year beginning October 1, 2018 and will be based upon the 7.5% investment rate of return assumption. The actuarial computed employer contributions and the net pension liability will increase as a result of lowering the assumed investment rate of return.

Senate Bill 401 amends the Public School Employees Retirement Act (PA 300 of 1980, as amended). The bill closes the current hybrid plan (Pension Plus) to newly hired employees as of February 1, 2018 and creates a new optional revised hybrid plan with similar plan benefit calculations but contains a 50/50 cost share between the employee and the employer, including the cost of future unfunded liabilities. The assumed rate of return on the new hybrid plan would equal 6%. Further, the bill provides, under certain conditions, that the new hybrid plan would close to new employees if the actuarial funded ratio falls below 85% for two consecutive years. The bill includes other provisions related to the retirement eligibility age, plan assumptions, and unfunded liability payment methods.

Post-Employment Benefits Other than Pensions (OPEB)

Under the MPSERS act, all participating retirees have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the various coverages at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rates to fund the benefits on a pay-as-you-go basis. The employer contribution rate on covered payroll for the period of July 1, 2016 through September 30, 2016 was 6.40% to 6.83% and for the period of October 1, 2016 through June 30, 2017 was 5.69% to 5.91%, dependent upon the employee's date of hire and plan election.

Members can choose to contribute 3.0% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3.0% contribution and instead choose the Personal Healthcare Fund, which can by used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a plan with 2.0% employee contributions into their 457 account as of their transition date and with a 2.0% employer match into the employee's 401(k) account.

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2017, 2016, and 2015 were approximately $236,987, $231,833, and $83,702 respectively. In addition, a portion ranging from 35-100 percent of the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate is considered a contribution to the retiree healthcare plan.

Note 11 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 12 – Upcoming Accounting and Reporting Changes

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which will result in accounting and reporting changes. Statement No. 75 sets standards for governments that provide postemployment benefits other than pensions (OPEB). Similar to the GASB standards set for pension benefits, the Statement requires the District, as a cost-sharing employer participating in MPSERS, to recognize and report its proportionate share of the MPSERS' net OPEB liability as well as the related deferred inflows and outflows of resources, and expenses/expenditures. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Statement No. 75 will be effective for the District's fiscal year ending June 30, 2018.

Required Supplemental Information

Athens Area Schools

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

	Budgeted Amounts		
	Original	Final	Actual
Revenues:			
Local sources	$ 1,104,313	$ 1,265,198	$ 1,275,547
State sources	3,701,190	3,544,350	3,547,836
Federal sources	195,933	173,620	158,212
Interdistrict and other	217,976	258,402	262,035
Total revenues	5,219,412	5,241,570	5,243,630
Expenditures:			
Instruction:			
Basic programs	2,622,092	2,650,786	2,630,655
Added needs	664,868	635,135	626,597
Support services:			
Pupil	115,601	130,215	124,590
Instructional staff	102,175	96,023	93,190
General administration	92,192	76,014	68,800
School administration	317,322	317,360	311,689
Business	151,178	158,034	146,349
Operation & maintenance	451,925	454,967	441,287
Pupil transportation	326,596	358,858	332,818
Central services	104,175	116,382	113,032
Athletic activities	158,868	160,695	146,721
Community services:			
Community activities	-	12,258	8,284
Other	-	1,000	825
Payments to other public schools	67,500	75,000	66,823
Debt service:			
Principal and interest	52,250	58,000	57,323
Capital outlay	2,500	-	-
Total expenditures	5,229,242	5,300,727	5,168,983
Revenues Over (Under) Expenditures	(9,830)	(59,157)	74,647
Other Financing Sources (Uses):			
Transfers in	15,000	-	-
Transfers out	(1,000)	(30,000)	(6,373)
Total other financing sources (uses)	14,000	(30,000)	(6,373)
Net Changes in Fund Balances	4,170	(89,157)	68,274
Fund Balances - Beginning of Year	501,597	501,597	501,597
Fund Balances - End of Year	$ 505,767	$ 412,440	$ 569,871

Athens Area Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan

Last Three Fiscal Years (Amounts Determined Each Year as of September 30)

	2017	2016	2015
District's proportion of net pension liability (%)	0.029666080%	0.029370350%	0.028680000%
District's proportionate share of net pension liability	$ 7,401,444	$ 7,173,716	$ 6,317,199
District's covered-employee payroll	$ 2,552,656	$ 2,497,117	$ 2,520,799
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	289.95%	287.28%	250.60%
Plan fiduciary net position as a percentage of total pension liability	63.27%	63.17%	66.20%

Athens Area Schools

Schedule of the District's Contributions to the MPSERS Plan

Last Three Fiscal Year (Amounts Determined Each Year as of June 30)

	2017	2016	2015
Statutorily required contributions	$ 691,857	$ 661,526	$ 554,197
Contributions in relation to statutorily required contributions	691,857	661,526	554,197
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered-employee payroll	$ 2,636,189	$ 2,444,226	$ 2,521,503
Contributions as a percentage of covered-employee payroll	26.24%	27.06%	21.98%

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

Changes of Assumptions: There were no changes of benefit assumptions in 2016.

Other Supplemental Information

WILLIS & JURASEK
CPAs AND CONSULTANTS

Independent Auditors' 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*

Board of Education
Athens Area Schools
Athens, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Athens Area Schools' basic financial statements and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

Board of Education
Athens Area Schools
Athens, Michigan

2017-001 – Internal Control

Criteria or Specific Requirement: It is management's responsibility to ensure that the District maintains adequate controls over the activity related to grant funding including the monitoring of budget to actual activity and the request for reimbursement.

Condition: Budgeted amounts did not correspond with the appropriate expenditure line items and the final cash request was not timed appropriately.

Recommendation: We recommend the District consider modifying the procedures for monitoring the budget to actual grant expenditures as well as the review and approval process for reimbursement requests.

Please see the corrective action plan following.

Athens Area Schools' Response to Findings

Athens Area Schools' response to the findings identified in our audit and referred to as 2017-001 is described on the following page. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

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

Purpose of this Report

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

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 29, 2017

Athens Area Schools

4320 K Drive S. East Leroy, MI 49051

Corrective Action Plan

Fiscal Year 2016-2017

Ginger Bushong (269) 789-2476

Finding 2017-001

We are aware of the deficiency in that funds were drawn early from Title I and Title II. A draw was requested 6/21/17 and received 6/28/17 for summer accruals for one employee that covered four summer pays.

Planned Corrective Action

The District has put controls in place to ensure compliance with timing of cash requests in the future. Our procedures have been updated to note that accruals should not be entered into the accounting software until a final grant draw is completed after the last payroll in June.

Anticipated completion date

We have corrected this on September 6, 2017.

Sincerely,

Ginger Bushong, LEA Business Manager

WILLIS & JURASEK
CPAs AND CONSULTANTS

September 29, 2017

To the Board of Education
Athens Area Schools
Athens, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area 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, if applicable, *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 August 7, 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 Athens Area Schools are described in Note 1 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 School District 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 capitalized assets and the estimate of related accumulated depreciation. The bulk of the capitalized cost is based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.
>
> The financial statements contain estimates for net pension liability and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

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.

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 as per the auditors' report.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the 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 Budgetary Comparison Schedules, the Schedule of Reporting Unit's Contributions, and the Schedule of Reporting Unit's Proportionate Share of the Net Pension Liability and related notes 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.

Restriction on Use

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

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.