

East Jackson
Community
Schools



Year Ended
June 30, 2017

Financial
Statements and
Single Audit
Compliance Act

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EAST JACKSON COMMUNITY SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 26, 2017

Board of Education
East Jackson Community Schools
Jackson, 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 *East Jackson Community Schools* (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Independent 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 East Jackson Community Schools as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rehmann Johnson LLC

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MANAGEMENT'S DISCUSSION AND ANALYSIS

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

As management of East Jackson Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

Financial Highlights

· Total net position	\$ (11,482,612)
· Change in total net position	(738,845)
· Fund balances, governmental funds	728,227
· Change in fund balances, governmental funds	(2,213,482)
· Unassigned fund balance, general fund	815,541
· Change in fund balance, general fund	237,418
· General obligation bonds outstanding	20,775,000
· Change in general obligation bonds	(990,000)
· Capital assets, net	23,262,770

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. *Government-wide Financial Statements*
2. *Fund Financial Statements*
3. *Notes to the Financial Statements*

This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to the private business sector.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual balance reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, community services, athletics, and food service. The District has no business-type activities during the current year.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: *governmental funds* and *fiduciary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may better understand the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt retirement fund, and 2014 capital projects fund, which are the District's major funds. Data from the other nonmajor governmental funds, the food service fund and the 2017 capital projects fund, is presented separately in the supplementary information.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the general fund budget.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension plan immediately following the notes to the financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$11,482,612 at the close of the most recent fiscal year.

A portion of the District's net position reflects its investment in capital assets (e.g. land, buildings and improvements, equipment and furniture, and vehicles); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	2017	2016
Assets		
Current and other assets	\$ 3,136,121	\$ 6,100,601
Capital assets, net	23,262,770	22,703,508
Total assets	<u>26,398,891</u>	<u>28,804,109</u>
Deferred outflows of resources	<u>2,218,765</u>	<u>2,038,214</u>
Liabilities		
Long-term debt	21,943,339	23,021,987
Other liabilities	18,109,419	18,512,671
Total liabilities	<u>40,052,758</u>	<u>41,534,658</u>
Deferred inflows of resources	<u>47,510</u>	<u>51,432</u>
Net position:		
Net investment in capital assets	2,490,397	2,534,394
Restricted	88,443	156,260
Unrestricted (deficit)	(14,061,452)	(13,434,421)
Total net position	<u>\$ (11,482,612)</u>	<u>\$ (10,743,767)</u>

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position, which has a negative balance.

The results of this year's operations for the District as a whole are reported in the statement of activities, which shows the change in net position for the fiscal year 2017.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Governmental Activities

Net position decreased \$738,845 compared to a decrease of \$179,200 in the prior year. The key elements of this decrease included a decrease in property taxes and state aid. This was partially offset by an increase in grants and contributions not restricted to specific programs. Additionally, instruction expenses decreased while supporting services increased. This was largely due to the District struggling to fill vacant positions due to leaves of absence, retirements, and employees leaving the District. As such, substitute teachers were hired, primarily in the language and special education departments, to cover these positions.

	Change in Net Position	
	2017	2016
Revenues		
Program revenues:		
Charges for services	\$ 149,661	\$ 241,053
Operating grants and contributions	837,467	1,016,431
General revenues:		
Property taxes	3,125,111	3,701,455
Unrestricted state aid	7,221,160	7,632,711
Grants and contributions not restricted to specific programs	972,006	228,498
Unrestricted investment earnings	2,484	15,186
Total revenues	12,307,889	12,835,334
Expenses		
Instruction	6,831,705	7,281,760
Supporting services	3,757,064	3,201,617
Community services	44,129	9,806
Athletics	243,090	364,521
Food service	593,265	582,950
Interest on long-term debt	765,795	799,094
Unallocated depreciation	811,686	774,786
Total expenses	13,046,734	13,014,534
Change in net position	(738,845)	(179,200)
Net position, beginning of year	(10,743,767)	(10,564,567)
Net position, end of year	\$ (11,482,612)	\$ (10,743,767)

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$728,227. Approximately 24.22% of this total amount (\$176,385) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, to indicate that it is not available for new spending because the underlying assets are included in inventory and are not available for current expenditure, or it is constrained by externally imposed restrictions.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the total fund balance of the general fund was \$818,745, of which \$815,541 is considered unassigned and the remaining balance is restricted for the Community Caring Dinner. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents approximately 8.2% of total general fund expenditures.

The fund balance of the District's general fund increased \$237,418 during the current fiscal year. This is attributable to an increase in property taxes and other revenues and fewer expenditures than budgeted during the year. The debt retirement fund report an unassigned deficit of \$639,156. This is attributable to the District's property tax revenue being less than principal and interest expenses related to debt.

The fund balance of the District's debt retirement fund decreased \$709,825 during the current fiscal year. This is attributable to the principal and interest payments made during the year exceeding the property tax revenues collected.

The 2014 capital projects fund has total fund balance of \$81,599, which is considered to be entirely restricted. The capital projects fund incurred \$2,066,338 in improvement projects during the year.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted at year end. A statement showing the District's original and final budget amounts for the general fund compared with amounts actually paid and received is provided with the governmental fund section in these financial statements.

The original budget is adopted by the school board before the start of the District's fiscal year and the final amended budget is adopted at the end of the fiscal year. The difference between the two relates to adjustments made in salaries, benefits, and general expenditures throughout the course of the year. Once the adjustments are known, the budget is adjusted accordingly.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Capital Assets and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2017, amounted to \$23,262,770 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and furniture, and vehicles.

The major capital asset expenditures during the current fiscal year included approximately \$1.3 million in buildings and improvements related to the completion of the 2014 capital projects.

	Capital Assets (Net of Depreciation)	
	2017	2016
Land	\$ 256,527	\$ 256,527
Construction in progress	-	3,330,500
Buildings and improvements	21,546,272	17,418,426
Equipment and furniture	1,284,852	1,477,366
Vehicles	175,119	220,689
Total capital assets, net	<u>\$ 23,262,770</u>	<u>\$ 22,703,508</u>

Additional information regarding the District's capital assets can be found in the footnotes to the financial statements.

Long-term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of \$21,943,339.

	Long-term Debt	
	2017	2016
General obligation bonds	\$ 20,775,000	\$ 21,765,000
School Loan Revolving Fund	424,325	411,264
Unamortized premium	589,865	688,176
Compensated absences	154,149	157,547
Total	<u>\$ 21,943,339</u>	<u>\$ 23,021,987</u>

The District's total long-term debt decreased by \$1,078,648. The key factor in this decrease was the principal payments of general obligation bond debt during the year.

Additional information regarding the District's long-term debt can be found in the footnotes to the financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Management's Discussion and Analysis

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2017-2018 fiscal year:

- The foundation allowance is budgeted at \$7,631 per full-time student
- A MPSERS credit of \$64 per full-time student
- An anticipated increase of 10% in health insurance costs

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 1566 N. Sutton Road, Jackson, MI 49202.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

EAST JACKSON COMMUNITY SCHOOLS

Statement of Net Position

June 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,391,902
Due from other governments	1,354,574
Inventory	76,645
Assets held for sale	313,000
Capital assets not being depreciated	256,527
Capital assets being depreciated, net	<u>23,006,243</u>
Total assets	<u>26,398,891</u>
Deferred outflows of resources	
Deferred charge on advance bond refundings, net	129,093
Deferred pension amounts	<u>2,089,672</u>
Total deferred outflows of resources	<u>2,218,765</u>
Liabilities	
Accounts payable, accrued liabilities and notes payable	2,228,476
Long-term debt:	
Due within one year	1,660,552
Due in more than one year	20,282,787
Net pension liability	<u>15,880,943</u>
Total liabilities	<u>40,052,758</u>
Deferred inflows of resources	
Deferred pension amounts	<u>47,510</u>
Net position	
Net investment in capital assets	2,490,397
Restricted for:	
Food service	85,239
Community Caring Dinner	3,204
Unrestricted (deficit)	<u>(14,061,452)</u>
Total net position	<u><u>\$ (11,482,612)</u></u>

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Statement of Activities

For the Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 6,831,705	\$ -	\$ -	\$ (6,831,705)
Supporting services	3,757,064	15,165	403,988	(3,337,911)
Community services	44,129	-	-	(44,129)
Athletics	243,090	50,255	-	(192,835)
Food service	593,265	84,241	433,479	(75,545)
Interest on long-term debt	765,795	-	-	(765,795)
Unallocated depreciation	811,686	-	-	(811,686)
Total governmental activities	\$ 13,046,734	\$ 149,661	\$ 837,467	(12,059,606)
General revenues				
Property taxes				3,125,111
Unrestricted state aid				7,221,160
Grants and contributions not restricted to specific programs				972,006
Unrestricted investment earnings				2,484
Total general revenues				11,320,761
Change in net position				(738,845)
Net position, beginning of year				(10,743,767)
Net position, end of year				\$ (11,482,612)

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

EAST JACKSON COMMUNITY SCHOOLS

Balance Sheet Governmental Funds June 30, 2017

	General Fund	Debt Retirement Fund	2014 Capital Projects Fund	Nonmajor Governmental Funds	Totals
Assets					
Cash and cash equivalents	\$ 698,740	\$ 92,827	\$ 11,657	\$ 588,678	\$ 1,391,902
Due from other governments	1,351,579	-	-	2,995	1,354,574
Due from other funds	926,108	-	69,942	-	996,050
Inventory	-	-	-	76,645	76,645
Total assets	\$ 2,976,427	\$ 92,827	\$ 81,599	\$ 668,318	\$ 3,819,171
Liabilities					
Accounts payable	\$ 4,515	\$ -	\$ -	\$ 364	\$ 4,879
Salaries and retirement payable	1,071,258	-	-	6,790	1,078,048
Due to other funds	69,942	731,983	-	194,125	996,050
State aid note payable	1,011,967	-	-	-	1,011,967
Total liabilities	2,157,682	731,983	-	201,279	3,090,944
Fund balances					
Nonspendable-					
Inventory	-	-	-	76,645	76,645
Restricted:					
Food service	-	-	-	8,594	8,594
Capital projects	-	-	81,599	381,800	463,399
Community Caring Dinner	3,204	-	-	-	3,204
Unassigned (deficit)	815,541	(639,156)	-	-	176,385
Total fund balances (deficits)	818,745	(639,156)	81,599	467,039	728,227
Total liabilities and fund balances	\$ 2,976,427	\$ 92,827	\$ 81,599	\$ 668,318	\$ 3,819,171

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2017

Fund balances - total governmental funds	\$ 728,227
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Certain assets used in governmental activities are not financial resources and therefore not reported in the funds.	
Capital assets not being depreciated	256,527
Capital assets being depreciated	36,986,483
Accumulated depreciation	(13,980,240)
Assets held for sale	313,000
Certain liabilities, such as bonds payable, are not due and payable in the current period therefore are not reported in the funds.	
Bonds and school loan revolving fund payable	(21,199,325)
Unamortized bond premium	(589,865)
Deferred charge on advance bond refundings, net	129,093
Accrued interest on bonds payable	(133,582)
Compensated absences	(154,149)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(15,880,943)
Deferred outflows related to the net pension liability	2,089,672
Deferred inflows related to the net pension liability	(47,510)
Net position of governmental activities	<u>\$ (11,482,612)</u>

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2017

	General Fund	Debt Retirement Fund	2014 Capital Projects Fund	Nonmajor Governmental Funds	Totals
Revenues					
Local sources:					
Property taxes	\$ 1,619,832	\$ 1,505,279	\$ -	\$ -	\$ 3,125,111
Interest	-	-	2,484	-	2,484
Other local revenues	965,714	-	12,000	84,241	1,061,955
Transfers from other governments	65,068	-	-	-	65,068
State sources	7,221,160	-	-	14,306	7,235,466
Federal sources	398,632	-	-	419,173	817,805
Total revenues	10,270,406	1,505,279	14,484	517,720	12,307,889
Expenditures					
Current:					
Instruction	6,727,666	-	-	-	6,727,666
Supporting services	3,020,601	-	-	-	3,020,601
Community services	44,129	-	-	-	44,129
Athletics	240,592	-	-	-	240,592
Food service	-	-	-	588,741	588,741
Capital outlay	-	-	2,066,338	-	2,066,338
Debt service:					
Principal	-	1,380,000	-	-	1,380,000
Interest and fiscal charges	-	835,104	-	-	835,104
Bond issuance costs	-	-	-	8,200	8,200
Total expenditures	10,032,988	2,215,104	2,066,338	596,941	14,911,371
Revenues over (under) expenditures	237,418	(709,825)	(2,051,854)	(79,221)	(2,603,482)
Other financing sources					
Issuance of long-term debt	-	-	-	390,000	390,000
Net change in fund balances	237,418	(709,825)	(2,051,854)	310,779	(2,213,482)
Fund balances, beginning of year	581,327	70,669	2,133,453	156,260	2,941,709
Fund balances (deficits), end of year	\$ 818,745	\$ (639,156)	\$ 81,599	\$ 467,039	\$ 728,227

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Reconciliation

Net Change in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2017

Net change in fund balances - total governmental funds	\$ (2,213,482)
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported depreciation expense.	
Capital assets purchased/constructed	1,370,948
Depreciation expense	(811,686)
Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term debt in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term debt in the statement of net position.	
Issuance of long-term debt	(390,000)
Principal payments on long-term debt	1,380,000
Amortization of deferred charge on advance bond refundings	(21,516)
Amortization of premium on bond refunding	98,311
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Change in net pension liability and related deferred amounts	(147,332)
Change in accrued interest payable on bonds	(7,486)
Change in the accrual for compensated absences	3,398
	<hr/>
Change in net position of governmental activities	<u>\$ (738,845)</u>

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local revenue:				
Property taxes	\$ 1,608,000	\$ 1,602,014	\$ 1,619,832	\$ 17,818
Other local revenues	685,500	890,661	965,714	75,053
Transfers from other governments	37,000	56,068	65,068	9,000
State revenue	7,557,802	7,216,502	7,221,160	4,658
Federal revenue	452,892	424,874	398,632	(26,242)
Total revenues	10,341,194	10,190,119	10,270,406	80,287
Expenditures				
Instruction:				
Basic programs	4,764,281	5,000,807	4,971,776	(29,031)
Added needs	1,845,124	1,750,428	1,755,890	5,462
Total instruction	6,609,405	6,751,235	6,727,666	(23,569)
Supporting services:				
Pupil	262,751	245,426	241,030	(4,396)
Instructional staff	223,088	226,874	224,327	(2,547)
General administration	313,604	288,832	292,113	3,281
School administration	645,063	632,931	638,111	5,180
Business services	187,329	172,606	153,477	(19,129)
Operations and maintenance	1,272,083	1,226,263	1,180,261	(46,002)
Pupil transportation	273,289	285,522	275,085	(10,437)
Central services	33,738	18,259	16,197	(2,062)
Total supporting services	3,210,945	3,096,712	3,020,601	(76,111)
Community services	8,800	27,626	44,129	16,503
Athletics	296,191	280,310	240,592	(39,718)
Total expenditures	10,125,341	10,155,883	10,032,988	(122,895)
Net change in fund balance	215,853	34,236	237,418	203,182
Fund balance, beginning of year	581,327	581,327	581,327	-
Fund balance, end of year	\$ 797,180	\$ 615,563	\$ 818,745	\$ 203,182

The accompanying notes are an integral part of these financial statements.

EAST JACKSON COMMUNITY SCHOOLS

Statement of Fiduciary Assets and Liabilities - Agency Fund

June 30, 2017

	Agency Fund
Assets	
Cash and cash equivalents	\$ 50,212
Liabilities	
Accounts payable	\$ 1,000
Due to student groups and activities	49,212
Total liabilities	\$ 50,212

The accompanying notes are an integral part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

East Jackson Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the 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. The District had no *business-type activities* during the year.

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 or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants that use one year. 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, are recorded only when payment is due.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is used to account for all financial resources not accounted for and reported in another fund.

The *debt retirement fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

The *2014 capital projects fund* is used to account for financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

The District reports the following fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *capital projects fund* is used to account for financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

Inventory

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the general fund and special revenue funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net position.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000, computer and associated computer equipment costing more than \$1,000, and electronic equipment costing more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition cost at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The District does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings and improvements	25-50
Equipment and furniture	5-20
Vehicles	8-10

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and 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 government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources relate to pension costs.

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance*, if applicable, is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance*, if applicable, for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund. The District reported no committed or assigned fund balances.

When the District incurs an expenditure for purposes for which various fund balance classification can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

Pensions

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 Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue fund. All annual appropriations lapse at fiscal year end.

The general and special revenue fund are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on an activity basis.

3. ACCOUNTABILITY AND COMPLIANCE

Excess of Expenditures Over Appropriations

During the year ended June 30, 2017, the District incurred certain expenditures in excess of the amounts appropriated as follows:

	Final Budget	Actual	Over Budget
General fund			
Instruction:			
Added needs	\$ 1,750,428	\$ 1,755,890	\$ 5,462
Supporting services:			
General administration	288,832	292,113	3,281
School administration	632,931	638,111	5,180
Community services	27,626	44,129	16,503

Fund Deficit

The debt retirement fund reported an unassigned fund balance deficit of \$639,156 at June 30, 2017.

2014 Capital Projects Fund Compliance

The 2014 Capital Projects Fund records capital project activities funded with proceeds from the 2014 building and site bonds. For these activities, the District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the 2014 Capital Projects Fund. The project for which the 2014 building and site bonds were issued was considered substantially complete on June 30, 2017 and the cumulative expenditures recognized for the construction period from July 1, 2014 through June 30, 2017 were \$13,613,721.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

2017 Capital Projects Fund Compliance

The 2017 Capital Projects Fund records capital project activities funded with proceeds from the 2017 building and site bonds. For these activities, the District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities follows:

Statement of Net Position	
Cash and cash equivalents	\$ 1,391,902
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>50,212</u>
Total	<u>\$ 1,442,114</u>
Deposits	
Bank deposits (checking and savings accounts)	\$ 1,441,128
Cash on hand	<u>986</u>
Total	<u>\$ 1,442,114</u>

Statutory Authority

State statutes authorize the District to invest in:

(a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

(b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.

(c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

(d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.

(e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.

(f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

The District's investment policy allows for all of these types of investments.

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District has no investments at June 30, 2017.

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 qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The District has no investments at June 30, 2017.

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. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$972,060 of the District's bank balance of \$1,472,060 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. The District has no investments at June 30, 2017.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

5. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 256,527	\$ -	\$ -	\$ -	\$ 256,527
Construction in progress	3,330,500	-	-	(3,330,500)	-
Total capital assets not being depreciated	3,587,027	-	-	(3,330,500)	256,527
Capital assets being depreciated:					
Buildings and improvements	25,639,119	1,319,878	-	3,330,500	30,289,497
Equipment and furniture	5,458,407	51,070	-	-	5,509,477
Vehicles	1,187,509	-	-	-	1,187,509
Total capital assets being depreciated	32,285,035	1,370,948	-	3,330,500	36,986,483
Less accumulated depreciation for:					
Buildings and improvements	(8,220,693)	(522,532)	-	-	(8,743,225)
Equipment and furniture	(3,981,041)	(243,584)	-	-	(4,224,625)
Vehicles	(966,820)	(45,570)	-	-	(1,012,390)
Total accumulated depreciation	(13,168,554)	(811,686)	-	-	(13,980,240)
Total capital assets being depreciated, net	19,116,481	559,262	-	3,330,500	23,006,243
Governmental activities capital assets, net	\$ 22,703,508	\$ 559,262	\$ -	\$ -	\$ 23,262,770

Depreciation expense of \$811,686 was charged to the function "unallocated depreciation", and was not allocated to other functions.

Robinson Elementary School is currently vacant and listed for sale. Because the carrying value of \$313,000 exceeded the fair value/net realizable value of the property, the assets are reported as assets held for sale on the government-wide statement of net position at the net carrying value.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

6. PAYABLES

Accounts payable, accrued liabilities, and notes payable as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Nonmajor Governmental Funds	Total
Fund Financial Statements			
Accounts payable	\$ 4,515	\$ 364	\$ 4,879
Salaries and retirement payable	1,071,258	6,790	1,078,048
State aid note payable	1,011,967	-	1,011,967
	<u>\$ 2,087,740</u>	<u>\$ 7,154</u>	2,094,894
Government-wide Financial Statements			
Accrued interest on bonds payable			<u>133,582</u>
			<u>\$ 2,228,476</u>

7. INTERFUND RECEIVABLES AND PAYABLES

At June 30, 2017, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ 926,108	\$ 69,942
Debt retirement fund	-	731,983
2014 Capital projects fund	69,942	-
Nonmajor governmental funds	-	194,125
	<u>\$ 996,050</u>	<u>\$ 996,050</u>

The District often reports interfund balances between many of its funds. These interfund balances result 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.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

8. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2017:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General obligation bonds	\$ 21,765,000	\$ 390,000	\$ (1,380,000)	\$ 20,775,000	\$ 1,545,000
School loan revolving fund	411,264	13,061	-	424,325	-
Unamortized bond premium	688,176	-	(98,311)	589,865	98,311
Compensated absences	157,547	63,720	(67,118)	154,149	17,241
Total	\$ 23,021,987	\$ 466,781	\$ (1,545,429)	\$ 21,943,339	\$ 1,660,552

Compensated absences are generally liquidated by the general fund.

Bonds payable consist of the following issues:

General Obligation Bonds

\$995,000 2009 Building and Site Bonds, due in annual installments of \$40,000 to \$125,000 through 2021, interest at 3.00% - 4.35%	\$ 495,000
\$13,610,000 2014 Building and Site Bonds, due in annual installments of \$150,000 to \$995,000 through 2039, interest at 2.00% - 5.00%	13,160,000
\$7,850,000 2015 Refunding Bonds, due in annual installments of \$930,000 to \$1,275,000 through 2023, interest at 3.00% - 4.00%	6,730,000
\$390,000 2017 Building and Site Bonds, due in annual installments of \$130,000 through 2020, interest at 2.45%	<u>390,000</u>
	<u>\$ 20,775,000</u>

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Annual debt service requirements to maturity for bonds payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 1,545,000	\$ 802,632	\$ 2,347,632
2019	1,590,000	742,608	2,332,608
2020	1,635,000	679,523	2,314,523
2021	1,550,000	614,450	2,164,450
2022	1,080,000	554,825	1,634,825
2023-2027	3,550,000	2,258,538	5,808,538
2028-2032	3,560,000	1,658,325	5,218,325
2033-2037	4,305,000	920,213	5,225,213
2038-2039	1,960,000	118,200	2,078,200
	<u>\$ 20,775,000</u>	<u>\$ 8,349,314</u>	<u>\$ 29,124,314</u>

The State of Michigan School Loan Funds represent amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the School Loan Funds for the year ended June 30, 2017, are as follows:

	School Loan Revolving Fund		
	Principal	Interest	Total
Beginning balance	\$ 395,094	\$ 16,170	\$ 411,264
Additions	-	13,061	13,061
Ending balance	<u>\$ 395,094</u>	<u>\$ 29,231</u>	<u>\$ 424,325</u>

9. STATE AID ANTICIPATION NOTES

During the year, the District financed some of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly, are recorded as liabilities of the respective funds from which they were issued. At year end, notes outstanding consisted of \$1,000,000, due on August 21, 2017, with interest at 1.200%. Short-term note activity for the year ended June 30, 2017, was as follows:

General fund	
State Aid Anticipation Notes:	
Beginning balance	\$ 1,215,670
Additions	1,011,967
Reductions	<u>(1,215,670)</u>
Ending balance	<u>\$ 1,011,967</u>

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

10. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2017, the composition of net investment in capital assets was comprised of the following:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 256,527
Capital assets being depreciated, net	<u>23,006,243</u>
	<u>23,262,770</u>
Related debt:	
Bonds payable	20,775,000
Unamortized bond premium	589,865
Unamortized deferred charge on advance bond refundings	(129,093)
Unspent bond proceeds	<u>(463,399)</u>
	<u>20,772,373</u>
Net Investment in capital assets	<u><u>\$ 2,490,397</u></u>

11. RISK MANAGEMENT

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

12. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by township governments whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties involved.

13. TAX ABATEMENTS

The District received reduced property tax revenues during 2017 as a result of industrial facilities tax exemptions (IFT's) entered into by cities, villages, townships, and authorities within the District boundaries.

The IFT's were entered into based upon the Plant Rehabilitation and Industrial Developments Districts Act (known as the Industrial Facilities Exemption), PA 198 of 1974, as amended. IFT's provide a tax incentive to manufacturers to enable renovation and expansion of aging facilities, assist in the building of new facilities, and to promote the establishment of high-tech facilities. Properties qualifying for IFT status are taxed at 50% of the millage rate applicable to other real and personal property within the District boundaries. The abatements amounted to approximately \$2,000 in reduced District tax revenues for 2017.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

14. RETIREMENT PLAN

Plan Description

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

The System is administered by the Office of Retirement Services (ORS) 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 available at www.michigan.gov/mpsers-cafr.

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 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.

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

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2016 valuation will be amortized over a 20-year period for the 2016 fiscal year.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

The table below summarizes pension contribution rates in effect for fiscal year 2017:

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	18.95% - 19.03%
Member Investment Plan (MIP)	3.0% - 7.0%	18.95% - 19.03%
Pension Plus	3.0% - 6.4%	17.73% - 18.40%
Defined Contribution	0.0%	14.56% - 15.27%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2017 was \$1,385,456.

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

At June 30, 2017, the District reported a liability of \$15,880,943 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 2015. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2016, the District's proportion was 0.06365%, which was an increase of 0.00008% from its proportion measured as of September 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,554,159. 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	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ 197,918	\$ 37,638	\$ 160,280
Changes in assumptions	248,286	-	248,286
Net difference between projected and actual earnings on pension plan investments	263,941	-	263,941
Changes in proportion and differences between employer contributions and proportionate share of contributions	120,969	9,872	111,097
	<u>831,114</u>	<u>47,510</u>	<u>783,604</u>
District contributions subsequent to the measurement date	<u>1,258,558</u>	<u>-</u>	<u>1,258,558</u>
Total	<u>\$ 2,089,672</u>	<u>\$ 47,510</u>	<u>\$ 2,042,162</u>

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

\$1,258,558 reported as deferred outflows of resources related to pensions resulting from 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	\$ 165,568
2019	144,783
2020	411,245
2021	<u>62,008</u>
Total	<u>\$ 783,604</u>

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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 adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

Long-Term Expected Return on Plan Assets

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.90%
Inflation			<u>2.10%</u>
Investment rate of return			<u>8.00%</u>

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 provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

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

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

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 20,450,657	\$ 15,880,943	\$ 12,028,234

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at www.michigan.gov/orsschools.

Payable to the Pension Plan

At June 30, 2017, the District reported a payable of \$197,907 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2017.

Other Postemployment Benefits

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a prefunded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 5.69% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 were declared unconstitutional by the Supreme Court. Such amounts will be refunded by MPSERS to each District, including interest, and will then be refunded to individual employees.

The District's contributions to MPSERS for other postemployment benefits amounted to \$466,810 for the year ended June 30, 2017.

EAST JACKSON COMMUNITY SCHOOLS

Notes to Financial Statements

15. ADDITIONAL PENSION BENEFITS

Per the Agreement by and between the East Jackson Education Association and East Jackson Community Schools, in the School's appreciation for services to the district, a terminal leave payment of 0.25% per year of the retiring year's pay, not to exceed a maximum of 5%, will be paid to all teachers qualifying for retirement under the Michigan Public School Employee Retirement System, upon retirement, provided this teacher shall have been employed in the District for ten years or more. Periods of unpaid leave including workers compensation and layoff will not constitute a disruption in service but will not be counted. Management has determined that this potential liability is not material to the financial statements as a whole.

16. SUBSEQUENT EVENTS

State Aid Note

On August 21, 2017, the District borrowed \$800,000 in a State Aid Anticipation Note. The note bears interest at 1.490%, and is due August 20, 2018.

Capital Asset Purchase

In August 2017, the District purchased two 2017 Blue Bird Transit Buses for a total of \$198,352.

Retirement Plan Discount Rate

In 2017, the Michigan Public Schools Employees' Retirement System's Board approved a decrease in the assumed investment rate of return (discount rate) to be used in the System's annual actuarial valuation for the non-hybrid defined benefit pension plan from 8.0% to 7.5% effective for the 2016 valuation and following. The September 30, 2016 Annual Actuarial Valuation Report will be used to establish the net pension liability for the District as of June 30, 2018, and will result in a material increase to that liability.



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REQUIRED SUPPLEMENTARY INFORMATION

EAST JACKSON COMMUNITY SCHOOLS

Required Supplementary Information MPSER Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
District's proportion of the net pension liability	\$ 15,880,943	\$ 15,527,622	\$ 13,871,772
District's proportionate share of the net pension liability	0.06365%	0.06357%	0.06297%
District's covered payroll	\$ 5,389,315	\$ 5,301,159	\$ 4,875,576
District's proportionate share of the net pension liability as a percentage of its covered payroll	294.67%	292.91%	284.52%
Plan fiduciary net position as a percentage of the total pension liability	63.27%	63.17%	66.20%

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

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

EAST JACKSON COMMUNITY SCHOOLS

Required Supplementary Information MPSER Cost-Sharing Multiple-Employer Plan

Schedule of District Contributions

	Year Ended June 30, 2017	Year Ended June 30, 2016	Year Ended June 30, 2015
Contractually required contribution	\$ 1,385,456	\$ 1,401,826	\$ 1,239,586
Contributions in relation to the contractually required contribution	<u>(1,385,456)</u>	<u>(1,401,826)</u>	<u>(1,239,586)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 4,865,554	5,216,701	\$ 4,835,066
Contributions as a percentage of covered payroll	28.47%	26.87%	25.64%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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COMBINING FUND FINANCIAL STATEMENTS

EAST JACKSON COMMUNITY SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2017

	Special Revenue Food Service	2017 Capital Projects	Total Nonmajor Governmental Funds
Assets			
Cash and cash equivalents	\$ 206,878	\$ 381,800	\$ 588,678
Due from other governments	2,995	-	2,995
Inventory	76,645	-	76,645
Total assets	\$ 286,518	\$ 381,800	\$ 668,318
Liabilities			
Accounts payable	364	-	364
Salaries and retirement payable	6,790	-	6,790
Due to other funds	194,125	-	194,125
Total liabilities	201,279	-	201,279
Fund balances			
Nonspendable-			
Inventory	76,645	-	76,645
Restricted:			
Food service	8,594	-	8,594
Capital projects	-	381,800	381,800
Total fund balances	85,239	381,800	467,039
Total liabilities and fund balances	\$ 286,518	\$ 381,800	\$ 668,318

EAST JACKSON COMMUNITY SCHOOLS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue Food Service	2017 Capital Projects	Total Nonmajor Governmental Funds
Revenues			
Local sources:			
Other local revenues	\$ 84,241	\$ -	\$ 84,241
State sources	14,306	-	14,306
Federal sources	419,173	-	419,173
	<hr/>	<hr/>	<hr/>
Total revenues	517,720	-	517,720
Expenditures			
Food service	588,741	-	588,741
Debt service:			
Bond issuance costs	-	8,200	8,200
	<hr/>	<hr/>	<hr/>
Total expenditures	588,741	8,200	596,941
Revenues under expenditures	(71,021)	(8,200)	(79,221)
Other financing sources			
Issuance of long-term debt	-	390,000	390,000
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(71,021)	381,800	310,779
Fund balances, beginning of year	156,260	-	156,260
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	\$ 85,239	\$ 381,800	\$ 467,039
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EAST JACKSON COMMUNITY SCHOOLS

Statement of Revenues, Expenditures, and Changes in Fund Balance For the 36 Month Period Ended June 30, 2017

	2014 Capital Projects
Revenues	
Local sources:	
Interest	\$ 48,344
Other local revenues	<u>12,000</u>
Total revenues	<u>60,344</u>
Expenditures	
Capital outlay	13,434,391
Debt service:	
Bond issuance costs	145,397
Other	<u>33,933</u>
Total expenditures	<u>13,613,721</u>
Revenues under expenditures	(13,553,377)
Other financing sources	
Proceeds from issuance of long-term debt	<u>13,634,976</u>
Net change in fund balance	81,599
Fund balance, beginning of period	<u>-</u>
Fund balance, end of period	<u><u>\$ 81,599</u></u>

The accompanying notes are an integral part of these financial statements.

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SINGLE AUDIT ACT COMPLIANCE

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INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE

October 26, 2017

Board of Education
East Jackson Community Schools
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *East Jackson Community Schools* (the "District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 26, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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EAST JACKSON COMMUNITY SCHOOLS

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

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number
U.S. Department of Agriculture			
Child Nutrition Cluster:			
School Breakfast Program 2015-2016	10.553	MDE	161970
School Breakfast Program 2016-2017	10.553	MDE	171970
National School Lunch Program 2015-2016	10.555	MDE	161960
National School Lunch Program 2016-2017	10.555	MDE	171960
Entitlement Commodities (noncash)	10.555	MDE	n/a
Total U.S. Department of Agriculture			
U.S. Department of Education			
Title I -			
Project 171530-1617 Regular 16-17	84.010	MDE	171530-1617
Education for Homeless Children and Youth -			
Project 173230-1617 Flowthrough 16-17	84.196	JCISD	173230-1617
Title II, Part A:			
Project 160520-1516 Regular 15-16	84.367	MDE	160520-1516
Project 170530-1617 Regular 16-17	84.367	MDE	170530-1617
Total U.S. Department of Education			
U.S. Department of Health and Human Services			
Medicaid Cluster:			
Medical Assistance Program	93.778	JCISD	n/a
Total Federal Financial Assistance			

See notes to schedule of expenditures of federal awards.

Approved Awards Amount	Expenditures (Memo Only) Prior Year(s)	Accrued (Unearned) Revenue at July 1, 2016	Federal Funds / Payments In-Kind Received	Expenditures Year Ended June 30, 2017	Accrued (Unearned) Revenue at June 30, 2017
\$ 135,054	\$ 118,361	\$ -	\$ 16,693	\$ 16,693	\$ -
103,152	-	-	103,152	103,152	-
303,614	264,204	-	39,410	39,410	-
223,443	-	-	223,443	223,443	-
38,985	-	-	36,475	36,475	-
		-	419,173	419,173	-
355,047	-	-	314,454	345,341	30,887
5,000	-	-	3,011	3,011	-
115,793	48,819	523	7,553	7,030	-
62,411	-	-	35,485	41,037	5,552
		523	43,038	48,067	5,552
		523	360,503	396,419	36,439
2,213	-	-	2,213	2,213	-
		\$ 523	\$ 781,889	\$ 817,805	\$ 36,439

EAST JACKSON COMMUNITY SCHOOLS

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The Schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this schedule.

For purposes of charging indirect costs to federal awards, the District has not elected to use the 10 percent de minimis cost rate as permitted by §200.414 of the Uniform Guidance.

3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
JCISD	Jackson County Intermediate School District



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*

October 26, 2017

Board of Education
East Jackson Community Schools
Jackson, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *East Jackson Community Schools* (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 26, 2017.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-001 and -002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-003 and -004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2017-002.

East Jackson Community Schools' Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Johnson LLC

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

October 26, 2017

Board of Education
East Jackson Community Schools
Jackson, Michigan**Report on Compliance for Each Major Federal Program**

We have audited the compliance of *East Jackson Community Schools* (the "District") with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2017. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Independent Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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

Rehmann Lobson LLC

EAST JACKSON COMMUNITY SCHOOLS

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

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified? yes X none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs and type of auditors' report issued on compliance for each major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
10.553 & 10.555	Child Nutrition Cluster	Unmodified

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

Auditee qualified as low-risk auditee? yes X no

EAST JACKSON COMMUNITY SCHOOLS

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-001 - Material Capital Asset Adjustments

Finding Type: Material weakness in internal controls over financial reporting.

Criteria: Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

Condition: During our audit, we identified and proposed several material adjustments (which were approved and recorded by management) to adjust the District's capital asset schedule to the appropriate balances.

Cause: This condition was the result of dependence on external auditors, who by definition cannot be a part of the internal control, and a lack of proper maintenance and recordkeeping of capital assets within the District.

Effect: As a result of this condition, the capital asset schedule was initially misstated by amounts material to the financial statements.

Recommendation: We recommend that the District reconcile the District's capital asset records to the activity including all additions and disposals.

View of Responsible Official: The capital asset detail will be maintained throughout the school year. The activity of additions and deletions will be recorded as it occurs.

Responsible Official: LEA Business Manager

Estimated Completion Date: June 30, 2018

EAST JACKSON COMMUNITY SCHOOLS

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-002 - Debt Retirement Fund Deficit

Finding Type: Material noncompliance; Material weakness in internal controls over financial reporting.

Criteria: Michigan law prohibits districts from incurring an operating deficit during a school year. Districts with a deficit fund balance are required to submit a plan with the Michigan Department of Education (MDE) for the elimination of the deficit.

Condition: During the year ended June 30, 2017, the District incurred expenditures in excess of available fund balance and revenues.

Cause: The current year debt property tax levy was not sufficient to fund scheduled principal and interest payments, and the State of Michigan School Bond loan program was not utilized to supplement those tax revenues.

Effect: As a result of this condition, the Debt Retirement fund ended the fiscal year with deficit fund balance of \$639,156.

Recommendation: We recommend that the District implement procedures to monitor the fund balance of all funds to avoid all future deficits. In addition, the District should notify MDE of the deficit and submit its plan for elimination to MDE within 30 days.

View of Responsible Official: The debt fund revenue and expense accounts will be monitored and reviewed monthly with a final review prior to June 30 of every school year to make sure the expense does not exceed the revenue received during the fiscal year.

Responsible Official: LEA Business Manager

Estimated Completion Date: June 30, 2018

EAST JACKSON COMMUNITY SCHOOLS

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-003 - Review and Approval of Year-end Schedules (Repeat)

Finding Type: Significant deficiency in internal controls over financial reporting.

Criteria: The timely preparation and issuance of financial statements in accordance with generally accepted accounting principles requires a coordinated effort between management and the external auditors, and places the burden on the auditee to properly prepare for the audit, including timely closing of the accounting records, preparation of workpapers to support the significant account balances and obtaining the necessary documents needed by the auditors to perform their work.

Condition: The District has certain balance sheet accounts that are adjusted and balanced only at year-end for external reporting purposes. Some of these balances are long-term in nature and not reported in the District's fund financial statements. Even though these amounts are not recorded in the general ledger, the information necessary for properly reporting these items must be provided by management for inclusion in the audited financial statements. These schedules include calculations and estimate assumptions for capital assets, debt, compensated absences and retirement payouts, accrued payroll, inventory, receivables, and the schedule of expenditures of federal awards.

Cause: The condition above appears to be caused by turnover in the business office.

Effect: As a result of this condition, the government was unable to provide clear reconciliations on many balances, and adjustments were required to properly state the balances.

Recommendation: We recommend that the District subject all year-end schedules that are used in financial reporting to an independent review and approval process by an individual with a high level of understanding regarding financial reporting requirements. This review should be documented and retained as evidence of the control.

View of Responsible Official: The Business Manager and JCISD Assistant Director of Finance will review balance sheet accounts detail on a quarterly basis.

Responsible Official: LEA Business Manager

Estimated Completion Date: On going

EAST JACKSON COMMUNITY SCHOOLS

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

SECTION II - FINANCIAL STATEMENT FINDINGS

2017-004 - Internal Controls over Student Activity Accounts, Use of Agency Fund Accounts, and Adjusted Fiduciary Funds Trial Balance (Repeat)

Finding Type: Significant deficiency in internal controls over financial reporting.

Criteria: The District maintains an agency fund to account for resources held for the benefit of parties outside the District, such as student groups. Because agency funds are not available to support the District's own programs, they are not reflected in the government-wide financial statements.

Condition: Over time, the District began accounting for some of its programs in the agency funds. These programs included general accounts that are activities of the District. Additionally, we proposed several adjustments (which were approved and posted by management), which were collectively significant to the Agency fund, to adjust the general ledger to the appropriate balances. These adjustments included moving general District-wide activity from the Agency fund to the General fund, and adjusting the student activity liability and cash account balances for a deposit in transit at year-end.

Cause: The condition above appears to be caused by an attempt to segregate these program revenues and expenditures from the general fund of the District in order to allow the related fees to directly off-set the related expenditures without closing the activity to fund balance each year.

Effect: As a result of this condition, the District initially excluded revenues and expenditures of the general fund from its financial and budgetary considerations and inappropriately included them in its agency funds. Current year net revenue and expenditures were initially understated by approximately \$33,000.

Recommendation: We recommend that management monitor activities in the agency fund for appropriateness and that programs of the District be recorded in the District's governmental funds. If the District wishes to set aside fund balance for certain programs, fund balance can be committed by board action or assigned by management within the general fund.

View of Responsible Official: All student activity accounts that were deemed inappropriate to be in student activity accounts will be dissolved, and the revenue, expenditures and cash will be moved into General Fund accounts.

Responsible Official: LEA Business Manager

Estimated Completion Date: Completed



EAST JACKSON COMMUNITY SCHOOLS

Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2017

Finding 2016-001 - Material Audit Adjustments (Repeat)

Several material audit adjustments were identified and proposed (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances. These adjustments include, but are not limited to, entries to reverse prior year accruals, record State Aid receivables, record retainage payable, and record accruals and expenses. As a result of this condition, the accounting records were initially misstated by amounts material to the financial statements. This finding has been repeated in the current year as 2017-001.

Finding 2016-002 - Review and Approval of Year-end Schedules (Repeat)

The District has certain balance sheet accounts that are adjusted and balanced only at year-end for external reporting purposes. Some of these balances are long-term in nature and not reported in the District's fund financial statements. Even though these amounts are not recorded in the general ledger, the information necessary for properly reporting these items must be provided by management for inclusion in the audited financial statements. These schedules include calculations and estimate assumptions for capital assets, debt, compensated absences, accrued payroll, and inventory. We recommend that the District subject all year-end schedules that are used in financial reporting to an independent review and approval process by an individual with a high level of understanding regarding financial reporting requirements. This review should be documented and retained as evidence of the control. As a result of this condition, the government was unable to provide clear reconciliations on many balances, and adjustments were required to properly state the balances. This finding has been repeated in the current year as 2017-002.

Finding 2016-003 - Internal Controls over Student Activity Accounts, Use of Agency Fund Accounts, and Adjusted Fiduciary Funds Trial Balance (Repeat)

Over time, the District began accounting for some of its programs in the agency funds. These programs included general athletics accounts. Additionally, each student activity group advisor maintains their own individual check book to distribute monies out of their account, and these transactions are not recorded in the District's accounting system. As a result of this condition, the District initially excluded revenues and expenditures of the general fund from its financial and budgetary considerations and inappropriately included them in its agency funds. Current year revenue and expenditures were initially understated \$85,487 and \$88,269, respectively. Additionally, no trial balance was prepared for fiduciary funds as of June 30, 2016, as a result of the account activity not running through an accounting system. This finding has been repeated in the current year as 2017-003.

Finding 2016-004 - Preparation of Schedule of Expenditures of Federal Awards

While management was able to provide us with a partially complete schedule of expenditures of federal awards during our audit fieldwork, several adjustments were ultimately required. As a result of this condition, the schedule of expenditures of federal awards was initially misstated by an amount that was significant to the financial statements. This finding has been resolved in the current year.

EAST JACKSON COMMUNITY SCHOOLS

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2017

Finding 2016-005 - Annual On Site Reviews and Application Verifications - Special Tests and Provisions

The District was unable to provide documentation to support the completion of annual on site reviews prior to February 1, 2016 and application verifications prior to November 15. As a result of this condition, the District was unable to provide documentation to support that annual on site reviews and application verifications were performed. This finding has been resolved in the current year.

Finding 2016-006 - Written Policies and Procedures Required by the Uniform Grant Guidance

The Uniform Grant Guidance requires a non-federal entity that has expended federal awards for a grant awarded on or after December 26, 2014 to have written policies pertaining to: 1) Procurement (including bidding and a conflict of interest policy) (\$200.318); 2) Allowability of costs charged to federal programs (\$200.302(7)); and 3) Compensation (personnel and benefits policy) (\$200.430 and \$200.431). Although the District has processes in place to cover these areas, there are no formal written policies covering payments, procurement (conflict of interest policy only), allowability of costs, and compensation. As a result of this condition, the District did not fully comply with the Uniform Grant Guidance applicable to the above noted grants. This finding has been resolved in the current year.

Finding 2016-007 - Lack of Internal Controls over Suspended and Debarred Vendors

A recipient of federal awards is required to determine that vendors being paid with federal funds are not suspended or debarred from doing business with the government. Such procedures are required whenever the amount disbursed to a single vendor in a given fiscal year is expected to be at least \$25,000. The District did not verify that any of their vendors over \$25,000 were not suspended or debarred from doing business with the District. As a result of this condition, the District was exposed to the risk that disbursements of federal awards would be made to vendors suspended or debarred by the federal government. This finding has been resolved in the current year.



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