

Leland Public School

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2015

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Management's Discussion and Analysis

For the year ended June 30, 2015

The discussion and analysis of the Leland Public School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Leland School District is one of the few remaining one building schools in Michigan. The District is located in Leelanau County. Leland Public School serves students in grades Kindergarten through 12th grade. In addition to a full college preparatory curriculum offered on the Leland campus, Leland staff members teach non-core subjects such as fine arts, foreign language, and technology at the nearby parochial school. Students attending the District are afforded individualized attention due to small class sizes. Educators in the District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Leland Public School District offers a core academic curriculum that meets and/or exceeds State guidelines at all levels. The population for the 2014-2015 school year was 506 pupils with the inclusion of part-time parochial students.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include several kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

Figure A-1

District Financial Report Organization

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to Basic Financial Statements

Budgetary Information for Funds
(Required Supplemental Information)

Other Supplemental Information

DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows, and liabilities and the difference between them, which is net position. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District's *net position* and how they have changed. Examining net position is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

Governmental funds:

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental funds are the general fund and the 2010 refunding and school improvement debt retirement fund.

Fiduciary Funds:

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. For example, the Student Activities Account is accounted for as a fiduciary fund.

The District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2015:

TABLE 1

	Governmental Activities		
	June 30, 2014	June 30, 2015	% Change
Assets			
Current and other assets	\$ 2,745,529	\$ 2,254,192	-17.90%
Capital assets	8,413,481	8,275,403	-1.64%
Total assets	11,159,010	10,529,595	-5.64%
Deferred Outflow of Resources	157,568	952,521	504.51%
Total assets and deferred outflows	\$ 11,316,578	\$ 11,482,116	1.46%
Liabilities			
Current liabilities	\$ 1,446,673	\$ 1,469,849	1.60%
Net pension obligation	-	7,461,744	0.00%
Long-term liabilities	5,159,552	4,315,707	-16.36%
Total liabilities	6,606,225	13,247,300	100.53%
Deferred inflow of Resources	-	824,899	0.00%
Net Assets Invested in			
Property and Equipment – Net of related debt	3,174,715	3,366,734	6.05%
Restricted for			
Public Improvements	191,781	283,938	48.05%
Food Service	15,644	18,499	18.25%
Unrestricted (Deficit)	1,328,213	(6,259,254)	-571.25%
Total net position	4,710,353	(2,590,083)	-154.99%
Total Liabilities, deferred inflows inflows and net position	\$ 11,316,578	\$ 11,482,116	1.46%

The above analysis focuses on the net position (see Table 1). The District implemented GASB 68 during the year ended June 30, 2015. The impact on the statement of net position and expenses for the year ended June 30, 2014 is unknown, and therefore, 2015 and 2014 are not comparable for items related to GASB 68. The District's net position was \$4,710,353 at June 30, 2014 and (\$2,590,083) at June 30, 2015. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use net position for day-to-day operations.

The results of this year's operations for the District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2015. Revenue and expense for fiscal year 2014 is also shown for comparison purposes.

TABLE 2

	Governmental Activities		
	June 30, 2014	June 30, 2015	% Change
Program Revenues:			
Charges for services	\$ 124,702	\$ 131,444	5.41%
Operating grants and contributions	590,053	790,303	33.94%
General Revenue			
Property taxes			
Levied for general purpose	3,399,346	3,482,863	2.46%
Levied for debt service	813,650	1,037,140	27.47%
Levied for sinking fund	157,932	158,804	0.55%
State School Aid- unrestricted	286,809	413,558	44.19%
Unrestricted Federal aid	654,872	675,554	3.16%
Grants and contributions- unrestricted	196,977	327,156	66.09%
Other	19,606	16,154	-17.61%
Total Revenues	<u>\$ 6,243,947</u>	<u>\$ 7,032,976</u>	<u>12.64%</u>
Functions/Program Expenses			
Instruction	\$ 3,277,668	\$ 3,522,773	7.48%
Support services	2,130,431	2,252,941	5.75%
Food Service	229,985	234,268	1.86%
Other transactions	21,531	27,980	29.95%
Interest on Long Term Debt	211,986	196,664	-7.23%
Depreciation (unallocated)	530,063	576,507	8.76%
Total Expenses	<u>6,401,664</u>	<u>6,811,133</u>	<u>6.40%</u>
Gain on disposal of assets	<u>-</u>	<u>-</u>	<u>0%</u>
Increase (decrease) in Net Position	(157,717)	221,843	-240.66%
Net position, beginning of year	<u>4,868,070</u>	<u>(2,811,926)</u>	<u>-157.76%</u>
Net position, end of the year	<u>\$ 4,710,353</u>	<u>\$ (2,590,083)</u>	<u>-154.99%</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$6,811,133. Certain activities were partially funded by those who benefited from the programs, such as food service and athletics, (\$131,444) or by other grants and contributions (\$790,303). We paid for the remaining “public benefit” portion of our governmental activities with \$4,678,807 in taxes, \$413,558 in State Aid, \$675,554 in Federal Aid and with our other revenues including interest and general entitlements.

The District experienced a decrease in net position mainly as a result of implementing GASB 68.

As discussed above, the net cost shows the financial burden that was placed on the State and the District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of District annual operating revenue sources, the School Board and Administration must annually evaluate the needs of the District and balance those needs with State allocated available unrestricted resources.

The District’s Funds

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District’s overall financial health. The District’s budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the general fund reported a fund balance of \$1,294,713, which is a decrease of \$214,649 from the prior year. The primary reason for the decrease was the addition of a third kindergarten teacher and classroom.

Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget three times during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of Federal and State funding sources, many of which are not finalized until well after the District's original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the general fund budget were as follows:

- Increased cost of subs due to long term FMLA
- Increased hours for student advocate
- Increased legal and audit fees required
- Increased cost of online courses
- Recognize revenue from tech sales
- Recognize the revenue and expense related to TRIG grant
- Purchased three years of tech insurance
- Increased hours of clerical staff

Capital Asset and Debt Administration

Capital Assets

At June 30, 2015, the District had \$8,275,403 invested in a range of capital assets including buildings, furniture, equipment and vehicles summarized as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets	\$ 14,514,184	\$ 438,429	\$ (242,317)	\$ 14,710,296
Less: Accum. Depreciation	(6,100,703)	(576,507)	242,317	(6,434,893)
Total capital assets, net	\$ 8,413,481	\$ (138,078)	\$ -	\$ 8,275,403

Debt

At June 30, 2014, the District had \$5,167,672 debt owing.

Economic Factors and Next Year's Budgets and Rates

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Leland Public School District.

- The Michigan School Employees Retirement System rate has stabilized at about 33.5%. The State of Michigan provides assistance for some portion of the payments. However, the actual cost to school systems is still approximately 26% on the total of all salaries and wages.
- The Affordable Care Act requires Leland Public School to insure part time workers adding thousands of dollars to the budget without additional revenue to support the expense.
- Leland Public School pays up to the state cap for health insurance. But the cap increases each year by about 3% so the general fund expense increases.
- If all required and negotiated benefits are viewed as a group, that expense is approximately 50% of the average employee's salary or wages. Paying 50% benefits is an unsustainable position. Revenues must increase or the benefit cost must decrease. At this time, the State does not appear to be planning to reduce the cost of the retirement contributions or to increase state aid payments to schools.

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Sandy Thomas, Business Manager, at Leland Public School District, P.O. Box 498, Leland, MI 49654, Telephone (231) 256-9857, Fax (231) 256-9844.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Leland Public School

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 the *Leland Public School* (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District'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 the Leland Public School as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Accounting Change

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Financial Reporting for Pension Plans*, during the year ended June 30, 2015.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *viii*, and budgetary comparison information on page 36, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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 School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining non-major fund financial statements and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements and the Schedule of Expenditures of Federal Awards 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 21, 2015, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 21, 2015

Leland Public School

STATEMENT OF NET POSITION

June 30, 2015

Governmental
Activities

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

ASSETS

Current assets

Cash and cash equivalents	\$ 1,996,296
Due from other governments	217,799
Prepays	35,247
Inventory	<u>4,850</u>

Total current assets 2,254,192

Capital assets, net of accumulated depreciation 8,275,403

Total assets 10,529,595

DEFERRED OUTFLOWS OF RESOURCES

Deferred loss on refunding	133,327
Pension obligation	<u>819,194</u>

Total assets and deferred outflows of resources \$ 11,482,116

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

Current liabilities

Accounts payable and accrued expenses	\$ 556,434
Current portion of long-term liabilities	851,965
Due to other governmental units	<u>61,450</u>

Total current liabilities 1,469,849

Non-current portion of long-term obligations 4,315,707

Net pension obligation 7,461,744

Total liabilities 13,247,300

DEFERRED INFLOWS OF RESOURCES - pension obligation 824,899

NET POSITION

Invested in capital assets, net of related debt 3,366,734

Restricted for

Capital projects	283,938
Debt Service	39,158
Food Service	18,499
Unrestricted (deficit)	<u>(6,298,412)</u>

Total net position (2,590,083)

Total liabilities, deferred inflows of resources and net position \$ 11,482,116

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

Leland Public School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 3,522,773	\$ -	\$ 684,485	\$ (2,838,288)
Supporting Services	2,252,941	15,157	-	(2,237,784)
Food Service	234,268	116,287	105,818	(12,163)
Other	27,980	-	-	(27,980)
Interest on long-term debt	196,664	-	-	(196,664)
Depreciation-unallocated	576,507	-	-	(576,507)
Total governmental activities	\$ 6,811,133	\$ 131,444	\$ 790,303	(5,889,386)
General purpose revenues				
Property taxes				
Levied for general purposes				3,482,863
Levied for Debt Service				1,037,140
Levied for Sinking Fund				158,804
State school aid - unrestricted				413,558
Unrestricted Federal aid				675,554
Grants and contributions not restricted to specific program				327,156
Investment and other				16,154
Total general purpose revenues				6,111,229
Change in net position				221,843
Net position, beginning of year, as restated				(2,811,926)
Net position, end of year				\$ (2,590,083)

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

Leland Public School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,605,140	\$ 46,359	\$ 344,797	\$ 1,996,296
Due from other governments	217,799	-	-	217,799
Prepays	35,247	-	-	35,247
Due from other funds	24,111	-	-	24,111
Inventory	1,374	-	3,476	4,850
	<u>1,883,671</u>	<u>46,359</u>	<u>348,273</u>	<u>2,278,303</u>
Total assets	<u>\$ 1,883,671</u>	<u>\$ 46,359</u>	<u>\$ 348,273</u>	<u>\$ 2,278,303</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenditures	\$ 527,508	\$ -	\$ 395	\$ 527,903
Due to other funds	-	1,843	22,268	24,111
Due to other governmental units	61,450	-	-	61,450
	<u>588,958</u>	<u>1,843</u>	<u>22,663</u>	<u>613,464</u>
Total liabilities	<u>588,958</u>	<u>1,843</u>	<u>22,663</u>	<u>613,464</u>
FUND BALANCES				
Nonspendable	36,621	-	3,476	40,097
Restricted				
Food Service	-	-	15,023	15,023
Debt retirement	-	44,516	23,173	67,689
Capital projects	-	-	283,938	283,938
Committed				
Subsequent year expenditures	425,316	-	-	425,316
Assigned				
Future technology purchases	58,000	-	-	58,000
Employee leave liability	82,616	-	-	82,616
Early retirement incentive	43,060	-	-	43,060
Unassigned	649,100	-	-	649,100
	<u>1,294,713</u>	<u>44,516</u>	<u>325,610</u>	<u>1,664,839</u>
Total fund balances	<u>1,294,713</u>	<u>44,516</u>	<u>325,610</u>	<u>1,664,839</u>
Total liabilities and fund balances	<u>\$ 1,883,671</u>	<u>\$ 46,359</u>	<u>\$ 348,273</u>	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$14,710,296 and the accumulated depreciation is \$(6,434,893).

8,275,403

Deferred outflows of resources net of deferred inflows of resources for pension obligations is not a financial resource and, therefore, is not reported in governmental funds.

(5,705)

Long-term liabilities and related deferred outflows of resources including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$	4,955,000	
Accrued interest on bonds		28,531	
Unamortized bond refunding loss		(133,327)	
Unamortized bond premium		86,996	
Early retirement payable		43,060	
Accumulated leave liability		82,616	
Net pension obligation		<u>7,461,744</u>	<u>(12,524,620)</u>

Total net position - governmental activities

\$ (2,590,083)

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

Leland Public School

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2015

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 3,482,863	\$ 952,554	\$ 243,390	\$ 4,678,807
Interest	14,635	1,310	209	16,154
State revenues	1,005,791	-	14,550	1,020,341
Federal revenues	767,806	-	91,268	859,074
Other	342,313	-	116,287	458,600
Total revenues	<u>5,613,408</u>	<u>953,864</u>	<u>465,704</u>	<u>7,032,976</u>
Expenditures				
Current				
Instruction	3,564,473	-	-	3,564,473
Supporting Services	2,220,601	-	-	2,220,601
Food Service	-	-	234,268	234,268
Other	25,493	1,937	550	27,980
Debt Service				
Principal	-	730,000	135,760	865,760
Interest	-	179,113	19,018	198,131
Capital outlay	2,490	-	489,437	491,927
Total expenditures	<u>5,813,057</u>	<u>911,050</u>	<u>879,033</u>	<u>7,603,140</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(199,649)</u>	<u>42,814</u>	<u>(413,329)</u>	<u>(570,164)</u>
Other financing sources (uses)				
Operating transfers in	-	-	15,000	15,000
Operating transfers out	(15,000)	-	-	(15,000)
Total other financing sources (uses)	<u>(15,000)</u>	<u>-</u>	<u>15,000</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(214,649)</u>	<u>42,814</u>	<u>(398,329)</u>	<u>(570,164)</u>
Fund balance, beginning of year	<u>1,509,362</u>	<u>1,702</u>	<u>723,939</u>	<u>2,235,003</u>
Fund balance, end of year	<u>\$ 1,294,713</u>	<u>\$ 44,516</u>	<u>\$ 325,610</u>	<u>\$ 1,664,839</u>

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

Leland Public School

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Total Net Change in Fund Balances - Governmental Funds \$ (570,164)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

	Capital outlays	\$ 438,429		
	Depreciation expense	<u>(576,507)</u>		(138,078)

Change in deferred outflows of resources for pension obligation, net of the change in deferred inflows of resources for pension obligations.	(5,705)
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In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was less than the amounts earned by \$13,502. Early retirement incentives earned were less than amounts paid by \$21,530.	8,028
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Repayment of bond and loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.	865,760
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Proceeds from the sale of assets are revenues in the government funds, but it reduces capital assets, net of accumulated depreciation in the statement of net position and does not affect the statement of activities.	(58,000)
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Gain on sale of assets	58,000
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Net amortization of bond refunding loss and bond premium	(8,424)
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Decrease in net pension obligation	60,535
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.	<u>9,891</u>
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Changes in Net Position of Governmental Activities	<u><u>\$ 221,843</u></u>
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Leland Public School

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 45,665	\$ 159,683	\$ 205,348
Investments	<u>32,665</u>	<u>-</u>	<u>32,665</u>
Total assets	<u>\$ 78,330</u>	<u>\$ 159,683</u>	<u>\$ 238,013</u>
LIABILITIES AND NET POSITION			
LIABILITIES			
Due to student groups	\$ -	\$ 159,683	\$ 159,683
NET POSITION			
Held in trust for scholarships	<u>78,330</u>	<u>-</u>	<u>78,330</u>
Total liabilities and net position	<u>\$ 78,330</u>	<u>\$ 159,683</u>	<u>\$ 238,013</u>

Leland Public School

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2015

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Contributions	\$ 36,300
Interest	<u>805</u>
Total additions	37,105
DEDUCTIONS	
Scholarships awarded	<u>30,596</u>
Change in net position	6,509
Net position, beginning of year	<u>71,821</u>
Net position, end of year	<u><u>\$ 78,330</u></u>

Leland Public School

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Leland Public School (the "School District") is a Michigan public school district consisting of one K-12 building. The School District also provides staff for St. Mary's School of Lake Leelanau. The School District primarily serves the Leland community. As of June 30, 2015, the School District employs 39 professional staff and 28 non-professional staff, and has 506 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2015.

Financial Reporting Entity

Leland Public School District's Board is a special purpose government and considered to be a primary government because it has a separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Leland Public School District includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature of significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

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

Fund Types and Major Funds

Activities in Major Funds

The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The 2010 Refunding and School Improvement Debt Retirement Fund is used to account for the accumulation of resources (property taxes) for, and the payment of, bond principal, interest and related costs.

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of this fund.

The 2008-2009 Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of bond principal, interest and related costs.

The 2010 and 2014 Capital Projects Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment.

The Infrastructure Fund is a capital project fund and is used to account for a sinking fund tax levy to be used for construction or repair of various School District properties.

The Public Improvement Fund is a capital project fund and is used to account for financial resources to be used for the acquisition or construction of capital assets.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Private purpose trust funds are used to administer scholarships for the benefit of private individuals and organizations.

Cash and Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS - Continued

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	50 years
Improvements, other than buildings	5 years
Buses and vehicles	7 years
Furniture and equipment	3-20 years

Long-Term Debt and Bond Discounts/Premiums

In the district-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums are amortized over the terms of the respective bonds using a method that approximates the interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. 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 are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Inflows and Outflows

In addition to assets and liabilities, the statement of financial position includes elements for deferred outflows of resources and deferred inflows of resources. The separate financial statement elements, deferred outflows and inflows of resources, represent a consumption/addition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or inflows of resources (revenue) until then. The School District items that qualify for reporting in this category are the deferred loss on debt refunding reported in the government-wide statement of net position and items related to the pension obligation. A deferred loss 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. See note J for details of deferred outflows and inflows related to the pension obligation.

Fund Balance

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balance is a limitation imposed by the Superintendent and/or Business Manager as a designee of the School Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Pension Plan

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS - Continued

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, Title VIII, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

NOTE B - ACCOUNTING CHANGES

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 68 requires employers to report net pension benefits as a liability in the statement of net position. GASB 68 requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. GASB 68 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability.

The School District implemented GASB 68 during the year by retroactive restatement of June 30, 2014 net position, as follows:

Net position at June 30, 2014, <i>as originally stated</i>	\$ 4,710,353
Record net pension liability at June 30, 2014	<u>(7,522,279)</u>
Net position at June 30, 2014, <i>as restated</i>	<u><u>\$ (2,811,926)</u></u>

NOTE C - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2015, the School District was not in compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction	\$ 3,466,232	\$ 3,564,473	\$ 98,241

NOTE D - CASH AND INVESTMENTS

At June 30, 2015, the School District's cash and investments include the following:

Bank deposits and cash on hand	\$ 742,964
Certificates of Deposit	32,665
Investment pools ("MILAF")	<u>1,458,680</u>
	<u>\$ 2,234,309</u>

Custodial Credit Risk - Deposits

As of June 30, 2015, \$519,533 of the School District's bank deposits were insured. The remaining balance of \$259,046 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District's investments have the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
Certificates of Deposit	\$ 32,665	\$ 32,665	\$ -	\$ -	\$ -
Investment pools	<u>1,458,680</u>	<u>1,458,680</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,491,345</u>	<u>\$ 1,491,345</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.
7. Securities issued or guaranteed by agencies of the United States government.
8. Michigan Investment Liquid Asset Fund Plus ("MILAF")

Credit Risk

The School District's investment in the MILAF investment pool was rated AAAM by Standard and Poor's.

NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the county as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

NOTES TO FINANCIAL STATEMENTS - Continued

During the fiscal year, \$10.9013 per \$1,000 of equalized non-principle residence property value of \$310 million was levied for general operating purposes. For debt service purposes, \$1.960 per \$1,000 of equalized homestead and non-homestead property value of \$526 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, \$0.30 per \$1,000 of equalized homestead and non-homestead property value of \$526 million was levied.

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and deferred inflows if revenue is received more than 60 days following year-end (unavailable to pay liabilities of the current period). Revenue received after 60 days is fully recognized as revenue in the district-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2015 are as follows:

Due from the State of Michigan - State Aid	\$ 191,154
Due from Federal Grants	23,048
Other	<u>3,597</u>
	<u>\$ 217,799</u>

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30,</u> <u>2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30,</u> <u>2015</u>
Buildings and improvements	\$11,040,114	\$ -	\$ -	\$11,040,114
Furniture and equipment	2,991,566	357,449	(242,317)	3,106,698
Buses and vehicles	<u>482,504</u>	<u>80,980</u>	<u>-</u>	<u>563,484</u>
Total depreciable assets	14,514,184	438,429	(242,317)	14,710,296
Less accumulated depreciation	<u>(6,100,703)</u>	<u>(576,507)</u>	<u>242,317</u>	<u>(6,434,893)</u>
Total capital assets, net	<u>\$ 8,413,481</u>	<u>\$ (138,078)</u>	<u>\$ -</u>	<u>\$ 8,275,403</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Unallocated	<u>\$ 576,507</u>
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NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2015 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2010 Refunded general obligation and school improvement bonds	\$ 5,120,000	\$ -	\$ (730,000)	\$ 4,390,000	\$ 750,000
2012 Technology capital lease	100,760	-	(100,760)	-	-
Unamortized bond premium	102,813	-	(15,817)	86,996	15,817
2014 Technology and Bus Bonds	600,000	-	(35,000)	565,000	70,000
Accumulated leave liability	69,114	13,502	-	82,616	-
Early retirement incentives	<u>64,590</u>	<u>-</u>	<u>(21,530)</u>	<u>43,060</u>	<u>16,148</u>
Long-term liabilities	<u>\$ 6,057,277</u>	<u>\$ 13,502</u>	<u>\$ (903,107)</u>	<u>\$ 5,167,672</u>	<u>\$ 851,965</u>

Payments on general obligation bonds are made by Debt Service Funds. The 2012 Technology capital lease was paid by the 2009-2010 and 2014 Capital Projects Fund. The bus loan, accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

At June 30, 2015, the School District's long-term debt consisted of the following:

\$6,845,000; 2010 Refunding and School Improvement Bonds; remaining installments due annually of \$550,000 to \$770,000 through May 1, 2021; remaining interest rates of 2.25% to 4.25%.	\$ 4,390,000
\$600,000; 2014 School Technology and Bus Bonds; remaining installments due annually of \$35,000 to \$205,000 through May 1, 2019; interest rate of 2.15%.	565,000
Unamortized bond premium	86,996
Accumulated leave liability	82,616
Early retirement payable	<u>43,060</u>
Total long-term liabilities	<u>\$ 5,167,672</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds outstanding as of June 30, 2015 are as follows:

Years Ending June 30,	Principal	Interest
2016	\$ 820,000	\$ 171,186
2017	855,000	147,180
2018	885,000	120,327
2019	910,000	92,120
2020	735,000	61,274
2021	<u>750,000</u>	<u>31,876</u>
	<u>\$ 4,955,000</u>	<u>\$ 623,963</u>

Interest expense for the year ended June 30, 2015 was \$196,664, and interest paid for the year ended June 30, 2015 was \$198,131.

Accumulated Leave Liability

As of June 30, 2015, a potential liability for sick pay of up to \$874,210 had accumulated to employees; this amount is not vested. However, as an employee becomes eligible for retirement, 10.0% of their sick pay balance plus FICA will be paid to them upon retirement if they have 10 years of service with the School District. The School District has used the retirement value method to estimate the probable amount to be paid.

Early Retirement Incentives

During the fiscal year ended June 30, 1998, the School District adopted an early retirement program. The net present value of early retirement incentives due to participants at June 30, 2015 is \$43,060.

Prior Year Defeasance of Debt

On December 16, 2010, the School District issued \$6,845,000 in 2010 Refunding and School Improvement Bonds with interest rates ranging from 2.25% to 4.25%, to advance refund \$6,155,000 of outstanding 2001 Building and Site and Refunding Bonds with an interest rate varying between 4.25% and 4.875%. The net proceeds of \$6,219,760 plus \$78,500 from Debt Service Funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the redemption of the \$6,155,000 outstanding 2001 Building and Site Refunding Bonds. The outstanding principal of the defeased bonds was \$4,040,000 at June 30, 2015.

NOTE H - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District pays unemployment claims on a reimbursement basis. No significant claims are known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE I - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 24,111	\$ -
2010 Debt Retirement Fund	-	1,843
2009-2014 Capital Projects Fund	-	1,768
Other Governmental Funds		
Food Service Fund	-	13,152
2008-2009 Debt Retirement Fund	-	356
2001 Capital Projects Fund	-	6,992
	<u>\$ 24,111</u>	<u>\$ 24,111</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining Debt Service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental activities columns.

The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds		
General Fund	\$ -	\$ 15,000
Other Governmental Funds		
Food Service Fund	<u>15,000</u>	<u>-</u>
	<u>\$ 15,000</u>	<u>\$ 15,000</u>

NOTE J - PENSION PLAN AND POST-EMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System ("MPSERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-20636585---,00.html>.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by the 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. Retirement benefits for DB plan members are determined by final average compensation and years of service. 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

Pension Reform 2010

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

Pension Reform 2012

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

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

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation ("FAC"). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

NOTES TO FINANCIAL STATEMENTS - Continued

Non-Duty and Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty or non-duty related cause may be eligible for a disability pension, subject age, service and other requirements.

Survivor Benefit

A non-duty survivor pension is available subject to certain requirements of the plan.

Funding Policy

Defined Benefit Plan

The School District participates on a contributory basis, as described above under "Benefits Provided." The School District is required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits ("OPEB"). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Defined Contribution Plan

Employer contributions to the Plan are dependent on the plan elected by the participant.

Employee Contributions

Basic plan members are not required to make contributions. Member Investment Plan members contribute at rates ranging from 0 to 7% of gross wages.

Employer Contributions

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 the cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 23 year period for the 2013 fiscal year.

NOTES TO FINANCIAL STATEMENTS - Continued

Employer contributions to the system for covered payroll of the plan were as follows:

Fiscal Year 2013-2014 Employer Contribution Rate
Active Members and Qualified Participants - Effective July 1 - September 30, 2014

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
Defined Benefit Plan Contributions:							
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Defined Contribution Plan Contributions:							
Employee contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

Fiscal Year 2014-2015 Employer Contribution Rate
Active Members and Qualified Participants - Effective October 1, 2014 - June 30, 2015

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
Defined Benefit Plan Contributions:							
Pension contributions	23.07%	21.99%	21.99%	18.76%	18.76%	18.76%	23.07%
Health contributions	2.71%	2.71%	2.2%	2.2%	2.71%	2.2%	2.2%
Defined Contribution Plan Contributions:							
Employee contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

The School District's contributions to the MPSERS Defined Benefit Plan for the year ended June 30, 2015 was \$652,742, which is equal to the required contribution for the year. The covered payroll for the year ended June 30, 2015 was \$2,951,608.

The School District's contributions to the MPSERS Defined Contribution Plan were \$10,467, for the year ended June 30, 2015, which is equal to the pension expense recognized by the School District for the year.

NOTES TO FINANCIAL STATEMENTS - Continued

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. The School District required contributions for post-employment health care benefits were \$101,022 for the year ended June 30, 2015.

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

Pension Liabilities

At June 30, 2015, the School District reported a liability of \$7,461,744 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At September 30, 2014, the School District's proportion was 0.03388%.

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

For the year ended June 30, 2015, the School District recognized pension expense of \$604,422. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	275,322	-
Net difference between projected and actual earnings on pension plan investments	-	824,899
Changes in proportion and differences between School District contributions and proportionate share of contributions	-	-
School District contributions subsequent to the measurement date	<u>543,872</u>	<u>-</u>
Total	<u>\$ 819,194</u>	<u>\$ 824,899</u>

NOTES TO FINANCIAL STATEMENTS - Continued

From the above table, \$543,872 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2016	\$ (134,632)
2017	(134,632)
2018	(134,632)
2019	(145,681)

10-Year Trend Information - Defined Benefit Plan

<u>Schedule of School District's Proportionate Share of Net Pension Liability</u>	
	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.03388 %
School District's proportionate share of collective net pension liability	\$ 7,461,744
School District's covered-employee payroll	\$ 2,831,673
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	263.51009 %
Plan fiduciary net position as a percentage of total pension liability	66.20 %

<u>Schedule of School District's Contributions</u>	
	<u>6/30/2015</u>
Contractually required employer contributions	\$ 652,742
School District contributions recognized by the Plan	<u>652,742</u>
Contributions difference	-
Contributions difference as a percentage of contractually required employer contributions	- %
School District's covered-employee payroll	\$ 2,951,608
Contributions as a percentage of covered-employee payroll	22.1148 %

Actuarial Assumptions

Valuation Assumptions

The rate of investment return was 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

NOTES TO FINANCIAL STATEMENTS - Continued

The assumed real return is the rate of return in excess of wage inflation. Considering other assumptions used in the valuation, the 8.0% nominal rate translates to a net real return of 4.5% a year for the Non-Hybrid groups. Considering other assumptions used in the valuation, the 7.0% nominal rate translates to a net real return of 3.5% a year for the Hybrid group.

The rate of pay increase used for individual members is 3.5%. This assumption is used to project a member's current pay to the pay upon which System benefits will be based. The current assumption was first used for the September 30, 2004 valuation of the System.

Actuarial Cost Method - Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

- the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- each annual normal cost is a constant percentage of the member's year-by-year projected *covered* pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities - Unfunded actuarial accrued liabilities (full funding credit if assets exceed liabilities) were amortized by level (principal and interest combined) percent-of-payroll contributions *over* a reasonable period of future years.

Amortization of UAAL resulting from the Early Retirement Incentive ("ERI") program of 2010 - It has been reported that 1.36% of payroll will be contributed beginning in fiscal year 2013 for a 10-year period to amortize the unfunded actuarial accrued liability ("UAAL") associated with the ERI program of 2010. In order to avoid duplication of the employer contributions, the present value of future ERI amortization payments is subtracted from the UAAL to determine the remaining UAAL contribution.

Actuarial Value of System Assets - The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in *over* a closed five year period. During periods when investment performance exceeds the assumed rate, actuarial value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, actuarial value of assets will tend to be greater than market value. The actuarial value of assets was reset to market value as of September 30, 2006, with five-year smoothing restarted at that time. The actuarial value of assets is developed separately for the Non-Hybrid and Hybrid portions of the System. The total actuarial value of assets is the sum of these two components.

Mortality Assumptions

The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

NOTES TO FINANCIAL STATEMENTS - Continued

Experience Study

The annual actuarial valuation report of the System used for these statements is dated September 30, 2013. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Long-Term Expected Rate of Return on Investments

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

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	4.8 %
Private Equity Pools	18.0	8.5
International Equity Pools	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Real Return, Opportunistic and Absolute Pools	15.5	6.3
Short-Term Investment Pools	2.0	(0.2)
	100.0 %	

*Long-term rate of return does not include 2.5% inflation.

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO FINANCIAL STATEMENTS - Continued

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

- The expected rate of return on pension plan investments is 8.0%.
- The municipal bond rate is 3.480% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve).
- The resulting single discount rate is 8.0%.
- The Plan Fiduciary Net Position is projected to be sufficient to make Projected Benefit Payments until 2114.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0%, as well as what the School 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 (7.0%) or 1 percentage point higher (9.0%) than the current rate:

	1% Lower (7.0%)	Discount Rate (8.0%)	1% Higher (9.0%)
School District's proportionate share of net pension liability	\$ 9,837,660	\$ 7,461,744	\$ 5,460,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2013 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Payables to the Pension Plan

The School District reported \$83,033 payable to the plan at June 30, 2015 for legally required defined benefit and defined contribution plan contributions.

NOTE K - COMMITMENTS AND CONTINGENCIES

Capital Projects

The Infrastructure Fund records capital project activities funded with a Sinking Fund millage. For these funds, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

The 2010 and 2014 Capital Projects Fund accounts for activity related to acquiring and installing educational technology and other equipment. The projects are funded with two bond issues after May 1, 1994. For these projects, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code.

The project for which the 2010 School Technology and Equipment Bonds were issued was considered complete on June 30, 2015 and the cumulative expenditures recognized for the construction period were \$939,123.

The projects for which the 2014 School Technology and Bus Bonds were issued have not been completed as of June 30, 2015. The remaining fund balance in the Capital Projects Fund as of June 30, 2015, was \$87,694. Below is a cumulative detail of the 2010 and 2014 Capital Project Fund as of June 30, 2015 broken out by each project:

	<u>2010 and 2014 Capital Projects Fund</u>		
	<u>2010</u>	<u>2014</u>	<u>Total</u>
Revenues			
Interest	\$ 1,208	\$ 4,345	\$ 5,553
Other	<u>35,510</u>	<u>-</u>	<u>35,510</u>
Total Revenues	<u>36,718</u>	<u>4,345</u>	<u>41,063</u>
Expenditures			
Other	5,907	14,050	19,957
Debt service			
Principal	302,405	-	302,405
Interest	10,590	-	10,590
Capital Outlay	<u>620,221</u>	<u>502,601</u>	<u>1,122,822</u>
Total Expenditures	<u>939,123</u>	<u>516,651</u>	<u>1,455,774</u>
Other financing sources			
Proceeds from bond issue	600,000	600,000	1,200,000
Proceeds from capital lease	<u>302,405</u>	<u>-</u>	<u>302,405</u>
Total financing sources	<u>902,405</u>	<u>600,000</u>	<u>1,502,405</u>
Fund balance remaining	<u>\$ -</u>	<u>\$ 87,694</u>	<u>\$ 87,694</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Leland Public School Education Association. The Board of Education and the Leland Public School Education Association had contract through August 31, 2015. Negotiations are currently underway for a new contract.

REQUIRED SUPPLEMENTARY INFORMATION

Leland Public School

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues					
Local and intermediate sources	\$ 3,467,768	\$ 3,497,009	\$ 3,497,498	\$ 29,241	\$ 489
State revenues	850,844	1,028,231	1,005,791	177,387	(22,440)
Federal revenues	787,500	772,316	767,806	(15,184)	(4,510)
Other	<u>44,000</u>	<u>215,377</u>	<u>342,313</u>	<u>171,377</u>	<u>126,936</u>
Total revenues	<u>5,150,112</u>	<u>5,512,933</u>	<u>5,613,408</u>	<u>362,821</u>	<u>100,475</u>
Expenditures					
Instruction	3,429,226	3,466,232	3,564,473	(37,006)	(98,241)
Supporting Services	<u>2,131,448</u>	<u>2,386,648</u>	<u>2,248,584</u>	<u>(255,200)</u>	<u>138,064</u>
Total expenditures	<u>5,560,674</u>	<u>5,852,880</u>	<u>5,813,057</u>	<u>(292,206)</u>	<u>39,823</u>
REVENUES OVER (UNDER) EXPENDITURES	(410,562)	(339,947)	(199,649)	70,615	140,298
Other financing uses					
Operating transfers out	<u>(23,000)</u>	<u>(18,000)</u>	<u>(15,000)</u>	<u>5,000</u>	<u>3,000</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(433,562)	(357,947)	(214,649)	75,615	143,298
Fund balance, beginning of year	<u>1,425,781</u>	<u>1,509,362</u>	<u>1,509,362</u>	<u>83,581</u>	<u>-</u>
Fund balance, end of year	<u>\$ 992,219</u>	<u>\$ 1,151,415</u>	<u>\$ 1,294,713</u>	<u>\$ 159,196</u>	<u>\$ 143,298</u>

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Leland Public School

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Special Revenue Fund	Debt Service Fund	Capital Project Funds				Total	Total Non-Major Governmental
	Food Service	2008-2009 Debt Retirement	Infrastructure Fund	2010 and 2014 Capital Projects Fund	Public Improvement	Total	Total	Total Non-Major Governmental
ASSETS								
Cash and cash equivalents	\$ 28,570	\$ 23,529	\$ 203,191	\$ 89,462	\$ 45	\$ 292,698	\$ 344,797	
Inventory	3,476	-	-	-	-	-	3,476	
Total assets	<u>\$ 32,046</u>	<u>\$ 23,529</u>	<u>\$ 203,191</u>	<u>\$ 89,462</u>	<u>\$ 45</u>	<u>\$ 292,698</u>	<u>\$ 348,273</u>	
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable and accrued expenditures	\$ 395	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 395	
Due to other funds	13,152	356	6,992	1,768	-	8,760	22,268	
Total liabilities	13,547	356	6,992	1,768	-	8,760	22,663	
FUND BALANCES								
Nonspendable	3,476	-	-	-	-	-	3,476	
Restricted								
Food Service	15,023	-	-	-	-	-	15,023	
Debt retirement	-	23,173	-	-	-	-	23,173	
Capital projects	-	-	196,199	87,694	45	283,938	283,938	
Total fund balances	18,499	23,173	196,199	87,694	45	283,938	325,610	
Total liabilities and fund balances	<u>\$ 32,046</u>	<u>\$ 23,529</u>	<u>\$ 203,191</u>	<u>\$ 89,462</u>	<u>\$ 45</u>	<u>\$ 292,698</u>	<u>\$ 348,273</u>	

Leland Public School

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2015

	Special Revenue Fund	Debt Service Fund	Capital Project Funds			Total	Total Non-Major Governmental
	Food Service	2008-2009 Debt Retirement	Infrastructure Fund	2010 and 2014 Capital Projects Fund	Public Improvement		
Revenues							
Property taxes	\$ -	\$ 84,586	\$ 158,804	\$ -	\$ -	\$ 158,804	\$ 243,390
Interest	18	112	53	26	-	79	209
State revenues	14,550	-	-	-	-	-	14,550
Federal revenues	91,268	-	-	-	-	-	91,268
Other	116,287	-	-	-	-	-	116,287
Total revenues	222,123	84,698	158,857	26	-	158,883	465,704
Expenditures							
Food Service	234,268	-	-	-	-	-	234,268
Debt Service							
Principal	-	35,000	-	100,760	-	100,760	135,760
Interest	-	15,444	-	3,574	-	3,574	19,018
Other	-	356	194	-	-	194	550
Capital outlay	-	-	81,865	407,572	-	489,437	489,437
Total expenditures	234,268	50,800	82,059	511,906	-	593,965	879,033
REVENUES OVER (UNDER) EXPENDITURES	(12,145)	33,898	76,798	(511,880)	-	(435,082)	(413,329)
Other financing sources							
Operating transfers in	15,000	-	-	-	-	-	15,000
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	2,855	33,898	76,798	(511,880)	-	(435,082)	(398,329)
Fund balance, beginning of year	15,644	(10,725)	119,401	599,574	45	719,020	723,939
Fund balance, end of year	<u>\$ 18,499</u>	<u>\$ 23,173</u>	<u>\$ 196,199</u>	<u>\$ 87,694</u>	<u>\$ 45</u>	<u>\$ 283,938</u>	<u>\$ 325,610</u>

FEDERAL PROGRAMS

Leland Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2014	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2015
United States Department of Education							
Direct grants							
REAP Grant	84.358A	27,390	-	-	27,390	27,390	-
Title VIII - Impact Aid	84.041	675,554	-	-	675,554	675,554	-
Passed through Michigan Department of Education							
Title I, Part A Cluster							
141530-1314	84.010	59,753	-	-	37,988	59,753	21,765
Title IIA - Improving Teacher Quality							
140520-1314	84.367	4,245	-	-	2,962	4,245	1,283
Total passed through Michigan Department of Education		63,998	-	-	40,950	63,998	23,048
Total U.S. Department of Education		766,942	-	-	743,894	766,942	23,048

Leland Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2014	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued Revenue June 30, 2015
United States Department of Agriculture							
Nutrition Cluster							
Passed Through Michigan Department of Education							
National School Lunch Program							
1960-Free and Reduced	10.555	\$ 59,535	\$ -	\$ -	\$ 59,535	\$ 59,535	\$ -
USDA Entitlement Commodities	10.555	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,025</u>	<u>11,025</u>	<u>-</u>
		59,535	-	-	70,560	70,560	-
1970-Breakfast	10.553	<u>20,708</u>	<u>-</u>	<u>-</u>	<u>20,708</u>	<u>20,708</u>	<u>-</u>
Total Nutrition Cluster		<u>80,243</u>	<u>-</u>	<u>-</u>	<u>91,268</u>	<u>91,268</u>	<u>-</u>
United States Department of Health and Human Services							
Passed Through Traverse Bay Area ISD							
Medicaid - School Based Services	93.778	<u>864</u>	<u>-</u>	<u>-</u>	<u>864</u>	<u>864</u>	<u>-</u>
Total Federal Financial Assistance		<u>\$ 848,049</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 836,026</u>	<u>\$ 859,074</u>	<u>\$ 23,048</u>

Leland Public School

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2015

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 859,074</u>
Federal sources per financial statements	<u>\$ 859,074</u>



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

Board of Education
Leland Public School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **Leland Public School** (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2015-001 and 2015-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School 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 no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Dennis, Gartland & Niergarth

October 21, 2015



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

Board of Education
Leland Public School

Report on Compliance for Each Major Federal Program

We have audited the *Leland Public School* (the "School District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on the School District's major Federal program for the year ended June 30, 2015. The School District's major Federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School District's Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the School 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 School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Leland Public School 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, 2015.

Report on Internal Control Over Compliance

Management of the School 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 School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dennis, Gartland & Niergarth

October 21, 2015

Leland Public School

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

PRIOR YEAR

Findings 2014-001 and 2014-002 are repeated this year in Section 2 as Findings 2015-001 and 2015-002.

Finding 2014-003 for a debt service fund with a deficit fund balance was resolved in the current year by levying a sufficient millage.

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unmodified opinion on the financial statements of the Leland Public School.
2. There were two material weaknesses in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. The auditor's report does not disclose any reportable conditions in internal control over major programs.
5. The report over compliance for major programs was unmodified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major program was Title VIII - Impact Aid (CFDA No. 84.041).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$300,000.
9. Leland Public School did not qualify as a low risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2015-001

Criteria: All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized schools, the School District has historically relied on its independent external auditors to adjust the accounting records and assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

Cause: This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the School District to perform this task internally.

Effect: As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. To aid in the review and approval process, the business manager of the School District has attended professional development classes related to the preparation of financial statements.

Section 2 - Findings in Accordance with Governmental Auditing Standards - Continued

Finding Number 2015-002

Criteria: Segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have access to assets and those with accounting responsibilities.

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the School District lacks complete segregation of duties and is exposed to the risk of material misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented measures such as Board review of all expenditures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Section 3 - Findings and Questioned Costs in Accordance with OMB Circular A-133

No findings or questioned costs.