Marcellus Community Schools

Financial Statements

June 30, 2015

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Marcellus Community Schools
Members of the Board of Education and Administration
June 30, 2015

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Independent Auditors' Report

To Management and the Board of Education
Marcellus Community Schools

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools, 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.

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards
As described in Note 1 to the financial statements, during the year ended June 30, 2015, the School District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters:

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

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marcellus Community Schools' basic financial statements. The supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements

The other supplementary information, as identified in the table of contents, is the responsibility of management and, other than the prior year information, was derived from and relates 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, other than the prior year information, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Marcellus Community Schools' basic financial statements as of and for the year ended June 30, 2014, which are not presented with the accompanying basic financial statements. In our report dated October 3, 2014, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Marcellus Community Schools' basic financial statements as a whole. The 2014 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 2014 information in the comparative supplementary schedules is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2015 on our consideration of Marcellus Community Schools' 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 Marcellus Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Kalamazoo, MI
November 2, 2015

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2015

This section of the Marcellus Community Schools annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2015. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Marcellus Community School District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund – the General Fund with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

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

<u>Basic Financial Statements</u>

District-wide Financial Statements ***Fund Financial Statements***

Notes to the Basic Financial Statements

Required Supplemental Information

Other Supplemental Information

Reporting the School District as a Whole – Government-wide Financial Statements

The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information about the School District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net position includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements
The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund, for example) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities
The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2015 and 2014.

TABLE 1

	Governmental Activities	
	2015	2014 (restated)
Assets		
Current and other assets	$ 14,156,100	$ 1,979,803
Property and equipment	5,887,758	3,838,861
Total assets	20,043,858	5,818,664
Deferred outflows of resources	912,189	46,709
Total assets and deferred outflows of resources	20,956,047	5,865,373
Liabilities		
Current liabilities	2,092,100	1,147,910
Long-term liabilities	23,452,017	3,334,193
Total liabilities	25,544,117	4,482,103
Deferred inflows of resources	867,362	-
Total liabilities and deferred inflows of resources	26,411,479	4,482,103
Net position		
Net investment in capital assets	889,894	700,383
Restricted	529,588	653,437
Unrestricted	(6,874,914)	(6,495,129)
Total net position	$ (5,455,432)	$ 856,212

The above analysis focuses on the net position (see Table 1). During the year the School District implemented GASB 68 which resulted in a restatement of beginning net position. Beginning net position in the statement of activities was reduced by $7,878,399, restating it from $1,383,270 to $(6,495,129). As of June 30, 2015, the estimated net pension liability for the school district is $7,845,847. Additionally deferred inflows relating to net pension liability are $867,362 and deferred outflows relating to the net pension liability are $879,165. These deferrals will be amortized through the plan year 2018.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the sources of revenue for the fiscal year 2014/15 and fiscal year 2013/14.

TABLE 2	Governmental Activities	
	2015	2014
Revenue		
Program Revenue		
Charges for services	$ 191,884	$ 154,977
Operating grants	1,107,250	973,746
General revenue		
Property taxes	2,425,426	1,915,930
State foundation allowance	4,522,540	4,398,554
Other	88,915	60,541
Total revenue	8,336,015	7,503,748
Functions/Program Expenses		
Instruction	3,685,950	3,713,550
Support services	2,536,163	2,588,478
Food services	329,111	325,406
Unallocated depreciation	-	189,961
Interest on long-term debt	745,094	159,295
Total expenses	7,296,318	6,976,690
Increase in net position	$ 1,039,697	$ 527,058

Property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources. The Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide and may provide more insight into the School District's overall financial health.

The district continued efforts to increase efficiencies and reduce spending while maintaining quality academic programming.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June of 2015. A schedule showing the School District's original and final budget amounts compared with actual revenues and expenditure is provided in the required supplementary information of these financial statements.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2015, the School District had $5,887,758 invested in capital assets, including land, buildings, and furniture and equipment.

	2015	2014
Land	$ 100,000	$ 100,000
Construction in progress	1,911,086	-
Building and building improvements	7,185,597	7,185,597
Furniture and equipment	2,960,507	2,949,888
Buses and other vehicles	1,076,206	761,650
Total capital assets	13,233,396	10,897,135
Less: accumulated depreciation	(7,345,638)	(7,158,274)
Net capital assets	$ 5,887,758	$ 3,838,861

Long Term Debt and Other Obligations

At the end of this year, the School District had $14,260,000 in General Obligation Bonds outstanding versus $3,075,000 last year. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "Qualified Debt," that is debt backed by the State of Michigan, such obligations are not subject to this debt limit.

Other obligations include note payables and compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Basic foundation revenues will increase to $7,391. However, the State's elimination of several categoricals and the decrease in Federal Title funding for programs will minimize impact of this foundation increase. The District's enrollment remained steady for the past two years which has helped us increase our fund balance. Cautious and conservative planning have allowed for the adoption of a balanced budget and a decrease in state aid borrowing for the 2015/16 fiscal year.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's office at 305 W. Arbor, Marcellus, Michigan 49067.

Marcellus Community Schools
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash	$ 2,775,052
Accounts receivable	39
Due from other governmental units	972,479
Inventory	2,731
Investments	10,405,799
Capital assets not being depreciated	2,011,086
Capital assets - net of accumulated depreciation	3,876,672
Total assets	20,043,858
Deferred Outflows of Resources	
Deferred amount of pension expense related to net pension liability	879,165
Deferred amount on debt refunding	33,024
Total deferred outflows of resources	912,189
Total assets and deferred outflows of resources	20,956,047

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Statement of Net Position
June 30, 2015

	Governmental Activities
Liabilities	
Accounts payable	$ 1,091,567
State aid anticipation note payable	426,090
Payroll deductions and withholdings	20,190
Accrued expenditures	246,853
Accrued salaries payable	307,400
Noncurrent liabilities	
Net pension liability	7,845,847
Due within one year	632,659
Due in more than one year	14,973,511
Total liabilities	25,544,117
Deferred Inflows of Resources	
Deferred amount on net pension liability	867,362
Total liabilities and deferred inflows of resources	26,411,479
Net Position	
Net investment in capital assets	889,894
Restricted for:	
Food service	6,815
Debt service	415,715
Unrestricted	(6,767,856)
Total net position	$ (5,455,432)

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Statement of Activities
For the Year Ended June 30, 2015

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs				
Governmental activities				
Instruction	$ 3,685,950	$ -	$ -	$ (3,685,950)
Supporting services	2,536,163	125,835	856,323	(1,554,005)
Food services	329,111	66,049	250,927	(12,135)
Interest on long-term debt	745,094	-	-	(745,094)
Total governmental activities	$ 7,296,318	$ 191,884	$ 1,107,250	(5,997,184)
General revenues				
Property taxes, levied for general purposes				971,886
Property taxes, levied for debt service				1,246,327
Property taxes, levied for sinking fund				207,213
State aid - unrestricted				4,522,540
Interest and investment earnings				27,426
Other				61,489
Total general revenues				7,036,881
Change in net position				1,039,697
Net position - beginning, as restated				(6,495,129)
Net position - ending				$ (5,455,432)

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Governmental Funds
Balance Sheet
June 30, 2015

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	$ 763,859	$ 991,286	$ 1,019,907	$ 2,775,052
Accounts receivable	-	-	39	39
Due from other governmental units	970,461	-	2,018	972,479
Inventory	-	-	2,731	2,731
Investments	-	10,405,799	-	10,405,799
Total assets	$ 1,734,320	$ 11,397,085	$ 1,024,695	$ 14,156,100
Liabilities				
Accounts payable	$ 116,051	$ 967,792	$ 7,724	$ 1,091,567
State aid anticipation note payable	426,090	-	-	426,090
Payroll deductions and withholdings	20,190	-	-	20,190
Accrued expenditures	139,795	-	-	139,795
Accrued salaries payable	307,400	-	-	307,400
Total liabilities	1,009,526	967,792	7,724	1,985,042
Fund Balance				
Non-spendable				
Inventory	-	-	2,731	2,731
Restricted for				
Food service	-	-	4,084	4,084
Debt service	-	-	522,773	522,773
Capital projects	-	10,429,293	487,383	10,916,676
Assigned for future capital outlay and supplies	73,000	-	-	73,000
Unassigned	651,794	-	-	651,794
Total fund balance	724,794	10,429,293	1,016,971	12,171,058
Total liabilities and fund balance	$ 1,734,320	$ 11,397,085	$ 1,024,695	$ 14,156,100

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2015

Total fund balances for governmental funds	$ 12,171,058
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets not being depreciated	2,011,086
Capital assets - net of accumulated depreciation	3,876,672
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	33,024
Deferred inflows of resources resulting from net pension liability	(867,362)
Deferred outflows of resources from pension expenses subsequent to measurement date of net pension liability	879,165
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(107,058)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities	
Net pension liability	(7,845,847)
Compensated absences	(145,989)
Bonds payable	(15,432,638)
Other loans payable and liabilities	(27,543)
Net position of governmental activities	$ (5,455,432)

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	$ 1,081,804	$ 22,376	$ 1,522,600	$ 2,626,780
State sources	5,147,329	-	11,838	5,159,167
Federal sources	231,534	-	239,089	470,623
Interdistrict sources	79,445	-	-	79,445
Total revenues	6,540,112	22,376	1,773,527	8,336,015
Expenditures				
Current				
Education				
Instruction	3,516,402	-	-	3,516,402
Supporting services	2,480,029	-	-	2,480,029
Food services	-	-	321,827	321,827
Capital outlay	3,546	2,236,261	89,426	2,329,233
Debt service				
Principal	12,318	-	600,000	612,318
Interest and other expenditures	997	-	547,265	548,262
Bond issuance costs	-	120,933	-	120,933
Total expenditures	6,013,292	2,357,194	1,558,518	9,929,004
Excess (deficiency) of revenues over expenditures	526,820	(2,334,818)	215,009	(1,592,989)
Other Financing Sources (Uses)				
Proceeds from issuance of bonds	-	11,785,000	-	11,785,000
Premium on issuance of bonds	-	979,111	143,693	1,122,804
Transfers in	-	-	52,092	52,092
Transfers out	(4,832)	-	(47,260)	(52,092)
Total other financing sources (uses)	(4,832)	12,764,111	148,525	12,907,804
Net change in fund balance	521,988	10,429,293	363,534	11,314,815
Fund balance - beginning	202,806	-	653,437	856,243
Fund balance - ending	$ 724,794	$ 10,429,293	$ 1,016,971	$ 12,171,058

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2015

Net change in fund balances - Total governmental funds	$ 11,314,815
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(187,364)
Capital outlay	2,236,261
Expenses are recorded when incurred in the statement of activities.	
Interest	(82,708)
Compensated absences	3,015
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	500,565
Net change in the deferred inflow of resources related to the net pension liability	(867,362)
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	411,152
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(12,907,804)
Repayments of long-term debt	612,318
Amortization of premiums	6,809
Change in net position of governmental activities	$ 1,039,697

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2015

	Purpose Trust Funds	Agency Funds
Assets		
Cash	$ 55,155	$ 73,326
Liabilities		
Due to agency fund activities	-	$ 73,326
Net Position		
Reserved for scholarships and loans	$ 55,155	

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2015

	Private Purpose Trust Funds
Additions	
Local sources	$ 21,000
Interest and investment earnings	79
Total additions	21,079
Deductions	
Scholarships	24,000
Change in net position	(2,921)
Net position - beginning	58,076
Net position - ending	$ 55,155

See Accompanying Notes to the Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Marcellus Community Schools (the "School District") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district–wide financial statements categorize all non-fiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

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

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

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Capital Project Fund – The Capital Project Fund is used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, building, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service Fund. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Sinking Fund – The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction or repair of school buildings.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2015, the rates are as follows per $1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	7.50000
Sinking Fund	1.25000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Cass, St. Joseph and Van Buren and remitted to the School District by May 15.

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

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in the governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of $5,000 and an estimated useful life in excess of two years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	15 – 50 years
Equipment and furniture	5 – 50 years
Buses and other vehicles	5 – 10 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

Compensated Absences – Sick days are earned by teachers and administrators. Retiring employees who meet certain years of service requirements are paid for accumulated sick days up to a maximum numbers of days and at a rate determined by their contracts. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments. The amount reported is salary-related and includes fringe benefits.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education and the Superintendent. The Board of Education has granted the Superintendent the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board ("The GASB") has issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability will be recorded on the government-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. The School District is evaluating the impact these standards will have on its financial reporting. Statements 68 and 71 are effective for the year ending June 30, 2015.

Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board ("The GASB") has issued Statement No. 72 *Fair Value Measurements and Applications.* Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. Statement 72 is effective for the year ending June 30, 2016.

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement 67 and 68.* The first objective of this Statement is provide the readers of the financial statements information about the effects of the pension-related transactions on the financial statements of state and local government employers. It will assist in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period in addition to providing information about the government's pension obligation. The second objective of this Statement is to improve the information about financial support provided by certain non-employer entities for pensions that are provided to the employees of other entities that are not within the scope of Statement No. 68. These requirements are effective for the fiscal year ending June 30, 2017. The third objective is to improve the quality of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions that are not within the scope of Statement 68 and to clarify the application of certain provisions of Statement No. 67 and 68. These requirements are effective for the fiscal year ending June 30, 2016.

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact GASB 72 thru 75 will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year-end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Excess of Expenditures over Appropriations
During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	$ 2,870,968	$ 2,871,221	$ 253
Added needs	643,573	645,181	1,608
Pupil	200,309	201,282	973
School administration	550,332	550,687	355
Operations and maintenance	654,953	662,519	7,566
Pupil transportation services	422,920	423,637	717
Central	94,609	94,872	263
Athletic activities	150,572	157,827	7,255
Capital outlay	3,165	3,546	381

District-Wide Deficits
The School District has an unrestricted net position deficit for District-Wide activities in the amount of $6,767,856 as of June 30, 2015. There are no other governmental funds with a deficit.

Compliance – Sinking Funds
The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Compliance – Bond Proceeds
The Capital Project Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the 2014 Capital Project Funds from inception through the current fiscal year:

	2014 Capital Projects Fund
Revenues	$ 12,786,487
Expenditures	2,357,194
	$ 10,429,293

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	$ 2,775,391	$ 128,481	$ 2,903,872
Investments	10,405,799	-	10,405,799
	$ 13,181,190	$ 128,481	$ 13,309,671

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	$	2,903,872
Investments in securities, mutual funds, and similar vehicles		10,405,799
Total	$	13,309,671

As of year-end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
US Treasury notes and government securities	$ 10,405,799	159 days	AAAm	Standard & Poor's

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy restricts investment maturities to within four years of the date of purchase. In addition, the policy restricts investments in commercial paper, which can only be purchased with a 270-day maturity. The School District's policy does not address other ways to minimize interest rate risk.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, $2,430,773 of the School District's bank balance of $2,930,773 exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2015, none of the School District's investments were exposed to custodial credit risk.

Note 4 – Capital Assets

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 100,000	$ -	$ -	$ 100,000
Construction-in-progress	-	1,911,086	-	1,911,086
Total capital assets not being depreciated	100,000	1,911,086	-	2,011,086
Capital assets being depreciated				
Buildings and improvements	7,185,597	-	-	7,185,597
Equipment and furniture	2,949,888	10,619	-	2,960,507
Buses and other vehicles	761,650	314,556	-	1,076,206
Total capital assets being depreciated	10,897,135	325,175	-	11,222,310
Less accumulated depreciation for				
Buildings and improvements	3,831,480	110,069	-	3,941,549
Equipment and furniture	2,670,963	53,996	-	2,724,959
Buses and other vehicles	655,831	23,299	-	679,130
Total accumulated depreciation	7,158,274	187,364	-	7,345,638
Net capital assets being depreciated	3,738,861	137,811	-	3,876,672
Net capital assets	$ 3,838,861	$ 2,048,897	$ -	$ 5,887,758

Depreciation expense for the fiscal year ended June 30, 2015 amounted to $187,364. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Construction Contracts

As of year-end, the School District had the following construction contracts in progress:

	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
Project			
Technology upgrades and equipment	$ 557,125	$ 362,387	$ 103,951
Building Project	8,559,961	1,532,956	863,340
Total	$ 9,117,086	$ 1,895,343	$ 967,291

Note 5 - Transfers

Interfund transfers consist of the following:

	Transfers Out		
	General Fund	Other Governmental Funds	Total
Transfers in			
Other governmental funds	$ 4,832	$ 47,260	$ 52,092

A transfer from the General Fund to the Food Service Fund of $4,832 was made to reimburse for expenses paid from the Food Service Fund and the 2001 Debt Fund transferred remaining funds to the 2005 Debt Fund after satisfying all debt requirements.

Note 6 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	$ 426,035	$ 1,200,000	$ 1,199,945	$ 426,090

Note 7 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	$ 3,075,000	$ 11,785,000	$ 600,000	$ 14,260,000	$ 620,000
Other notes payable	39,861	-	12,318	27,543	12,659
Compensated absences	149,004	-	3,015	145,989	-
Premium on bonds	70,326	1,122,804	20,492	1,172,638	-
Total	$ 3,334,191	$ 12,907,804	$ 635,825	$ 15,606,170	$ 632,659

For governmental activities, compensated absences and other notes payable are primarily liquidated by the General Fund.

General obligation bonds payable at year-end, consist of the following:

$2,915,000 serial bond due in annual installments of $190,000 to $2,725,000 through May 2019, interest at 4.00% to 5.25%	$ 2,475,000
$11,785,000 building and site bond due in annual installments of $25,000 to $1,105,000 through May 2032, interest at 4.00% to 5.00%	11,785,000
Total general obligation bonded debt	$ 14,260,000

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	$ 620,000	$ 642,350	$ 1,262,350
2017	620,000	609,800	1,229,800
2018	645,000	577,250	1,222,250
2019	665,000	551,200	1,216,200
2020	695,000	524,100	1,219,100
2021 – 2025	3,975,000	2,066,750	6,041,750
2026 – 2030	4,860,000	1,042,000	5,902,000
2031 – 2032	2,180,000	131,400	2,311,400
Total	$ 14,260,000	$ 6,144,850	$ 20,404,850

The general obligation bonds are payable from the Debt Service Funds. As of year-end, the fund had a balance of $ 522,773 to pay this debt. Future debt and interest will be payable from future tax levies.

Notes Payable
Installment notes payable at June 30, 2015 consist of the following:

$44,255 Technology installment note payable due bi-annual installments of $4,289 through October 1, 2017, interest at 2.50%	$	20,665
$13,458 GW Jones Lawn Mower installment note payable due bi-annual installments of $2,368 through October 1, 2016, interest at 3.25%		6,878
Total notes payable	$	27,543

Future principal and interest requirements for installment notes are as follows:

	Principal		Interest		Total	
Year Ending June 30,						
2016	$	12,659	$	654	$	13,313
2017		10,646		300		10,946
2018		4,238		53		4,291
Total	$	27,543	$	1,007	$	28,550

Compensated Absences
Accrued compensated absences at year-end consist of $145,989 of accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year

Defeased Debt
In the prior year, the School District had defeased various bonds issued by creating separate irrevocable trust funds. New debt has been issued and the net proceeds of each refunding were placed in separate special escrow accounts and invested in securities of the U.S. Government and its agencies. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the refunded bonds are considered to be defeased. Accordingly, the trust account assets and liability for the defeased bonds are not included in the School District's financial statements.

The final payment date is May 2019 for the 2007 refunding bonds. As of year-end, the amount of defeased debt outstanding but removed from the School District's financial statements is $2,500,000.

Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year ended June 30, 2015. No provision has been made for possible future claims.

Note 9 - Pension Plans and Post-Employment Benefits

Organization

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. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member. The Governor appointed board members consist of:

- Two active classroom teachers or other certified school personnel.
- One active member or retiree from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retiree from a classroom teaching position.
- One retiree from a finance or operations management position.
- One administrator or trustee of a community college that is a reporting unit of the System.
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience.
- One elected member of a reporting unit's board of control.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological, and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

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

MPSERS issues a publicly-available Comprehensive Annual Financial Report. That report may be obtained by writing to ORS at P.O. Box 30171, Lansing, Michigan 48909-7671, or on the Internet at http://www.michigan.gov/orsschools.

Membership – At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	204,512
Inactive plan members entitled to but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	210,777
Total plan members	432,268

Benefits Provided – Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. 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.

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

Member Contributions – Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, and December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates as a percent of wages: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 6.4% of all wages over $15,000.

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

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

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

Summary of Significant Accounting Policies

Basis of Accounting and Presentation – The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules. GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Reserves – Reserve for Employee Contributions – This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was $1.5 billion.

Reserve for Pension Plus Employee Contributions – This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was $59.5 million.

Reserve for Member Investment Plan – This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was $4.7 billion.

Reserve for Employer Contributions – This reserve represents all employer contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was a deficit of ($25.8) billion.

Reserve for Pension Plus Employer Contributions – This reserve represents all employer contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was $55.5 million.

Reserve for Retired Benefit Payments – This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was $44.6 billion.

Reserve for Retired Pension Plus Benefit Payments – This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was $0.

Reserve for Undistributed Investment Income – This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was $18.6 billion.

Reserve for Health (OPEB) Related Benefits – This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was $3.5 billion.

Reporting Entity – The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection – Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process, except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments – Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income – Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System – Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Property and Equipment – Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds $5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Post-employment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions – Leases and Services – The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

Building rentals	$	789,000
Technological support		10,420,000
Attorney general		417,000
Investment services		12,846,000
Personnel services		9,922,000

Cash – At September 30, 2014, the System had $246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to ($0.6) thousand for the year ended September 30, 2014.

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the plan's 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0 – 4.0%	18.34 – 19.61%
Member Investment Plan	3.0 – 7.0%	18.34 – 19.61
Pension Plus	3.0 – 6.4%	18.11
Defined Contribution	0.0%	15.44 – 16.61%

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

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

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was $29.7 million and the discounted long-term receivable was $83.6 million at September 30, 2014.

Net Pension Liability
Measurement of the MPSERS Net Pension Liability – The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

MPSERS (Plan) Net Pension Liability – As of September 30, 2014:

Total Pension Liability	$ 65,160,887,182
Plan Fiduciary Net Position	43,134,384,072
Net Pension Liability	$ 22,026,503,110
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	250.11%

Year one MPSERS implementation of GASB Statement No. 68 recognizes a 0.00% change in the employers' proportionate share between beginning net pension liability and ending net pension liability.

MPSERS (Plan) Net Pension Liability – As of October 1, 2013

Total Pension Liability	$ 62,859,499,994
Plan Fiduciary Net Position	39,427,686,072
Net Pension Liability	$ 23,431,813,922

Proportionate Share of Reporting Unit's Net Pension Liability – At September 30, 2014, the School District reported a liability of $7,845,847 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 rolled forward from September 30, 2013. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2014, the School District's proportionate share percent was *.03562%* percent, which is consistent with the prior measurement date.

Long-Term Expected Return on Plan Assets – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

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

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

Rate of Return – For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – As required by GASB Statement No. 68, the following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), 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 or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
$ 10,344,066	$ 7,845,847	$ 5,741,061

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

Timing of the Valuation – An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

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

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

Additional information as of the latest actuarial valuation follows:

Actuarial Assumptions:

- Wage inflation rate: 3.5%
- Investment Rate of returns:
  - MIP and Basic Plans (Non-Hybrid): 8.0%
  - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The experience study is included in the actuarial valuation described above.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the MPSERS Comprehensive Annual Financial Report.

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 total pension expense of $710,987.

At June 30, 2015, the employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

0

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

Deferred (Inflows) and Deferred Outflows of Resources by Year Post-Employment Benefits

Plan Year Ended September 30	Amount
2015	$ 448,042
2016	(141,541)
2017	(141,541)
2018	(153,156)

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPSERS).

Other Post-Employment Benefits

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

For the periods July 1, 2014 through September 30, 2014, and October 1, 2014 through June 30, 2015, the employer contribution rate ranged from 5.52% to 6.45% and 2.20% to 2.71%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2015, 2014, and 2013 and were approximately $110,865, $219,708, and $304,420, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2015, the School District had contributions in the amount of $264,760 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 7.63% for the year.

Note 10 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2014.

The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's attorneys, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.

Note 11 - Prior Period Adjustment

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statements 68 and 71. These statements require the School District to record their proportionate share of the net pension liability and pension expense. Previously these amounts were not recorded on the School District's statements. The standards require this change be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2014, by $7,878,399 restating it from $1,383,270 to $(6,495,129).

Marcellus Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts			Over
	Original	Final	Actual	(Under) Budget
Revenues				
Local sources	$ 1,030,454	$ 1,081,062	$ 1,081,804	$ 742
State sources	4,976,575	5,146,982	5,147,329	347
Federal sources	181,261	230,522	231,534	1,012
Interdistrict sources	80,000	-	79,445	79,445
Total revenues	6,268,290	6,458,566	6,540,112	81,546
Expenditures				
Instruction				
Basic programs	3,150,321	2,870,968	2,871,221	253
Added needs	733,464	643,573	645,181	1,608
Supporting services				
Pupil	165,313	200,309	201,282	973
Instructional staff	16,627	21,856	21,856	-
General administration	187,846	203,447	202,725	(722)
School administration	495,017	550,332	550,687	355
Business	148,200	164,624	164,624	-
Operations and maintenance	671,087	654,953	662,519	7,566
Pupil transportation services	403,415	422,920	423,637	717
Central	111,000	94,609	94,872	263
Athletic activities	143,631	150,572	157,827	7,255
Capital outlay	6,904	3,165	3,546	381
Debt service				
Principal	12,516	12,318	12,318	-
Interest and fiscal charges	5,599	6,881	997	(5,884)
Total expenditures	6,250,940	6,000,527	6,013,292	12,765
Excess (deficiency) of revenues over expenditures	17,350	458,039	526,820	68,781
Other Financing Sources (Uses)				
Transfers out	-	(4,832)	(4,832)	-
Net change in fund balance	17,350	453,207	521,988	68,781
Fund balance - beginning	202,806	202,806	202,806	-
Fund balance - ending	$ 220,156	$ 656,013	$ 724,794	$ 68,781

Marcellus Community Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th)

	June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A. Reporting unit's proportion of net pension liability (%)	0.03562%									
B. Reporting unit's proportionate share of net pension liability	$ 7,845,847									
C. Reporting unit's covered-employee payroll	$ 3,037,513									
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	258.30%									
E. Plan fiduciary net position as a percentage of total pension liability	66.20%									

Marcellus Community Schools
Required Supplementary Information
Schedule of the School District's Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

		For the Years Ended June 30,									
		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A.	Statutorily required contributions	$ 710,987									
B.	Contributions in relation to statutorily required contributions	710,987									
C.	Contribution deficiency (excess)	$ -									
D.	Reporting unit's covered-employee payroll	$ 3,231,954									
E.	Contributions as a percentage of covered-employee payroll	22.00%									

Marcellus Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2015

		Debt Service Funds			
	Food Service Fund	2007 Refunding Debt Fund	2014 Debt Fund	Sinking Fund	Total Nonmajor Governmental Funds
Assets					
Cash	$ 8,231	$ 169,060	$ 353,674	$ 488,942	$ 1,019,907
Accounts receivable	-	39	-	-	39
Due from other governmental units	2,018	-	-	-	2,018
Inventory	2,731	-	-	-	2,731
Total assets	$ 12,980	$ 169,099	$ 353,674	$ 488,942	$ 1,024,695
Liabilities					
Accounts payable	$ 6,165	$ -	$ -	$ 1,559	$ 7,724
Fund Balance					
Non-spendable					
Inventory	2,731	-	-	-	2,731
Restricted for					
Food service	4,084	-	-	-	4,084
Debt service	-	169,099	353,674	-	522,773
Capital projects	-	-	-	487,383	487,383
Total fund balance	6,815	169,099	353,674	487,383	1,016,971
Total liabilities and fund balance	$ 12,980	$ 169,099	$ 353,674	$ 488,942	$ 1,024,695

Marcellus Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	Food Service Fund	Debt Service Funds: 2005 Refunding Debt Fund	Debt Service Funds: 2007 Refunding Debt Fund	Debt Service Funds: 2014 Debt Fund	Sinking Fund	Total Nonmajor Governmental Funds
Revenues						
Local sources	$ 66,060	$ 291,010	$ 337,535	$ 617,899	$ 210,096	$ 1,522,600
State sources	11,838	-	-	-	-	11,838
Federal sources	239,089	-	-	-	-	239,089
Total revenues	316,987	291,010	337,535	617,899	210,096	1,773,527
Expenditures						
Current						
Education						
Food services	321,827	-	-	-	-	321,827
Debt service						
Principal	-	350,000	250,000	-	-	600,000
Interest and other expenditures	-	14,347	125,000	407,918	-	547,265
Total expenditures	321,827	364,347	375,000	407,918	89,426	1,558,518
Excess (deficiency) of revenues over expenditures	(4,840)	(73,337)	(37,465)	209,981	120,670	215,009
Other Financing Sources (Uses)						
Premium on issuance of bonds	-	-	-	143,693	-	143,693
Transfers in	4,832	-	47,260	-	-	52,092
Transfers out	-	(47,260)	-	-	-	(47,260)
Total other financing sources (uses)	4,832	(47,260)	47,260	143,693	-	148,525
Net change in fund balance	(8)	(120,597)	9,795	353,674	120,670	363,534
Fund balance - beginning	6,823	120,597	159,304	-	366,713	653,437
Fund balance - ending	$ 6,815	$ -	$ 169,099	$ 353,674	$ 487,383	$ 1,016,971

Marcellus Community Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2015

	2015	2014
Assets		
Cash	$ 763,859	$ 320,125
Due from other governmental units	970,461	967,587
Total assets	$ 1,734,320	$ 1,287,712
Liabilities		
Accounts payable	$ 116,051	$ 74,657
State aid anticipation note payable	426,090	526,035
Payroll deductions and withholdings	20,190	22,824
Accrued expenditures	139,795	147,949
Accrued salaries payable	307,400	313,441
Total liabilities	1,009,526	1,084,906
Fund Balance		
Unassigned	724,794	202,806
Total liabilities and fund balance	$ 1,734,320	$ 1,287,712

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	$ 939,131	$ 971,886	$ 971,886	$ -
Tuition	-	4,225	4,225	-
Transportation fees	1,500	1,150	1,493	343
Earnings on investments	2,050	1,980	2,039	59
Student activities	44,130	52,715	52,840	125
Other local revenues	43,643	49,106	49,321	215
Total revenues from local sources	1,030,454	1,081,062	1,081,804	742
Revenues from state sources				
Grants - unrestricted	4,381,532	4,528,326	4,545,416	17,090
Grants - restricted	595,043	618,656	601,913	(16,743)
Total revenues from state sources	4,976,575	5,146,982	5,147,329	347
Revenues from federal sources				
Grants	181,261	230,522	231,534	1,012
Interdistrict sources				
Other	80,000	75,000	79,445	4,445
Total revenue and other financing sources	$ 6,268,290	$ 6,458,566	$ 6,540,112	$ 81,546

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	$ 933,137	$ 901,430	$ 901,429	$ (1)
Employee benefits	552,773	569,166	571,519	2,353
Purchased services	16,851	17,587	17,588	1
Supplies and materials	10,000	5,893	5,893	-
Other	2,880	4,398	4,398	-
Total elementary	1,515,641	1,498,474	1,500,827	2,353
Basic program - middle school				
Salaries	37,099	37,099	37,099	-
Employee benefits	29,325	31,899	31,899	-
Purchased services	233,840	249,506	249,506	-
Total middle school	300,264	318,504	318,504	-
Basic program - high school				
Salaries	627,214	628,111	625,359	(2,752)
Employee benefits	658,207	381,350	382,002	652
Purchased services	38,470	34,968	34,968	-
Supplies and materials	7,500	5,424	5,424	-
Other	3,025	4,137	4,137	-
Total high school	1,334,416	1,053,990	1,051,890	(2,100)

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - special education				
Salaries	98,304	93,943	93,351	(592)
Employee benefits	58,103	62,258	62,972	714
Purchased services	2,679	2,374	2,327	(47)
Supplies and materials	382	200	200	-
Total special education	159,468	158,775	158,850	75
Added needs - compensatory education				
Salaries	287,659	224,159	224,158	(1)
Employee benefits	159,331	138,960	140,911	1,951
Purchased services	5,503	1,633	1,539	(94)
Supplies and materials	2,680	9,442	9,120	(322)
Other	600	380	380	-
Total compensatory education	455,773	374,574	376,108	1,534
Added needs - career and technical education				
Salaries	38,024	38,024	38,024	-
Employee benefits	30,199	31,999	31,998	(1)
Purchased services	-	1,511	1,511	-
Supplies and materials	5,000	1,070	1,070	-
Other	45,000	37,620	37,620	-
Total career and technical education	118,223	110,224	110,223	(1)

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	16,698	34,838	34,838	-
Employee benefits	13,332	20,190	21,166	976
Supplies and materials	1,804	1,999	1,999	-
Total guidance services	31,834	57,027	58,003	976
Pupil - speech services				
Purchased services	34,059	25,017	25,017	-
Pupil - social work services				
Salaries	49,519	50,231	50,232	1
Employee benefits	33,632	38,195	38,194	(1)
Total social work services	83,151	88,426	88,426	-
Pupil - other support services				
Salaries	12,720	20,578	20,578	-
Employee benefits	3,549	9,261	9,258	(3)
Total other pupil support services	16,269	29,839	29,836	(3)
Instructional staff - improvement of education				
Salaries	927	2,781	2,781	-
Employee benefits	265	915	915	-
Purchased services	2,435	6,471	6,471	-
Total improvement of education	3,627	10,167	10,167	-

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - educational media services				
Salaries	10,109	7,636	7,636	-
Employee benefits	2,647	3,336	3,336	-
Supplies and materials	244	17	17	-
Total educational media services	13,000	10,989	10,989	-
Instructional staff - technology assisted instruction				
Purchased services	-	700	700	-
General administration - board of education				
Purchased services	25,408	35,253	35,253	-
Supplies and materials	-	13	13	-
Other	7,500	5,462	5,462	-
Total board of education	32,908	40,728	40,728	-
General administration - executive administration				
Salaries	87,502	87,502	87,502	-
Employee benefits	38,531	45,137	44,371	(766)
Purchased services	13,455	21,292	21,292	-
Supplies and materials	250	924	924	-
Other	15,200	7,864	7,908	44
Total executive administration	154,938	162,719	161,997	(722)

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
School administration - office of the principal				
Salaries	300,764	299,451	299,451	-
Employee benefits	174,179	221,958	221,955	(3)
Purchased services	14,556	24,595	24,953	358
Supplies and materials	5,518	4,018	4,018	-
Other	-	310	310	-
Total office of the principal	495,017	550,332	550,687	355
Business - fiscal services				
Salaries	64,841	73,029	73,029	-
Employee benefits	50,064	52,387	52,387	-
Total fiscal services	114,905	125,416	125,416	-
Business - other				
Purchased services	25,385	25,219	25,219	-
Other	7,910	13,989	13,989	-
Total other business	33,295	39,208	39,208	-
Operations and maintenance - operating building services				
Salaries	222,422	217,958	217,958	-
Employee benefits	126,312	148,798	148,848	50
Purchased services	50,703	58,171	57,818	(353)
Supplies and materials	264,150	223,769	231,638	7,869
Other	7,500	6,257	6,257	-
Total operating building services	671,087	654,953	662,519	7,566

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil transportation services				
Salaries	184,934	186,478	186,478	-
Employee benefits	91,592	115,345	115,336	(9)
Purchased services	20,869	18,762	18,762	-
Supplies and materials	106,020	102,335	103,061	726
Total transportation services	403,415	422,920	423,637	717
Central - support services technology				
Salaries	27,225	37,692	37,734	42
Employee benefits	22,913	31,398	31,619	221
Purchased services	58,282	24,131	24,131	-
Other	2,580	1,388	1,388	-
Total support services technology	111,000	94,609	94,872	263
Athletic activities				
Salaries	69,933	64,776	70,491	5,715
Employee benefits	23,248	25,711	27,621	1,910
Purchased services	350	70	70	-
Supplies and materials	15,000	15,343	15,063	(280)
Other	35,100	44,672	44,582	(90)
Total athletic activities	143,631	150,572	157,827	7,255

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Capital outlay				
Basic program - elementary	-	322	322	-
Basic program - high school	-	801	801	-
Added needs - compensatory education	500	-	-	-
Added needs - career and technical education	4,745	200	200	-
General administration - executive administration	-	1,723	1,723	-
Athletic activities	1,659	119	500	381
Total capital outlay	6,904	3,165	3,546	381
Debt service				
Principal	12,516	12,318	12,318	-
Interest and other expenditures	5,599	6,881	997	(5,884)
Total debt service	18,115	19,199	13,315	(5,884)
Other financing uses				
Transfers out	-	4,832	4,832	-
Total expenditures and financing uses	$ 6,250,940	$ 6,005,359	$ 6,018,124	$ 12,765

Marcellus Community Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2015

Year Ending June 30,	2007 Refunding Principal	2014 Debt Principal	Total
2016	$ 620,000	$ -	$ 620,000
2017	620,000	-	620,000
2018	620,000	25,000	645,000
2019	615,000	50,000	665,000
2020	-	695,000	695,000
2021	-	725,000	725,000
2022	-	760,000	760,000
2023	-	795,000	795,000
2024	-	830,000	830,000
2025	-	865,000	865,000
2026	-	900,000	900,000
2027	-	940,000	940,000
2028	-	975,000	975,000
2029	-	1,005,000	1,005,000
2030	-	1,040,000	1,040,000
2031	-	1,075,000	1,075,000
2032	-	1,105,000	1,105,000
Total	$ 2,475,000	$ 11,785,000	$ 14,260,000
Principal payments due the first day of	May	May	
Interest payments due the first day of	May and November	May and November	
Interest rate	4.00% - 5.25%	4.00% - 5.00%	
Original issue	$ 2,915,000	$ 11,785,000	

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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
Marcellus Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community School as of and for the year ended June 30, 2015, which collectively comprise Marcellus Community Schools' basic financial statements and have issued our report thereon dated November 2, 2015. 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.

Internal Control over Financial Reporting
In planning and performing our audit, we considered Marcellus Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marcellus Community Schools' internal control over financial reporting.

A *deficiency in internal controls* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements would not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

This report is intended solely for the information and use of management, the Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Kalamazoo, MI
November 2, 2015

YEO & YEO
CPAs & BUSINESS CONSULTANTS

November 2, 2015

Management and the Board of Education
Marcellus Community Schools
551 East Lyons Street
Marcellus, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools as of and for the year ended June 30, 2015, and have issued our report dated November 2, 2015. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated July 7, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted Government Accounting Standards Board Statements (GASBS) No. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* Both statements are effective July 1, 2014. Statement No. 68 provides guidance to improve accounting and financial reporting by state and local governments for pensions. Statement No. 71 addresses the application of the transition provisions of Statement No. 68. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement in the proper period.

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

- The useful lives of capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service. We have evaluated management's estimates in these areas and the process used for making the accounting estimates, the risk of material misstatement, and the indication of possible bias and disclosure and uncertainty in the financial statements.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report. We noted no bias on the calculation of the estimate.

We feel the estimates have been properly recorded and evaluated by management.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards
The Governmental Accounting Standards Board has released the following Statements:

Statement No. 72 *Fair Value Measurements and Applications*. Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. The School District is evaluating the impact GASB 72 will have on its financial reporting. Statement 72 is effective for the year ending June 30, 2016.

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement 67 and 68.* The first objective of this Statement is provide the readers of the financial statements information about the effects of the pension-related transactions on the financial statements of state and local government employers. It will assist in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period in addition to providing information about the government's pension obligation. The second objective of this Statement is to improve the information about financial support provided by certain non-employer entities for pensions that are provided to the employees of other entities that are not within the scope of Statement No. 68. These requirements are effective for the fiscal year ending June 30, 2017. The third objective is to improve the quality of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions that are not within the scope of Statement 68 and to clarify the application of certain provisions of Statement No. 67 and 68. These requirements are effective for the fiscal year ending June 30, 2016.

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact GASB 72 through 75 will have on its financial reporting.

Uniform Grant Guidance (Super Circular)

In December 2013 the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. Districts will need to implement the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR will be the source for guidance school districts will follow.

Highlights of the Super Circular:

- Raises the single audit threshold from $500,000 to $750,000 (federal expenditures during the June 30, 2016, year-end)
- Increases monitoring and risk assessment necessary by federal program offices
- Focuses heavily on internal controls and polices/procedures, which should be in compliance with COSO (Committee of Sponsoring Organizations of the Treadway Commissions)
- Additional monitoring by pass-through agencies of sub recipients
- New rules for procurement/property management
- Cost principles are more principles based, with intention to reduce administrative burden

Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR) https://cfo.gov/cofar/
- US Department of Education http://1.usa.gov/1rzFswz
- EDGAR http://1.usa.gov/1pOUq2p

Sec. 147c- State Share of Unfunded Liability – Michigan Public School Employees Retirement System (MPSERS)

For 2015-16 the method in which the State will allocate the State Share of the Unfunded Liability will not change. However, the rate will increase to an estimated 10.53% of payroll. The funding was increased to accommodate the unfunded liability statutory cap of 20.96%. The UAAL rate of 10.53% is not the true percent that will be charged to your district. The amount is based on prior year payroll and could either be more or less depending on that payroll. 147c payments should be a net zero, as the income, amount received from State Aid, should equal the 147c expenditures, amount that must be remitted to ORS.

Audit and FID Submission Deadline

For the current year, June 30, 2015, the deadline to submit the Financial Information Database (FID) and the school district financial audits will be November 1st.

State Aid 2015-16

Foundation Grant (Secs. 22a, 22b, and 22c) – The Foundation Grant increases using a 2x funding formula with increases ranging from $70 and $140 per pupil. Also, the pupil membership blend will be 90% of the fall count plus 10% of the **previous** February count.

Categorical Offset Payments (20f) – Categorical Offset guarantees a minimum net increase of $25 per pupil when including Foundation Allowance and At-Risk increases plus the elimination of Best Practices and Districts Performance grants.

At-Risk (Sec. 31a) – At-Risk funding will increase by $70 million for the 2015-16 fiscal year.

Best Practice and Performance Funding Grants (Sec. 22f and 22j) – Best Practice funding is eliminated for 2015-16 fiscal year.

Early Literacy – 3rd Grade Reading (Sec. 35 and 35a) – Early Literacy funding provides $26.4 million for early literacy improvement effort for the 2015-16 year.

Budget Transparency
The Michigan Department of Education has revised the Budget Transparency guidance to include changes made to the legislation under PA 85 of 2015. Below is a summary of the legislative changes for 2015-16:

- A district or intermediate school district (ISD) shall adopt an annual budget in a manner that complies with the uniform budgeting and accounting act.
- Three new data elements have been added to Subsection 2c, which means they apply to all schools including ISDs:
  - A written policy governing procurement of supplies, materials, and equipment.
  - A written policy establishing specific categories of reimbursable expenses.
  - An accounts payable check register for the most recent school fiscal year or a statement of the total amount of expenses incurred by board members or employees of the district that were reimbursed by the district for the most recent school fiscal year.
- If a district or ISD does not comply with subsection (2), the department may withhold up to 10% of the state school aid otherwise payable to the district or ISD, beginning with the next payment due to the district or ISD until the district or ISD complies. If the district or ISD does not comply with subsection (2) by the end of the fiscal year, the district or ISD forfeits the amount withheld.
- Other elements that continue to be required include:
  - Current year budgets and amendments, which must include detail by function level and beginning and ending fund balances.
  - Health care plans
  - Health benefit bids
  - Employee compensation information, which must include the Superintendent and other individuals whose Medicare wages exceed $100,000

Uniform Budgeting and Accounting Act (UB&AA)
The UB&AA establishes budget and accounting requirements for schools.

- The UB&AA states that if it becomes obvious during the year that the likely revenues will be less than the budgeted revenues, the business manager (or school officer) will present recommendations to the Board which, if adopted, would prevent expenditures from exceeding available revenues for the fiscal year. It also states that the business manager of the school shall not incur expenditures against an appropriation account in excess of the amount budgeted by the Board.
- Additionally, funds should not be used for purposes that are inconsistent with the budget.
- Over-expending the budget authorized by the Board will result in noncompliance. MDE is analyzing the general fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level.
- Material violations of the UB&AA, including general fund deficits and material noncompliance, should be reported as financial statement findings in the audit report.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial, and communicate them to the appropriate level of management. There were no misstatements detected as a result of audit procedures that were more than trivial.

Disagreements with Management
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

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

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

Emphasis of Matters in Independent Auditors' Report
The School District adopted a new accounting standard, and our report will include the following emphasis of matter paragraph:

> **Adoption of New Accounting Standard**
> As described in Note 1 to the financial statements, during the year ended June 30, 2015, the School District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions,* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Report on Required Supplementary Information
With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of school district's proportionate share of net pension liability, schedule of school district's contributions, and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Report on Other Information

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We discussed these matters with various personnel in the School District during the audit. We would also be pleased to meet with you to discuss these matters at your convenience.

Restriction on Use

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Kalamazoo, Michigan