SAND CREEK COMMUNITY SCHOOLS
SAND CREEK, MICHIGAN

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2015

WITH
INDEPENDENT AUDITORS' REPORT

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CONTENTS

Sand Creek Community Schools is a K-12 school district located in Lenawee County, Michigan. The Management's Discussion and Analysis, a requirement of the Governmental Accounting Standards Board Statement 34 (GASB 34), is intended to be the Sand Creek Community School Districts' Management's discussion and analysis of the financial results for the fiscal year ended June 30, 2015. This reporting model provides detailed explanation of specific items included in the financial statements. A comparative analysis of fiscal year ended June 30, 2014 to the prior year has been included in this discussion.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The *Government-Wide Statement of Net Position and Statement of Activities* report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid. These statements reflect an aggregate view of the District's finances for the fiscal year.

The statements report the District's net position, which is the difference between assets and liabilities, and changes in them. The change in net assets (or its net position) provides the reader a tool to assist in determining the District's financial health. Over time, increases or decreases in the School District's net position – as reported in the Statement of Activities – are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. The reader will need to consider other nonfinancial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

The statement of net position and statement of activities report the government-wide activities for the District (or the district as a whole), which encompass all of the District's services, including instruction, supporting 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.

Fund Financial Statements

The School District's fund financial statements (governmental funds) provide detailed information about the most significant funds – not the School District as a whole. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, Capital Project Funds, and Special Revenue Funds. The fund financial statements are reported on a modified accrual basis, as opposed to the full accrual basis of the Statement of Net Position and Statement of Activities, and are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". Only those revenues that are "measurable" and "currently available" are reported when using the modified accrual basis. Currently available is considered to be collected within 60 days of the end of the current fiscal period. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. The fund financial statement provides a detailed short-term view of the District's general operations and the basic services it provides. These fund statements help you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between government-wide activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the basic financial statements.

For the period ended June 30, 2015, the District utilized the General Fund and the Building and Site Sinking Fund for reporting of operational and capital improvements. The Debt Service Fund was used to report the districts two debt retirement funds for the 2000 Bond and the 2012 Tech and Bus Bond. Principal and interest payments for both of these bonds are being made with tax levy dollars and will be paid off in 2020 and 2019, respectively. One Special Revenue Fund (non-major fund) the District is reporting is the School Lunch Fund which reports the food service activities.

The 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 Net Position. We exclude these activities from the District's other financial statements because the School District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in the funds are used for their intended purposes.

The District as a Whole (Statement of Net Position):

As discussed above, the statement of net position provides the perspective of the District as a Whole. Table 1 provides a summary of the District's Net Position as of June 30, 2015. The School District's net position was $5,833,946 at June 30, 2015, excluding the GASB 68 net position liability effect. Capital assets, net of related debt totaling $4,783,828 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of some of these assets. Most of this long-term debt will be repaid with voter approved bond millage revenue by May 2020.

The District had an unrestricted fund balance of $886,013 (excluding GASB 68), which represents the accumulated results of all past year's operations. Restricted funds are reported separately because the School District is limited in their ability to use these net assets for day-to-day operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

GASB 68 – Net Pension Liability

GASB Statement No. 68 requires all Michigan school districts to record their proportionate share of the state's net pension liability on their government-wide statements. The details of the GASB 68 requirement and how this figure was calculated is covered in more detail in the footnotes of this audit report. However, the net pension liability that must be recorded on the government-wide statements for Sand Creek Community Schools is $11,470,024. This figure drastically changed the statements for the District putting them into a negative net positon of ($5,544,148). This is an estimated liability figure as it is calculated in part based on annual investment earnings. Dependent on market activity, this figure could increase or decrease every year. The GASB 68 effect with the net pension liability figure is included in the statements below.

Table 1

	June 30, 2015	June 30, 2014
Assets		
Current Assets	$ 2,677,457	$2,759,954
Noncurrent Assets	6,235,082	6,444,082
Total Assets	$ 8,912,539	$9,204,036
Deferred Outflows of Resources		
Contributions to pension plan	$ 1,360,050	$ 916,336
Liabilities		
Current Liabilities	$ 1,660,166	$ 1,588,127
Noncurrent Liabilities	12,884,302*	13,935,910*
Total Liabilities	$14,544,468	$15,524,037
Deferred Inflows of Resources:		
Unearned revenue	4,149	3,768
Deferred inflows of pension resources	1,268,120	-0-
Total Deferred Inflows	1,272,269	3,768
Net Position		
Invested in capital assets, net of related debt	4,783,827	4,702,152
Restricted for debt service	120,549	123,039
Restricted for Food Service	43,556	47,670
Unrestricted	(10,492,080)	(10,280,294)
Total Net Position	($ 5,544,148)	($ 5,407,433)

*Noncurrent Liability balance reflects $11,470,024 (2014/15) and $12,200,946 (2013/2014) in recorded net pension liability, as required by GASB 68.

Table 2

Statement of Activities:

For the fiscal year ended June 30, 2015, the District wide results of operations as compared to June 30, 2014, were:

	June 30, 2015	June 30, 2014
Revenues:		
General Revenues:		
Property taxes levied for general operations	$ 232,557	$ 231,808
Property taxes levied for debt service	377,054	379,734
Property taxes levied for capital projects	219,460	217,623
Investment earnings	3,355	6,187
Intermediate Sources	404,236	465,121
State of Michigan unrestricted foundation aid	7,031,493	6,723,706
Contributions	6,700	3,550
Other general revenues	37,932	21,130
Total General Revenues	8,312,786	8,048,859
Program Revenues:		
Operating Grants:		
Federal	405,071	401,798
State of Michigan	186,705	194,393
Other operating grants	-	-
Total Operating Grants	591,776	596,191
Charges for Services:		
Food service	184,096	174,723
Athletics	52,794	44,714
Instruction	48,565	34,956
Other	9,486	9,611
Total Charges for Services	294,941	264,004
Capital Grants:		
Transportation	-	-
Total Capital Grants	-0-	-0-
Total Revenues	9,199,503	8,909,054

Expenses:

Instruction	5,546,982	5,254,857
Support services	2,485,185	2,317,321
Food service	502,017	488,932
Athletics	277,278	244,404
Interest Expense	-0-	-0-
Interest on long-term debt including amortization of discount	71,810	83,283
Capital Outlay	65,298	32,103
Unallocated Depreciation	385,158	349,786
Other	2,490	3,006
Total Expenses	9,336,218	8,773,692
Change in Net Assets	**(136,715)**	**135,362**
Net Pension Liability		**(12,200,946)***
Deferred Outflows for pension cost		**916,336***
Beginning Net Assets	**(5,407,433)**	**5,741,815**
Ending Net Assets	**($5,544,148)**	**($ 5,407,433)**

*See Note 8 for further explanation and detail on the Deferred Inflows/Outflows for Pension Cost and the Net Pension Liability.

As shown in Table 2 above, the cost of all of *the District activities as a whole* this year was $9,336,218. This figure includes the net cost of the Deferred Inflows and Outflows of Resources which was $91,930, part of the GASB 68 effect. (More about these figures are included in the footnotes.) Because of this additional cost, the total net position for this year was ($136,715). Certain activities received partial funding from those who benefited from the programs, or by other grants or categorical. The remaining costs were paid by a combination of the $829,071 in levied property taxes and $7,031,493 in unrestricted state aid, along with other additional revenue such as interest and miscellaneous contributions.

The net position in the chart above shows the financial burden that is placed on the state aid and the District's taxpayers by each of these functions. The majority of the district's revenue comes from property taxes and the unrestricted State aid, based on student enrollment. The Board of Education and Administration of the District must constantly evaluate the needs of the district to provide a high quality educational program in a highly competitive school of choice market, with the State-prescribed revenue available to the district.

Analysis of Financial Position

During the fiscal year ended June 30, 2015 the District's total governmental activities had a combined fund balance of $1,339,364, a decrease from last year's combined fund balance of $125,223. This combined fund balance consists of the District's major funds: General Fund, Capital Project Sinking Fund; and the District's non-major funds: Debt Service Fund and the Food Service Fund. The Food Service Fund is considered a Special Revenue Fund, and is combined into one Non-major Governmental Fund on the District's statements.

- In the General Fund, which is the District's principal operating fund, the fund balance decreased by $96,137 and had an ending fund balance of $949,288, or 11.56% of expenditures. Of this balance, $53,405 are prepaid expenses for the 2015/2016 fiscal year and are therefore considered non-spendable funds and not available for general education operations. If you exclude these funds, the district's unassigned fund balance is $895,883 or 10.87%.

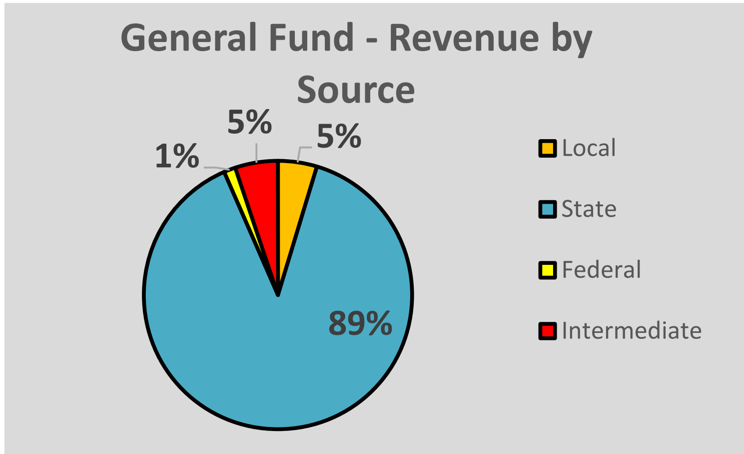
- The Non-major Fund ending fund balance decreased by a total of $9,761; a $4,054 decrease in the Special Revenue Fund (food service) and a $5,707 decrease in the Debt Service Fund. The final balance of the Food Service Fund was $43,620 and the final balance of the Debt Service Fund was $132,711. The Debt Service fund balance consists of tax revenue to pay off two separate voter approved bonds which is detailed later within these statements. The Food Service program at the District continues to maintain a fund balance and is self-supporting.

- The Districts' Capital Project Sinking Fund had an ending balance of $213,745, a decrease of $19,325 for the fiscal year. This sinking fund levy was approved by voters through the 2018 and is used to pay for capital improvements and major repairs/upgrades to the district's buildings and grounds. These annual projects are discussed and recommended to the board by the district's building committee.

It is the district management's goal to protect the fund balance while providing effective ongoing educational operations. The District's goal is to maintain at least an 8% fund balance. The board and management have done very well at maintaining and even growing its fund balance over the last few years. However, a declining enrollment, which is representative of the state-wide decline in enrollment, is beginning to effect the district's bottom line. In the last 15 years, the District enrollment has declined by close to 60 students is expected to be down another 25 for the coming 2015/2016 year. This represents over $435,000 in lost revenue for just the 2014/2015 fiscal year alone. The cumulative effect of this loss in revenue year after year amounts to millions of dollars in lost revenue. Declining enrollment is just one of the significant financial events that will continue to have an effect on the District's fund balance if this trend does not turn around.

Revenues

As illustrated in the following graph, The State of Michigan is the primary source of funds for the District. The State provides districts with a per pupil foundation grant, which is used for the overall operation of the district. During the 2014-2015 fiscal year, the District received $7,251 per pupil. In addition to this per pupil funding, the State also provides other grants and categorical grants that are restricted to specific purposes. Property taxes collected on non-residential homes are received by the District and are included in Local Sources. Federal funds are restricted for specific purposes. Intermediate funds are primarily received from the Intermediate School District.



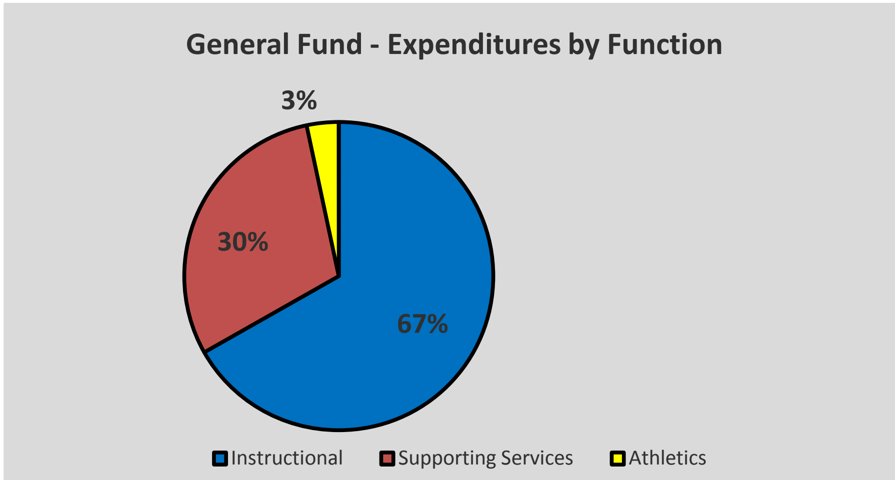
Foundation Allowance (State Aid)

The per pupil foundation allowance received is based on student enrollment. Enrollment is measured on two count days; the first Wednesday in October and the second Wednesday in February. The October count is weighted at 90% and the February count is weighted at 10%. In addition, new in 2013-14, FTE is allocated to students that transfer from one district to another between count days under Sec. 25e of the State School Aid Act. This increases the difficulty of budgeting as the final pupil count cannot be determined until this movement has been accounted for and certified.

As stated earlier, Sand Creek Community Schools has been experiencing an enrollment decline over the last 15 years. The preliminary enrollment number for the coming 2015/16 year is 895, down another 25 students and another $185,000 in lost revenue. The overall reduction in student count and the state funding that goes with it continues to put a financial strain on the district budget. As shown in the chart above, 89% of the districts revenue comes from the state, with much of that in the form of per-pupil funding. Therefore the enrollment decline is a huge concern for the district board and management. The district has been extremely careful and cautious with budget planning, spending and negotiations and this diligence has allowed the fund balance to grow in the most recent years. However, there was a decrease in the 14/15 fiscal year of $96,137 in the general fund ending fund balance. It the enrollment projections for the coming year hold true, the district will experience another hit to its fund balance. This will be a topic of discussion and planning in the coming months for the District management and board.

Expenses

As illustrated in the graph below, the majority of the district's expenditures is in instructional services and the second highest area in the various functions that support the instructional staff. Within these functions, most of the expenditures are incurred for employee compensation and benefits.



The District renewed its agreement with the Sand Creek Education Association (teacher's union) in August 2015 for another two years. This agreement kept much of the existing language, but included major changes in the Schedule B Extra-Curricular Pay agreement. Both the teacher's salary system and the extracurricular pay schedule have now eliminated the step salary system and replaced it with a new, leading edge salary agreement. These new salary agreements include performance pay schedules that are based on proposed raises and noncumulative (off-schedule) stipends based on a combination of fund balance level, current salary level and performance evaluations. We are very excited and proud that this new, ground-breaking agreement was renewed for another two years and that the extracurricular pay agreement with similar non-step characteristics was overwhelmingly approved with this renewal. With this performance pay system, the district's teachers have a performance goal to strive for that is linked to a financial reward. This provides personal satisfaction and accomplishment as well provides a direct benefit to our students in the classroom.

The district had one counselor retire at the end of the 2013/2014 year. This position was replaced by a first-year counselor in 2014/15, resulting in a savings to the district of approximately $30,000. MESSA health insurance premium rates increased by almost 10%. The district continues to save money by paying only 80% of the total health costs, with the employee paying the other 20%. The state retirement system has undergone many changes with the addition of new plans for newer members, resulting in varying rates. The state legislature has taken action to reduce the cost effect of increasing rates by using state funds to stabilize these rates. While this controls our retirement costs, it also uses state funds that could have otherwise been used for revenue increases.

The district did not make any major capital purchases within the general fund during the 2014/2015 school year. The purchase of a bus was delayed and is not planned for the 2015/2016 school year either. Sand Creek Community Schools is a rural district with all students being either transported by personal vehicles or on one of the district's 12 bus routes. The district management understands the necessity of keeping up the bus fleet and spreading out the cost of purchasing and replacing buses. A two year pause in a bus purchase is the limit to how long the District can put off this expenditure. Therefore, a bus must be budgeted and purchased in the

2016/2017 fiscal year. Fuel costs decreased by 17%, or $11,400, from the 2013/2014 fiscal year which was reflective of the lower prices at the pump. Energy costs stayed almost level with the 2013/2014 year. The last two winters have been fairly cold ones which has meant an increase to the district's heat and electric costs. In the past three years, our heat and electric costs have risen by $28,000 or almost 26%! The District continues to make every effort to contain and reduce costs through attrition, efficiency and cooperative service agreements while maintaining a competitive educational program to draw more students. However, with an overall decrease in the number of students both state-wide and county-wide, the efforts to increase enrollment in the district continues to be a struggle. The net results of the 2014/2015 school year was a decrease in the general fund balance of $96,137.

Excluding the effect of GASB 68 on its statements, the School District had a government-wide net position decrease of $43,231. The assets of the School District exceeded its liabilities at the close of the fiscal year by $5,833,946 (net position), excluding the effect of GASB 68.

General Fund and Special Revenue Fund Operations

The district's expenses from General Fund operations exceeded revenues by $96,137 for the fiscal year ended June 30, 2015. This final decrease was not far off from the district's original budget, which called for a decrease in fund balance of $111,137 for the year. This negative effect was a combination of lower enrollment (the 2014/15 school year was down by 7 students) and rising costs across the board. District management has always maintained that to operate at its capacity and best efficiency it needs 1,000 students. As the enrollment decreases and gets further away from this goal, the district's struggles to make ends meet will increase.

Overall, the district was pleased to end the year with this small decrease, considering the district's limited revenue resources and cost increases. At the end of the fiscal year, the fund balance for the School District's General Fund was $949,288, or 11.56%.

Revenues and expenses for the district's athletic program are combined with the General Fund at the end of the fiscal year. The School District's General Fund supports the athletic program every year. In 2014/2015, the general fund contributed funds of $274,473 towards coaching salaries, benefits and other athletic costs. Overall ticket sales have decreased for all athletic events and athletic trainer fees have increased due to a change in provider services.

The Lunch Fund (Food Service program) continues to support itself. The fund had a small net decrease at the end of the 2014/15 school year, a net result of an increase in operating revenues of $4,000 and an increase in expenses of $9,376. The district's free and reduced eligibility percentage stands near 45% and the district has implemented the new nutrition requirements within all areas of food sales during the school day. The Universal Free Breakfast program in our elementary program continues to be very successful, providing a free nutritious breakfast to over 80% of our elementary students.

Our food service management group works hard to use government commodities to provide nutritional and appetizing meals for our students and staff and keep costs down, while now abiding by federal regulations that limit choices and challenge staff to create menu choices that appeal to students. Food and labor costs have both increased since the inception of these new federal nutrition requirements. Healthy food is more expensive (as the saying goes) and more labor intensive to prepare and this has proven true for our food service staff. The district's food and milk sales to students and adults amounted to $184,096 for the fiscal year, up almost $10,000 from the prior year; state and federal funding totaled $306,260, a decrease of $6,415. Of this amount, $26,400 was commodity entitlement.

The food service program had an overall decrease to the fund balance of $4,054.

Long-Term Bonded Debt and Long-Term Notes

The District had $1,665,000 in long-term debt as of June 30, 2015. During the fiscal year ended June 30, 2015, total principal payments on long-term debt were $310,000. All of the district's long-term debt is covered below and in the following pages of this report in further detail.

	Principal Balance June 30, 2014	Additions June 30, 2015	Principal Payments June 30, 2015	Balance June 30, 2015
2009 Refunding Bonds	$1,235,000		180,000	$1,055,000
2012 Bond	740,000		130,000	610,000
Total long-term bond obligations	$1,975,000	$ 0	$310,000	$1,665,000

VOTED BOND DEBT

On September 25, 2000, the qualified electors of the School District approved a proposal authorizing the School District to issue bonds in the sum of not to exceed Two Million Eight Hundred Ninety Thousand ($2,890,000) for the purpose of erecting, furnishing, and equipping additions to and partially remodeling, refurnishing, and re-equipping the Sand Creek High School; and developing and improving the site. Significant improvements were made to the Jr/Sr High School Building with these funds. A new media center, open computer lab, and computer classrooms were just a few of the improvements. This was a 20 year bond issue with interest paid semiannually on May 1 and November 1, and principal payments due annually on May 1.

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2000 Voted Bond for the High School Addition and Renovation, is based on the taxable valuation of all properties: homestead and non-homestead. The School District levied 2.9 mills on a taxable value of almost $75 million in the 2000 tax roll. Between 2001 and 2008, the rate was reduced to 2.4 mills because of a sufficient increase in the taxable value of the school district. The District's taxable valuation has maintained and even increased slightly over the last few years, which has allowed us to continue to decrease this rate. In 2014, the millage rate was further reduced to 1.95 mills. During the fiscal year ended 2015, this 1.95 mills levied on a taxable valuation of $118,201,109 generated revenue of $232,557.

In September 2009, the district refunded these 2000 School Building and Site Voted Bonds. The district anticipates passing on a total reduced millage of .57 mills, and total net savings of $87,660, to its constituent taxpayers over the remaining years of the bond.

TECHNOLOGY AND BUS BONDS

On May 8, 2012, the qualified electors of the School District approved a proposal authorizing the School District to issue bonds in the sum of not to exceed Nine Hundred Seventy Thousand ($970,000) for the purpose of acquiring and installing educational technology improvements, infrastructure, furnishings and equipment in school buildings; and acquiring school buses. The closing of this bond occurred on July 17, 2012, with work to begin in August 2012. This was a 7 year bond issue with interest paid semiannually on May 1 and November 1, and principal payments due annually on May 1.

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2012 School Technology and Bus Bonds, is based on the taxable valuation of all properties: homestead and non-homestead. The district levied 1.22 mills beginning with the 2012 tax roll and continues to levy this same amount of mills. Final bond maturity is May 1, 2019.

During the fiscal year ended 2015, this 1.22 mills levied on a taxable valuation of $118,201,109 generated revenue of $144,163.

Net Investment in Capital Assets

At the end of fiscal year 2015, the School District had $11,978,381 invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, 5,743,299 in depreciation and amortization have been taken over the years. Our capital assets currently have a net book value of $6,235,082.

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Capital assets	$11,802,223	$176,158	-0-	$11,978,381
Less: Accumulated depreciation and amortization	(5,358,141)	(385,158)	-0-	(5,743,299)
Net investment capital outlay	$ 6,444,082	($209,000)	-0-	$6,235,082

Economic Factors, Enrollment and Budget Comparisons

The two main factors affecting the School District's revenue picture during the 2014-2015 fiscal year, and any fiscal year, were the State Foundation Allowance and Student Enrollment. Another important revenue factor is the Property Tax levied for General Operations on the District's non-homestead property value. These three revenue areas, and the effect they had on the District's fiscal year ended 2015, are explained in more detail below.

State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

a. State of Michigan State Aid Act per student foundation allowance
b. Student Enrollment – Blended at 90 percent of current year's fall count and 10 percent of prior year's winter count
c. The District's non-homestead levy

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. For the 2014-2015 fiscal year, the Sand Creek Community School's foundation allowance was $7,126, an increase of $100 per student from the prior year. This increase was the result of a minimum foundation increase approved as part of the 2014/15 School Aid Package. Sand Creek Schools is at the minimum funding level. The state legislature also offered three different one-time revenue sources; the Best Practice Incentive, the MPSERs Cost Offset and a $125 per student Foundation Equity Payment for minimum foundation districts. An additional $224,816 was gained from these three different sources.

Student Enrollment:

The District's student enrollment for the fall count of 2014-15 was 919 students. The school district has experienced an overall decline in enrollment. In September 2005 the enrollment was 975 and in September 2008 it had fallen to 913. It has remained fairly steady through September 2015. The following summarizes fall student enrollments in the past thirteen years:

	Student FTE	FTE Change from Prior Year
2014-15	919	(.96%)
2013-14	928	(1.83%)
2012-13	945	1.29%
2011-12	933	0.21%
2010-11	931	(0.21%)
2009-10	933	2.19%
2008-09	913	(0.77%)
2007-08	920	(1.52%)
2006-07	934	(4.39%)
2005-06	975	2.96%
2004-05	947	(2.87%)
2003-04	975	(.51%)
2002-03	980	0%
2001-02	980	

A preliminary enrollment figure of 895 for the 2015-2016 school year shows a decrease of 24 students. At the close of the 2014/2015 school year, the district graduated a class of 65 seniors and enrolled a very small 2015-16 kindergarten class of 45 (not including students already in Young 5s class). The District is currently averaging class sizes that range between 65-75;

therefore this drop in over 20 students is a concern. Graduating larger classes in the high school and bringing in smaller kindergarten classes has a major impact on the budget picture. While the District hopes this low kindergarten class is an anomaly, we will continue to watch the budget and trending enrollment figures closely.

In the 2014-2015 school year, 408 guest students from 7 other county school districts were accepted for enrollment at Sand Creek Schools. This amounts to 44% of the district's total enrollment in 2014-2015. In the past 15 years since "Schools of Choice" began at the school district, the number of choice students has continued to grow. However, the number of resident students has decreased. Overall student enrollment is continuing to decrease across both the state and county.

Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable increase in property value is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. This non-homestead tax levy will be up for renewal again in November of 2020. Total authorized millage is currently 18.337, although the district only levies the 18.0 mills allowable by law.

The District's non-homestead property revenue for the 2014-15 fiscal year was $232,557.

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Sand Creek Community Schools amends its budget periodically during the school year. The June 29, 2015 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

General Fund Revenues:

Total Revenues - Original Budget	$ 7,713,277
Total Revenues - Final Budget	8,091,733
Increase in Budgeted Revenues	$ 378,456

The District's final, actual general fund revenue was $8,105,467; which was more than the final budget by $13,734, an increase of only .17% percent from final budget. This difference came mainly from the better than projected athletic ticket sales of $4,794 for the year, along with an unexpected donation towards athletic expenditures of $5,000.

The final revenue budget was more than originally projected by $378,456. Actual revenues were larger than budgeted due to the recording of the UAAL Rate Stabilization revenue for 2014/2015. The District does not include these MPSERS 147c UAAL funds in the original budget. Because this categorical line item is an "in and out"; meaning it comes in as a revenue line item on our State Aid Status report and then is paid back out to ORS the following month, the District waits to adjust both the revenue and expenditures for this same amount in the final budget amendment of the year. The amount of the 147c UAAL funding for 2014/2015 was $382,994, making up almost all of the difference between the original and final approved budgets.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	$ 7,824,414
Total Expenditures Final Budget	8,220,589
Increase in Budgeted Expenditures	$ 396,175

The final expenditure budget was more than originally projected by $396,175. As previously stated above in the revenue section, the district did not originally budget for the effect of the UAAL Rate Stabilization 147c on either revenue or expense. As directed by the Michigan Department of Education, the district amended its revenue and expenditure budget to account for this state aid line item. The effect on the expenditure budget was an increase of $382,994 which made up almost all of the increase between the original and final approved budgets. Other changes that occurred after the budget was adopted was the retirement stipend pay-out of two teachers, amounting to $61,800. The district takes a conservative approach to preparing a budget based on what we know at that time. Often the first amendment to the budget includes many changes and the net effect is usually a gain to fund balance based on the conservative approach to the original budget.

The School District's final, actual expenditures were $8,212,307, less than final budget by only $8,282, or less than 1%. With the decreasing enrollment across the state and uncertain state aid revenue, the district has been very conservative with its spending. The district will continue this careful watch of spending through the upcoming fiscal year. A final budget revision was done in June. The philosophy of the district is to be conservative with the budgeting while being as accurate as possible, but also allowing room in the budget for the unknowns. We came in very close to accurate with being less than 1% off the final budget figure.

The district will continue to revise budgets in June in order to budget as close to actual as possible. By doing budget revisions in June, the fiscal year will be closer to completion and there will be fewer unknowns to plan for.

The General Fund had total revenues of $8,116,170 and total expenditures of $8,212,307 with an ending fund balance of $949,288, with an unassigned fund balance of $895,883. The unassigned ending fund balance was 10.91%.

NEXT YEAR'S BUDGETS
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

For the 2015/2016 school year the non-homestead millage remained at 18.00 mills. Levying the full amount on these properties is crucial in order for the district to receive the full Foundation Allowance per pupil. The non-homestead millage was renewed by the District's voters in November 2013 for seven years and a Headlee rollback is not expected in the current economic climate.

Two of the most important factors impacting the budget are the student count and the uncertainty in the state school aid foundation allowance, Unfortunately, it is difficult for School District's to know exactly how many students will attend and be counted on those two critical pupil count days

(October and February) of each school year. In addition, Sec 25 is now in effect, which allows the foundation allowance to follow the movement of the student from district to district between the two annual count dates.

Under state law, the District cannot assess additional property tax revenue for general operations. As a results, District funding is heavily dependent on the State's ability to fund local school operations and on its total student enrollment. Since over 80% of the total General Fund revenues are from the foundation allowance, school districts are in a position to compete for its share of a dwindling enrollment base. Since Sand Creek Community Schools has an enrollment that has been declining, and is projected to decline again in the 2015/2016 school year, this is a matter of concern for the District.

In summary, the overall financial strength of the District decreased during the 2014/2015 school year by $96,137. Decreasing enrollment and the unpredictability of state funding are concerns for the district. Management will continue to exercise caution with all decisions having an impact on the financial position of the District. Management will focus their attention on maintaining and improving the quality of the educational programs and atmosphere of the district to retrain and attract families and students to the district. At the same time, careful evaluation of all expenditures over the next year will be a priority by management while seeking to reduce expenditures where possible. New revenues from local sources such as the formation of endowments, grants and other sources ill continue to be a goal of Management going forward. In spite of these challenging obstacles, Management remains committed to excellence in serving our students and community.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office at Sand Creek Community Schools:

Ms. Sharon Smith
Chief Financial Officer
Sand Creek Community Schools
6518 Sand Creek Hwy
Sand Creek, MI 49279
Phone (517) 436-3108, Fax (517) 436-3143

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sand Creek Community Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the schools 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages i through xi and page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sand Creek Community Schools basic financial statements. The introductory section, combining and individual non major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

Prior-Year Comparative Information

We have previously audited Sand Creek Community Schools 2014 financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units , each major fund, and the aggregate remaining fund information in or report dated October 15, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2015 on our consideration of Sand Creek Community School's internal control over financial reporting and 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 Sand Creek Community School's internal control over financial reporting and compliance.

Baker, Eaton, & Owen
Adrian, Michigan

October 15, 2015

SAND CREEK COMMUNITY SCHOOLS
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

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The notes to the financial statements are an integral part of this statement

SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014
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The notes to the financial statements are an integral part of this statement

SAND CREEK COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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The notes to the financial statements are an integral part of this statement

SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

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The notes to the financial statements are an integral part of this statement

The notes to the financial statements are an integral part of this statement

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District is governed by the Board of Education (the "Board") of Sand Creek Community Schools, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities.

Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the Statement of Net Position. Amounts reported in the funds as receivable from or payable to Fiduciary Funds are included in the Statement of Net Position as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues.*

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts – invested in capital assets net of related debt; restricted net position; and unrestricted net position.

The District first utilizes restricted resources to finance qualifying activities.

This government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating 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, intermediate district sources, interest income, and other revenues).

The District does not allocate indirect costs.

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

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

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds. Effective July 1, 2010, the school district has implemented their Fund Balance Policy in Accordance with GASB Statement No. 54 as follows:

Purpose. The following has been adopted by the Board of Education in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services. This policy will ensure that the District maintains adequate fund balance and reserves in order to:

a. Provide sufficient cash flow for daily financial needs,

b. Secure and maintain investment grade bond ratings,

c. Offset significant economic downturns or revenue shortfalls, and

d. Provide funds for unforeseen expenditures related to emergencies.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

This policy and the procedures promulgated under it supersede all previous regulations regarding the District's fund balances and reserve policies.

Fund type definitions. The following definitions will be used in reporting activity in governmental funds across the District. The District may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

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

Special revenue funds are used to account and report the proceeds of *specific revenue sources* that are *restricted or committed* to expenditure for *specific purposes* other than debt service or capital projects.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the District's purposes.

Fund balance reporting in governmental funds. Fund balance will be reported in governmental funds under the following categories:

Nonspendable fund balance

Definition – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact.

Classification – Nonspendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The District will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the government).
- The District will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance).
- The District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact.
- The District will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Restricted fund balance

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers; or through enabling legislation.

Committed fund balance

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority (i.e., the Board of Education).

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the Board of Education. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

Assigned fund balance

Definition – includes amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign – The Board of Education delegates to the Superintendant or his/her/their designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance

Definition – includes the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Operational guidelines. The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display or encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the District to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

The District reports the following major governmental funds:

The G*eneral Fund*

The *Capital Projects Fund*

Other Non-major Funds

The S*pecial Revenue Fund*

The *Debt Service Fund*

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust Funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary Funds are not included in the government-wide statements.

Expendable Trust and Agency Fund

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. It is used to account for assets that the District holds for others in an agency capacity, primarily student activities.

The *Expendable Trust Fund* is used to account for assets held by the District in a trustee capacity for scholarships. The principal and earnings may be spent.

Nonexpendable Trust Fund

The *Nonexpendable Trust Fund* is used to account for assets held by the District in a trustee capacity for scholarships. Only the earnings may be spent.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2015, the foundation allowance was based on pupil membership counts taken in February and September of 2014.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2014 to August 2015. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

   The District reports its investments in accordance with GASB Codification I50 Para 105-119, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

   State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.

   The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District has adopted a deposit and investment policy in accordance with GASB Codification I50 Para 105-119.

2. Property Taxes

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

For the year ended June 30, 2015, the District levied the following amounts per $1,000 of assessed valuation.

Fund		Mills
General Fund	(Non-homestead)	18.0000
Capital Projects	(Homestead & Non-homestead)	1.8454
Capital Projects	(Homestead & Non-homestead)	1.2200
Debt Fund	(Homestead & Non-homestead)	2.0000

3. Accounts Receivable

Accounts receivable at June 30, 2015 have been determined to be collectible in full.

4. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the Special Revenue Funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and equipment	5 – 20 years
Transportation equipment	5 – 7 years

The District’s capitalization policy is to capitalize individual amounts exceeding $3,500.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Use of Estimates

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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *no*t be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unearned revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source; receipts that exceeded 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Two functions in the General Fund had actual expenditures exceeding budget but expenditures overall did not exceed appropriations.

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

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

2. Public hearings are conducted to obtain taxpayer comments.

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

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

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

6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2015. The District does not consider these amendments to be significant.

7. The following schedule displays the expenditure functions exceeding budgeted amounts:

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SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 3. DEPOSITS AND INVESTMENTS – CREDIT RISK

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2015, $1,325,107 of the District's bank balance of $1,575,107 was exposed to custodial credit risk as follows:

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Investments

The District's investment is a certificate of deposit with Old National Bank of $27,394 at June 30, 2015.

Interest Rate Risk: The District will minimize interest rate risk, which is the risk that the market value of securities invested will fall due to changes in market interest rates, by: structuring the investments so that they mature to meet cash requirements for ongoing operations and thus avoiding the need to sell in the open market; and by investing in shorter-term securities.

NOTE 4. INTERGOVERNMENTAL RECEIVABLES

Due from governmental units June 30, 2015 consist of the following:

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NOTE 5. CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

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NOTE 5. CAPITAL ASSETS (continued)

Depreciation is computed by the straight line method for all classes of assets. Depreciation or the fiscal year ended June 30, 2015 and 2014 amounted to $385,158 and $349,786, respectively. The District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

NOTE 6. LONG-TERM DEBT

In September 2009, the school district issued 2009 Sand Creek Community Schools, County of Lenawee, State of Michigan Refunding Bonds in the amount of $1,865,000 (General Obligation-Unlimited Tax) to be used to refund the 2000 School Building and Site Bonds outstanding of $1,925,000. The net interest savings is estimated at $87,660 over the life of the Refunding Bonds. Savings included in the June 30, 2015 financial statements is $1,986. A schedule of the bonds and the representative interest payments due from 2015 through 2020 is as follows:

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The School District has issued a general obligation bond issue, dated July 17, 2012, for the purpose of renovating existing school facilities for technology, purchase of computers and purchase of new buses. The bond issue for $970,000 has an interest rate of 2.375% to 2.5%.

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NOTE 6. LONG-TERM DEBT (Continued)

The following is a schedule of the governmental long term obligations for the District for the year ended June 30, 2015:

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The debt service requirements of governmental activities at June 30, 2015 are as follows:

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SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7. SHORT TERM DEBT

State school aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The District has pledged its State aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the District.

The District issued a state aid anticipation note in the 2014-15 fiscal year in the amount of $700,000. Note Series A is $500,000, set aside at an interest rate of 0.42% with a maturity date of July 2015; note Series B is $110,000, non set aside at an interest rate of 1.05%, and note Series C is $90,000, non set aside at an interest rate of 1.235%. Notes Series B and C have a maturity date of August 2015.

Short-term debt activity for the fiscal year ended June 30, 2015 is as follows:

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Interest paid and accrued was $6,989 for the fiscal year

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

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 retirant from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retirant from a classroom teaching position.
- One retirant 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.

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

ORGANIZATION (Continued)

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’s financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

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

Membership

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

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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.

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Benefits Provided (Continued)

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former 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, through 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: 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 beginning on page 23. 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.

Employee Contributions

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

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

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 reporting unit 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 ($25.8) billion.

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Reserves (Continued)

Reserve for Pension Plus Employer Contributions - This reserve represents all reporting unit 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.

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

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 "antialienation" 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.

Cost 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.

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

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 Postemployment 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.

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." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). 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 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

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NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

CONTRIBUTIONS AND FUNDING STATUS (Continued)

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 – Non-University

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Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the reporting unit's proportionate share between beginning net pension liability and ending net pension liability.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

MPSERS (Plan) Net Pension Liability – Non-University *(Continued)*

Error! Not a valid link.*Proportionate Share of Reporting Unit's Net Pension Liability*

At September 30, 2014, the Reporting Unit reported a liability of $ 11,470,024 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 Reporting Unit's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the Reporting Unit's proportionate share percent was .05207 percent.

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:
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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 reporting unit'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 reporting unit'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:

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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.

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Actuarial Valuations and Assumptions (Continued)

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

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- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- Recognition period for assets in years is 5.0000

- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

NOTE 8. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended June 30, 2015 the Reporting Unit recognized total pension expense of $929,077. At June 30, 2015 the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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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 (to be recognized in future pension expenses:

Plan Year ended September 30

2015	$	(206,981)
2016	$	(206,981)
2017	$	(206,981)
2018	$	(223,958)

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are accrued based on the ultimate cost of the experience to date of participating members. The District cannot estimate any losses from reported and unreported claims at June 30, 2015. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2015 or any of the prior three years.

NOTE 10. INTERFUND BALANCES

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be repaid within one year.

A schedule of interfund balances follows:

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NOTE 11. INTERFUND TRANSFERS

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. There were no interfund transfers in the year ending June 30, 2015.

NOTE 12. NET POSITION RESTRICTED BY ENABLING LEGISLATION

Net position

The government-wide statement of net position reports $164,105 of restricted net position at June 30, 2015, all of which is restricted by enabling legislation.

NOTE 13. SUBSEQUENT EVENTS

The School District has reviewed subsequent events from June 30, 2015 to the date that the financial statements were available on October 15, 2015 and determined that no additional disclosures need be made.

NOTE 14. COMPARABILITY

On July 1, 2014 the school district implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Statement requires governments that participate in a defined benefit pension plan to report in their statement of net position a net pension liability. As of July 1, 2014 that pension liability was estimated at $12,200,946 The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The Sand Creek Community School District is considered a cost-sharing employer, which requires the district to record a liability and expense for the cost-sharing plan in the statement of net position. The expense represented as deferred outflows of pension resources as of June 30, 2014 of $916,336 was applied to the Statement of Activities as a restatement. The deferred outflows of pension resources was the amount paid for pension costs from October 1, 2013 through June 30, 2014. These changes resulted in a net change in the Unrestricted Net Position of $10,284,610 as of June 30, 2014.

NOTE 1: CHANGES OF BENEFIT TERMS

There were no changes of benefit terms in 2013.

NOTE 2: CHANGES OF ASSUMPTIONS

There were no changes of benefit assumptions in 2013.

SAND CREEK COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

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See notes to financial statements

SAND CREEK COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOLS EMPLOYEES RETIREMENT PLAN
LAST 10 REPORTING UNIT FISCAL YEARS (AMOUNT DETERMINED AS OF 6/30 OF EACH YEAR)

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SAND CREEK COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REPORTING UNIT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOLS EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNT DETERMINED AS OF 9/30 OF EACH YEAR)

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See notes to financial statements

SAND CREEK COMMUNITY SCHOOLS
BALANCE SHEET
CAPITAL PROJECTS FUND
JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

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See notes to financial statements

SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
SPECIAL REVENUES FUNDS
JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

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SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONEXPENDABLE TRUST FUNDS
JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

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See notes to financial statements

SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

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See notes to financial statements

SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
EXPENDABLE TRUST AND AGENCY FUNDS
JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014

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See notes to financial statements

SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2014

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See notes to financial statements

SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2015

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See notes to financial statements

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

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Sand Creek Community Schools (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 15, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance.

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

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

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

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

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

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

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

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Criteria: Adequate design of internal control over the complete preparation of the financial statements and footnotes being audited.

Cause: The District does not have personnel with level of knowledge to update the footnotes completely.

Effect: The District's design uses a template to prepare the financial statements, and prepares the footnotes with the best available information, however, may not be able to detect and correct misstatements timely.

Recommendation: From information gleaned from various seminars attended, consider gathering information on footnotes that will fit the School's needs, and apply appropriately.

Management's Response: The School District has evaluated the manner in which they prepare the financial statements and footnotes to those financial statements and will attempt to follow the recommendation made. However, the cost associated with this is not justified by the expected benefits.

COMPLIANCE AND OTHER MATTERS

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

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

PURPOSE OF THIS REPORT

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

Baker, Eaton & Owen
Adrian, Michigan

October 15, 2015