



# WEINLANDER FITZHUGH

REESE PUBLIC SCHOOLS  
REESE, MICHIGAN

FINANCIAL STATEMENTS  
JUNE 30, 2016

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# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

## INDEPENDENT AUDITOR'S REPORT

September 7, 2016

Board of Education  
Reese Public Schools  
Reese, 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 Reese Public Schools (School District), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Reese Public Schools as of June 30, 2016 and the respective changes in financial position for the year then ended in accordance with U.S. generally accepted accounting principles.

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Board of Education  
Reese Public Schools  
September 7, 2016

## ***Other Matters***

### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information and pension schedules as noted in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, 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 School District's basic financial statements. The combining nonmajor fund financial statements and schedules of bonded indebtedness are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is also not a required part of the basic financial statements.

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



# WEINLANDER FITZHUGH

Board of Education  
Reese Public Schools  
September 7, 2016

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 7, 2016, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Weinlander Fitzhugh*

**REESE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016

Our discussion and analysis of Reese Public Schools' (School District) financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2016.

**Financial Highlights**

The School District's net position decreased by \$553,790 or 11%. Program revenues were \$2,050,123 or 25% of total revenues, and general revenues were \$6,186,943 or 75%.

The General Fund reported a positive fund balance of \$1,128,809. The Capital Projects Fund reported a positive fund balance of \$829,419. The 2015 Debt Retirement Fund reported a positive fund balance of \$587,875.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and 2015 Debt Retirement Fund and Capital Projects Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students. The following summarizes the presentation included in this annual financial report.

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

Basic Financial Statements

- District-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Pension Schedules (Required Supplemental Information)

Other Supplemental Information

REESE PUBLIC SCHOOLS  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016

**Reporting the District as a Whole**

*The Statement of Net Position and Statement of Activities*

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

These two statements report the School District's net position as a way to measure the School District's financial position. The change in net position provides the reader a tool to assist in determining whether the School District's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the School District.

**Reporting the District's Most Significant Funds**

*Fund Financial Statements*

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants and other sources of revenue. The School District's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

*Fiduciary Funds*

The School District is the trustee, or fiduciary, for its student activity funds and scholarship funds. All of the School District's fiduciary activities are reported in separate statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these activities from the School District's other financial statements because the assets cannot be utilized by the School District to finance its operations.



**REESE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2016

**District-wide Financial Analysis**

The statement of net position provides the perspective of the School District as a whole. Exhibit A provides a summary of the School District's net position as of June 30, 2016 and 2015:

<b>Exhibit A</b>	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current and other assets	\$ 4,183,284	\$ 4,191,871
Capital assets - net of accumulated depreciation	7,434,707	8,023,942
Total assets	<u>11,617,991</u>	<u>12,215,813</u>
<b>Deferred Outflows of Resources</b>		
Related to refunding	125,617	134,809
Related to pensions	1,224,136	691,791
Total deferred outflows of resources	<u>1,349,753</u>	<u>826,600</u>
<b>Liabilities</b>		
Current liabilities	1,909,869	1,847,162
Long-term liabilities	16,450,640	15,665,634
Total liabilities	<u>18,360,509</u>	<u>17,512,796</u>
<b>Deferred Inflows of Resources</b>		
Related to pensions	318,102	1,030,709
<b>Net Position</b>		
Net investment in capital assets	1,864,707	2,163,942
Restricted	1,380,295	1,713,281
Unrestricted	(8,955,869)	(9,378,315)
Total net position	<u>\$ (5,710,867)</u>	<u>\$ (5,501,092)</u>

The analysis above focuses on net position (see Exhibit A). The School District's net position was \$(5,710,867) at June 30, 2016. Investment in property and equipment, net of related debt totaling \$1,864,707, compares the original costs less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt requirements and legislation that limit the School District's ability to use the net position for day-to-day operations.

The \$(8,955,869) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

**REESE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2016**

The School District implemented GASB Statement No. 68 in 2015. The effect of this Statement required the School District to report in the summary of net position, a liability of \$10,457,744 for 2016 and \$9,378,315 for 2015.

The results of this year's operations for the School District as a whole are reported in the statement of activities. Exhibit B provides a summary of the changes in net position for the years ended June 30, 2016 and 2015.

<b>Exhibit B</b>	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
<b>Revenues</b>		
Program revenue:		
Charges for services	\$ 335,931	\$ 276,682
Grants and categoricals	1,714,192	1,779,435
General revenue:		
Property taxes	2,003,766	2,081,303
State aid	5,217,470	5,158,936
Loss on disposal of capital assets	(1,151,484)	0
Other	117,191	105,888
Total revenues	<u>8,237,066</u>	<u>9,402,244</u>
<b>Function/Program Expenses</b>		
Instruction	4,882,217	5,043,259
Support services	2,632,757	2,782,777
Community services	37,959	36,569
Food services	412,659	398,917
Athletics	260,189	245,275
Capital outlay	12,849	60,114
Interest on long-term debt	208,018	136,544
Depreciation (unallocated)	344,208	318,309
Bond issuance costs	0	100,902
Total expenses	<u>8,790,856</u>	<u>9,122,666</u>
<b>Change in Net Position</b>	<u>\$ (553,790)</u>	<u>\$ 279,578</u>

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$8,790,856. Certain activities were partially funded from those who benefited from the programs, \$335,931, or by the other governments and organizations that subsidized certain programs with grants and categoricals of \$1,714,192. We paid for the remaining "public benefit" portion of our governmental activities with \$2,003,766 in taxes, \$5,217,470 in State Aid and with our other revenues, such as interest and entitlements.

The School District had a decrease in net position of \$553,790. The major reason was the loss on disposal of the middle school building, which was an impaired asset at the end of the fiscal year. The decrease in net position differs from the change in fund balance and a reconciliation appears in the financial statements.

**REESE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2016

**The School District's Funds**

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

The School District's governmental funds reported a combined fund balance of \$2,615,424, which is below last year's total of \$2,682,708. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2016 and 2015.

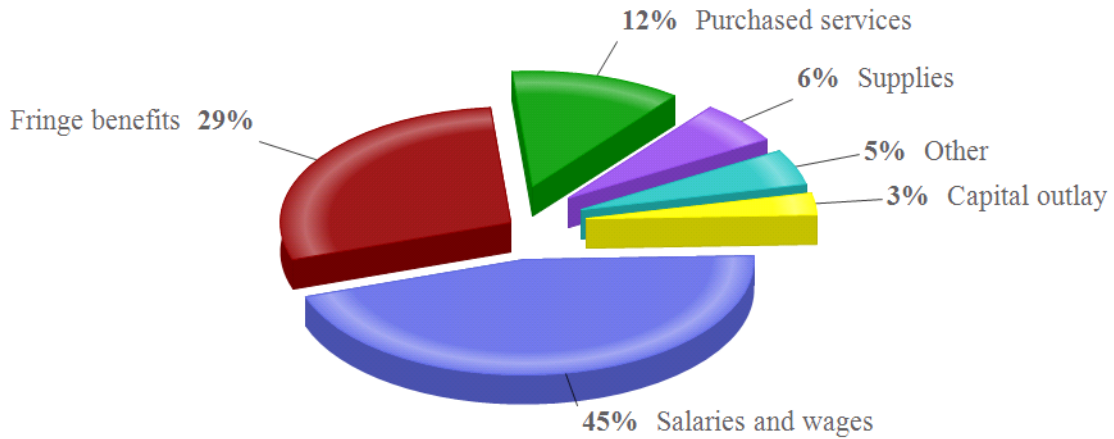
	<u>Fund Balance</u> <u>6/30/2016</u>	<u>Fund Balance</u> <u>6/30/2015</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 1,128,809	\$ 921,428	\$ 207,381
Capital Projects	829,419	1,243,342	(413,923)
Debt Retirement	587,875	458,932	128,943
Special Revenue	69,321	59,006	10,315
	<u>\$ 2,615,424</u>	<u>\$ 2,682,708</u>	<u>\$ (67,284)</u>

- Our General Fund increase is mainly attributable to an increase in students than was originally budgeted for.
- Our Capital Projects Fund decreased due to a large renovation project of moving the middle school to the high school.
- Our Special Revenue Fund increased due to increased lunch prices and doing breakfast in the classroom B4K through eighth grade.
- Our Debt Service Funds increased due to collecting debt funds based on a large amount of tax tribunals currently in court.

**REESE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2016

As the graph below illustrates, the largest portions of General Fund expenditures are for salaries and fringe benefits. The School District by nature is a labor intensive organization.

Expenditures



<u>Expenditures by Object</u>	<u>2016</u>	<u>2015</u>
Salaries and wages	\$ 3,628,893	\$ 3,616,428
Fringe benefits	2,324,629	2,186,072
Purchased services	942,852	1,024,172
Supplies	485,437	466,756
Capital outlay	240,903	88,315
Other	382,448	399,737
Total	<u>\$ 8,005,162</u>	<u>\$ 7,781,480</u>

Expenditures have increased by \$223,682 mainly due to the increase in wages and insurance. Also, the retirement rate was increased due to Section 147c. In addition, we purchased two buses off of lease.

**REESE PUBLIC SCHOOLS**  
**Management's Discussion and Analysis**  
For the Year Ended June 30, 2016

**General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenues were increased due to an increase in students.
- Final budgeted expenditures for 2016 were increased due to an increase in expenses in transportation.
- Actual revenues were lower than budgeted amounts by \$41,041 due to a grant extending for an additional year.
- Actual expenditures were lower than budgeted amounts by \$248,411 due to lower than expected utility and supply costs. No significant individual variance noted.

**Capital Assets**

At June 30, 2016, the School District had \$7,434,707 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions and disposals) of 7% from last year.

	2016	2015
Land	\$ 519,823	\$ 519,823
Buildings and improvements	11,614,757	13,285,056
Buses and other vehicles	645,709	565,130
Furniture and equipment	235,021	231,435
Total capital assets	13,015,310	14,601,444
Less accumulated depreciation	5,580,603	6,577,502
Net capital assets	\$ 7,434,707	\$ 8,023,942

This year's additions of \$906,457 were for the remodel of the high school building to accommodate middle school students, shop loft, wireless system and buses. No debt was issued for these additions.

The decrease in total capital assets during the year is attributed to the disposal of the middle school building, which was an impaired asset at the end of the fiscal year. This resulted in a loss on disposal of \$1,151,484.

We anticipate capital additions will continue with the renovations to the high school. Also, we will continue to upgrade parking lots, boilers, roofs and building systems. We present more detailed information about our capital assets in the notes to the financial statements.

**REESE PUBLIC SCHOOLS**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2016

**Debt**

At the end of this year, the School District had \$5,570,000 in bonds outstanding versus \$5,860,000 in the previous year - a decrease of 5%.

	<u>2016</u>	<u>2015</u>
2015 Improvement Bonds	<u>\$ 5,570,000</u>	<u>\$ 5,860,000</u>

**Factors Expected to have an Effect on Future Operations**

Our elected Board and administration considered many factors when setting the School District's 2017 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2017 fiscal year budget was adopted in June 2016, based on an estimate of students that will be enrolled in September 2016. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2016-2017 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2017 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation until 2016-2017.

**Requests for Information**

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Office of the Superintendent  
Reese Public Schools  
1696 VanBuren  
Reese, MI 48757

REESE PUBLIC SCHOOLS  
Statement of Net Position  
June 30, 2016

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 2,773,254
Receivables - net:	
Taxes	5,597
Due from other governmental units	1,369,607
Accounts receivable	15,866
Deposits	18,960
Capital assets less accumulated depreciation \$5,580,603	<u>7,434,707</u>
Total assets	<u>11,617,991</u>
<u>Deferred Outflows of Resources</u>	
Related to pensions	1,224,136
Loss on bond refunding	<u>125,617</u>
Total Deferred Outflows of Resources	<u>1,349,753</u>
<u>Liabilities</u>	
Accounts payable	9,049
Unearned revenue	45,863
Accrued interest payable	37,009
Accrued payroll and other liabilities	647,909
State aid anticipation note payable	865,039
Long-term liabilities:	
Due within one year	305,000
Due in more than one year	5,992,896
Net pension liability	<u>10,457,744</u>
Total liabilities	<u>18,360,509</u>
<u>Deferred Inflows of Resources</u>	
Related to pensions	<u>318,102</u>
<u>Net Position</u>	
Net investment in capital assets	1,864,707
Restricted for debt service	550,876
Restricted for capital projects	829,419
Unrestricted	<u>(8,955,869)</u>
Total net position	<u>\$ (5,710,867)</u>

See accompanying notes to financial statements.

REESE PUBLIC SCHOOLS  
Statement of Activities  
For the Year Ended June 30, 2016

	Program Revenues			Governmental Activities
Expenses	Charges for Services	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 4,882,217	\$ 142,384	\$ 1,290,579	\$ (3,449,254)
Support services	2,632,757	0	113,489	(2,519,268)
Community services	37,959	21,460	0	(16,499)
Food services	412,659	98,576	310,124	(3,959)
Athletics	260,189	73,511	0	(186,678)
Capital outlay	12,849	0	0	(12,849)
Interest on long-term debt	208,018	0	0	(208,018)
Depreciation (unallocated)	344,208	0	0	(344,208)
	<u>\$ 8,790,856</u>	<u>\$ 335,931</u>	<u>\$ 1,714,192</u>	<u>(6,740,733)</u>
Total governmental activities				
General revenues:				
Taxes:				
Property taxes, levied for general purposes				958,072
Property taxes, levied for capital projects				364,424
Property taxes, levied for debt services				681,270
State aid				5,217,470
Interest and investment earnings				327
Loss on disposal of capital assets				(1,151,484)
Other				116,864
				<u>6,186,943</u>
Total general revenues				
Change in net position				<u>(553,790)</u>
Net position - beginning of year				(5,501,092)
Prior period adjustment				<u>344,015</u>
Net position - beginning of year, restated				<u>(5,157,077)</u>
Net position - end of year				<u>\$ (5,710,867)</u>

See accompanying notes to financial statements.



**REESE PUBLIC SCHOOLS**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2016**

	General	Capital Projects	2015 Debt Retirement	Other Nonmajor Governmental Funds	Total
<u>Assets</u>					
Cash and investments	\$ 1,285,761	\$ 827,692	\$ 584,712	\$ 75,089	\$2,773,254
Receivables - net:					
Taxes	707	1,727	3,163	0	5,597
Due from other funds	1	0	0	1,570	1,571
Due from other governmental units	1,364,897	0	0	4,710	1,369,607
Accounts receivable	15,866	0	0	0	15,866
Deposits	18,960	0	0	0	18,960
	<u>\$ 2,686,192</u>	<u>\$ 829,419</u>	<u>\$ 587,875</u>	<u>\$ 81,369</u>	<u>\$4,184,855</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 9,049	\$ 9,049
Due to other funds	1,570	0	0	1	1,571
Unearned revenue	42,865	0	0	2,998	45,863
Accrued payroll and payroll taxes	647,909	0	0	0	647,909
State aid anticipation note payable	865,039	0	0	0	865,039
	<u>1,557,383</u>	<u>0</u>	<u>0</u>	<u>12,048</u>	<u>1,569,431</u>
<u>Fund Balance</u>					
Restricted for debt service	0	0	587,875	0	587,875
Restricted for capital projects	0	829,419	0	0	829,419
Restricted for food service	0	0	0	69,321	69,321
Unassigned	1,128,809	0	0	0	1,128,809
	<u>1,128,809</u>	<u>829,419</u>	<u>587,875</u>	<u>69,321</u>	<u>2,615,424</u>
Total liabilities and fund balance	<u>\$ 2,686,192</u>	<u>\$ 829,419</u>	<u>\$ 587,875</u>	<u>\$ 81,369</u>	<u>\$4,184,855</u>

See accompanying notes to financial statements.

**REESE PUBLIC SCHOOLS**  
**Reconciliation of Balance Sheet of Governmental Funds**  
**to the Statement of Net Position**  
June 30, 2016

Total fund balance - governmental funds	\$ 2,615,424
<p>Amounts reported for governmental activities in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and are not reported in the funds</p>	
Cost of the capital assets	13,015,310
Accumulated depreciation	(5,580,603)
<p>Deferred outflows used in governmental activities are not financial resources and therefore are not reported in governmental funds:</p>	
Related to pensions	1,224,136
Loss on bond refunding	125,617
<p>Long-term liabilities are not due and payable in the current period and are not reported in the funds:</p>	
Bonds payable	(5,570,000)
Compensated absences	(136,000)
Unamortized debt premium	(591,896)
Net pension liability	(10,457,744)
Accrued interest payable is included as a liability in governmental activities	(37,009)
<p>Deferred inflows used in governmental activities are not recognized as current resources and therefore are not reported in governmental funds:</p>	
Related to pensions	(318,102)
Total net position - governmental activities	\$ (5,710,867)

See accompanying notes to financial statements.

**REESE PUBLIC SCHOOLS**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**For the Year Ended June 30, 2016**

	<u>General</u>	<u>Capital Projects</u>	<u>2015 Debt Retirement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
<b><u>Revenues</u></b>					
Local sources					
Property taxes	\$ 958,072	\$ 364,424	\$ 681,270	\$ 0	\$ 2,003,766
Other local sources	264,196	0	0	112,850	377,046
State sources	6,188,134	0	0	16,969	6,205,103
Federal sources	686,892	0	0	293,155	980,047
Interdistrict and other sources	115,249	0	0	0	115,249
Total revenues	<u>8,212,543</u>	<u>364,424</u>	<u>681,270</u>	<u>422,974</u>	<u>9,681,211</u>
<b><u>Expenditures</u></b>					
Current:					
Instruction	4,921,335	0	0	0	4,921,335
Support services	2,785,679	0	0	0	2,785,679
Community services	37,959	0	0	0	37,959
Athletics	260,189	0	0	0	260,189
Food services	0	0	0	412,659	412,659
Capital outlay	0	778,347	0	0	778,347
Principal	0	0	290,000	0	290,000
Interest and other	0	0	262,327	0	262,327
Total expenditures	<u>8,005,162</u>	<u>778,347</u>	<u>552,327</u>	<u>412,659</u>	<u>9,748,495</u>
Net change in fund balance	207,381	(413,923)	128,943	10,315	(67,284)
Fund balance - beginning of year	<u>921,428</u>	<u>1,243,342</u>	<u>458,932</u>	<u>59,006</u>	<u>2,682,708</u>
Fund balance - end of year	<u>\$1,128,809</u>	<u>\$ 829,419</u>	<u>\$ 587,875</u>	<u>\$ 69,321</u>	<u>\$ 2,615,424</u>

See accompanying notes to financial statements.

**REESE PUBLIC SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balance of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2016**

Net change in fund balance - total governmental funds	\$ (67,284)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p style="padding-left: 20px;">Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation</p>	
Depreciation expense	(344,208)
Capital outlay	906,457
Loss on disposal of assets	(1,151,484)
Repayment of bonds	290,000
<p>The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items as follows:</p>	
Amortization of bond premium	43,309
Amortization of loss on refunding	(9,192)
Decreases in compensated absences are reported as a reduction in expenditures when financial resources are used in the governmental fund in accordance with GASB Interpretation No. 6	1,000
Decreases in accrued interest are reported as a reduction in expenditures on the Statement of Activities	10,990
<p>Some revenues and expenses reported in the statement of activities are not recognized as or require the use of current resources and, therefore, are not reported in the governmental funds:</p>	
Pension related items	<u>(233,378)</u>
Change in net position of governmental activities	<u>\$ (553,790)</u>

See accompanying notes to financial statements.

REESE PUBLIC SCHOOLS  
 Fiduciary Funds  
 Statement of Fiduciary Net Position  
June 30, 2016

	<u>Agency Funds</u>	<u>Private Purpose Trusts</u>
<u>Assets</u>		
Cash and investments	\$ <u>155,186</u>	\$ <u>111,993</u>
<u>Liabilities</u>		
Due to student groups	\$ <u>155,186</u>	<u>0</u>
Held in trust for scholarships		<u>\$ 111,993</u>

REESE PUBLIC SCHOOLS  
 Fiduciary Funds  
 Statement of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2016

<u>Additions</u>	
Contributions and investment income	\$ 2,143
<u>Deductions</u>	
Scholarships	4,850
Service charge	<u>198</u>
Change in net position	(2,905)
Net position - beginning of year	<u>114,898</u>
Net position - end of year	<u>\$ 111,993</u>

See accompanying notes to financial statements.

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Reese Public Schools (School District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

**Reporting Entity**

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

**District-wide and Fund Financial Statements**

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

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

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

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

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

Amounts reported as program revenue include; (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

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

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

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

The School District reports the following major governmental funds:

**General Fund** - The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Capital Projects Fund** - The Capital Projects Fund is used to account for the recording of transactions relative to the improvement of the facilities of the School District.

**2015 Debt Retirement Fund** - The Debt Retirement Fund is used to account for the recording of transactions relative to the debt retirement of the School District.

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Assets, Liabilities, and Net Position or Equity**

**Cash and Investments** - Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

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

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

Buildings, equipment and vehicles are depreciated using the straight-line method over the following useful lives:

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

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

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.



REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Fund Equity** - The fund balance classifications are reported on the extent to which a government is bound to observe constraints imposed on the use of the resources in governmental funds. The fund balances are classified as nonspendable, restricted, committed, assigned and unassigned.

Nonspendable fund balance represents amounts that are not in a spendable form. The School District's nonspendable fund balance represents inventories and prepaid expenditures. In the fund financial statements, governmental funds report restrictions on fund balances for amounts that are legally restricted by outside parties for a specific purpose. Committed fund balance represents funds formally set aside by the School District for a particular purpose. The use of committed funds would be approved by the Board of Education through the budget process or official board action.

Assigned fund balance would represent tentative management plans that are subject to change which at the present time the School District does not have any assigned fund balance. The School District's intent would be to spend uncommitted/unassigned funds prior to the use of committed funds. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Deferred Outflows and Inflows of Resources**

**Deferred outflows** - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. They are the deferred charge on refunding and pension contributions reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension contributions made after the plan's measurement date, but before the fiscal year end. The amount is amortized in the plan year in which it applies.

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Deferred Inflows** - 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 School District has one item that qualifies for reporting in this category. It is future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

**Use of Estimates** - The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles 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.

**Property taxes** - For the taxpayers of the School District, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the County delinquent tax rolls.

**State Aid** - For the fiscal year ended June 30, 2016, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide 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, 2016, the foundation allowance was based on the average pupil membership counts taken in February 2015 and September 2015.

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 (currently the fiscal year) and is funded through payments from October 2015 - August 2016. The local revenue is recognized as outlined in Note 1. Amounts receivable from the State of Michigan at June 30, 2016 relating to state aid is \$1,078,243.

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

**REESE PUBLIC SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Events Occurring After Reporting Date**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying Independent Auditor's Report, which is the date the financial statements were available to be issued.

**NOTE 2 - BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Reese Public Schools follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The School District's Superintendent submits to the Board of Education a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.

**NOTE 3 - CASH AND INVESTMENTS**

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

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and Investments	\$ 2,773,254	\$ 267,179	\$ 3,040,433

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 2,937,064
Investment in interlocal agreement investment pools (i.e. MILAF) with a weighted average maturity not to exceed 60 days	102,408
Petty cash and cash on hand	950
Total	\$ 3,040,422

**Interest Rate Risk**

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

**Credit Risk**

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2016, the School District's investment in the investment pool was rated AAA by Standard & Poor's.

**Custodial Credit Risk - Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2016, \$2,599,996 of the School District's bank balance of \$3,202,404 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The balance of the sweep accounts was used to purchase short-term federal debt securities.

**Fair Value Measurement**

The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayments speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in governmental capital assets follows:

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals and</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2016</u>
Assets not being depreciated:				
Land	\$ 519,823	\$ 0	\$ 0	\$ 519,823
Capital assets being depreciated:				
Buildings and improvements	13,285,056	765,497	(2,435,796)	11,614,757
Buses and other vehicles	565,130	132,290	(51,711)	645,709
Furniture and equipment	231,435	8,670	(5,084)	235,021
Subtotal	<u>14,081,621</u>	<u>906,457</u>	<u>(2,492,591)</u>	<u>12,495,487</u>
Accumulated depreciation:				
Buildings and improvements	5,994,183	290,584	(1,286,979)	4,997,788
Buses and other vehicles	421,029	44,732	(49,044)	416,717
Furniture and equipment	162,290	8,892	(5,084)	166,098
Subtotal	<u>6,577,502</u>	<u>344,208</u>	<u>(1,341,107)</u>	<u>5,580,603</u>
Net capital assets being depreciated	<u>7,504,119</u>	<u>562,249</u>	<u>(1,151,484)</u>	<u>6,914,884</u>
Net capital assets	<u>\$ 8,023,942</u>	<u>\$ 562,249</u>	<u>\$ (1,151,484)</u>	<u>\$ 7,434,707</u>

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense for fiscal year ended June 30, 2016 was \$344,208. The School District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of interfund receivable and payable balances at June 30, 2016 are as follows:

		Payables		
		General	School Lunch	Total
Receivables	School Lunch	\$ 1,570	\$ 0	\$ 1,570
	General	0	1	1
		\$ 1,570	\$ 1	\$ 1,571

These interfund receivable and payable 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.

There were no interfund transfers during the year.

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2016 consist of accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid and grants	\$ 1,078,243
Federal grants	150,040
ISD	141,324
	\$ 1,369,607

**NOTE 7 - UNEARNED REVENUE**

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also reflect unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, grant and categorical aid payments received prior to meeting all eligibility requirements amounted to \$45,863.

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 8 - SHORT-TERM DEBT ACTIVITY**

The School District issues state aid anticipation notes in advance of State of Michigan state aid payments, depositing the proceeds in its General Fund. These notes are necessary because the School District's cash flow obligation to operating expenses precede the collection of state aid.

<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
\$ 860,020	\$ 1,125,000	\$ 1,119,981	\$ 865,039

**NOTE 9 - LONG-TERM DEBT**

The following is a summary of governmental long-term obligations for the School District for the year ended June 30, 2016:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements and Payments</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
Bonds	\$ 5,860,000	\$ 0	\$ 290,000	\$ 5,570,000	\$ 305,000
Compensated absences	137,000	0	1,000	136,000	0
	<u>\$ 5,997,000</u>	<u>\$ 0</u>	<u>\$ 291,000</u>	5,706,000	305,000
Bond premium				591,896	0
				<u>\$ 6,297,896</u>	<u>\$ 305,000</u>

Bonds payable at June 30, 2016 is comprised of the following issues:

\$5,860,000 School Building & Site bonds due in annual installments of \$290,000 to \$510,000 through May 1, 2030; interest at 4.00%

\$ 5,570,000

Compensated absences include unused sick pay and vacation pay. Unused sick pay is calculated using the termination payoff rate of \$45 for eligible employees times the number of unused days (maximum 160 days). Vacation payouts are computed using an average daily rate using 220 days. At June 30, 2016, the amount of \$136,000 has been recorded in the district-wide financial statements.

**REESE PUBLIC SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 9 - LONG-TERM DEBT (CONTINUED)**

The School District defeased the outstanding debt listed below by placing the proceeds of new debt in an irrevocable trust to provide for the future debt service payments on the callable portions of the old debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's basic financial statements.

	As of June 30, 2016 the Amount of Debt Considered Defeased
2000 School Building and Site Bonds	\$ 6,040,000
2005 School Building and Site Bonds	6,400,000
	\$ 12,440,000

The annual requirements to amortize bonds outstanding as of June 30, 2016, including interest payments, are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 305,000	\$ 222,800	\$ 527,800
2018	315,000	210,600	525,600
2019	330,000	198,000	528,000
2020	340,000	184,800	524,800
2021	355,000	171,200	526,200
2022 - 2026	2,005,000	631,000	2,636,000
2027 - 2031	1,920,000	196,000	2,116,000
	\$ 5,570,000	\$ 1,814,400	\$ 7,384,400

**NOTE 10 - RISK MANAGEMENT**

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

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



REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**

**Plan Description**

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0.1607.7-206-36585-.00.html>.

**Benefits Provided**

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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.

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, 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. Members first hired January 1, 1990, or later including Pension Plus members, contribute at various graduated permanently fixed contribution rates from 3.0% - 7.0%.

**Pension Reform 2010**

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

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Pension Reform 2012**

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

**Regular Retirement (no reduction factor for age)**

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60<sup>th</sup> birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount - Total credited service as of the Transition Date times 1.5% of Final Average Compensation (FAC).

**Pension Plus**

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (Member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Member Contributions**

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

**Employer Contributions**

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.

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

March 10, 2015 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

The School District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$1,343,000, with \$1,010,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from the state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**REESE PUBLIC SCHOOLS**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

**Pension Liabilities**

At June 30, 2016, the School District reported a liability of \$10,457,744 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the School District's proportion was 0.04282 and 0.04233 percent.

*MPERS (Plan) Net Pension Liability - As of September 30, 2015:*

Total Pension Liability	\$	67,355,988,000
Plan Fiduciary Net Position	\$	42,382,361,000
Net Pension Liability	\$	24,973,627,000
Proportionate share		0.04282 %
Net Pension liability for the School District	\$	10,457,744

*MPERS (Plan) Net Pension Liability - As of September 30, 2014:*

Total Pension Liability	\$	65,160,887,000
Plan Fiduciary Net Position	\$	43,134,384,000
Net Pension Liability	\$	22,026,503,000
Proportionate share		0.04233 %
Net Pension liability for the School District	\$	9,323,429

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

For the year ended June 30, 2016, the School District recognized pension expense of approximately \$848,000. These amounts include contributions funded from the state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. A portion of the Section 147c restricted funds, 69.45%, is considered part of the statutorily required contribution to the plan and 30.55% for OPEB. The amount of the section 147c revenue that relates to the statutorily required contribution was approximately \$283,000 and has been recorded as a deferred inflow of resources.

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ 0	\$ (34,639)
Net difference between projected and actual earnings on pension plan investments	53,378	0
Changes in Assumptions	257,492	0
Changes in proportion and differences between employer contributions and proportionate share of contributions	110,243	0
Unearned revenue related to pension portion of section 147 c	0	(283,463)
Reporting Unit contributions subsequent to the measurement date	<u>803,023</u>	<u>0</u>
<b>Total</b>	<u>\$ 1,224,136</u>	<u>\$ (318,102)</u>

\$803,023, reported as deferred outflows of resources related to pensions resulting from School District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

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

<b>Year Ended June 30</b>	<b>Amount</b>
2017	\$ 59,015
2018	59,015
2019	45,053
2020	223,391
	\$ 386,474

**Actuarial Assumptions**

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

**Salary increases** - The rate of pay increase used for individual members is 3.5%.

**Inflation** - 2.5%

**Mortality assumptions** - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using a projection scale AA for men and women were used.

**Experience study** - The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. 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 September 30, 2014 valuation.

**The long-term expected rate of return on pension plan investments** - The rate was 8% (7% Pension Plus Plan) net of investment and administrative expenses was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<b>Investment Category</b>	<b>Target Allocation*</b>	<b>Long-Term Expected Real Rate of Return*</b>
Domestic Equity Pools	28.0%	5.9%
Alternate Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	2.0%	0.0%
<b>Total</b>	<b>100.0%</b>	

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

**Discount rate** - The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the net pension liability to changes in the discount rate**

The following presents the Reporting Unit's proportionate share of the net pension liability calculated using the discount rate of 7.0 - 8.0 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<b>1% Lower (6.0-7.0%)</b>	<b>Discount Rate (7.0-8.0%)</b>	<b>1% Higher (8.0-9.0%)</b>
Reporting Unit's proportionate share of the net pension liability	\$13,482,712	\$10,457,744	\$7,907,571

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

**Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2014 Comprehensive Annual Financial Report.

**Payable to the Pension Plan** - At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are included in the financial statements as a liability titled accrued payroll and payroll liabilities. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**Benefit Provisions - Other Postemployment**

***Introduction***

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

***Retiree Healthcare Reform of 2012***

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.



REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 11 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**  
**(CONTINUED)**

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

***Employer Contributions***

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The School District postemployment healthcare contributions to MPSERS for the year ended June 30, 2016, 2015 and 2014 were approximately \$236,000, \$422,000 and \$244,000.

**NOTE 12 - GRANTS**

The School District receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the School District's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the School District administration believes such disallowance, if any, would be immaterial.

**NOTE 13 - ECONOMIC DEPENDENCY**

The School District received approximately 75% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the School District, the School District is considered to be economically dependent.

**NOTE 14 - SINKING FUND COMPLIANCE**

The School District passed a sinking fund levy at 1.5 mills. The activity related to the sinking fund is recorded in the Capital Projects Fund. The assets, liabilities, revenues and expenditures are included in the School District's basic financial statements for the year ended June 30, 2016.

For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

REESE PUBLIC SCHOOLS  
Notes to Financial Statements  
For the Year Ended June 30, 2016

**NOTE 15 - UPCOMING ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, was issued by the GASB in June 2015 and will be effective for the School District's 2018 fiscal year. The Statement requires governments that participate in other postemployment benefit plans (OPEB) to report in their statement of net position an OPEB liability. The OPEB liability is the difference between the total OPEB 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. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense. The School District is in the process of evaluating the financial statement impact of this statement and believes the impact of this statement could be significant.

Governmental Accounting Standards Board (GASB) Statement No. 77, Tax Abatement Disclosures, was issued by the GASB in August 2015 and will be effective for the School District's 2017 fiscal year. The Statement requires the School District to disclose agreements of other governments that affect the School District's revenue. The School District is in the process of evaluating the impact of this standard on the financial statements when adopted.

**NOTE 16 - PRIOR PERIOD ADJUSTMENT**

A prior period adjustment has been reflected in the financial statements to adjust beginning net position in the amount of \$344,015 for deferred outflows of resources related to pensions not recorded in the prior year.

**REESE PUBLIC SCHOOLS**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2016**

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Local sources				
Property taxes	\$ 955,000	\$ 975,000	\$ 958,072	\$ (16,928)
Other local sources	225,072	272,972	264,196	(8,776)
State sources	6,004,444	6,217,179	6,188,134	(29,045)
Federal sources	633,633	701,827	686,892	(14,935)
Interdistrict and other sources	35,000	86,600	115,249	28,649
Total revenues	<u>7,853,149</u>	<u>8,253,578</u>	<u>8,212,543</u>	<u>(41,035)</u>
<u>Expenditures</u>				
Instruction:				
Basic programs	4,119,523	4,121,888	4,045,998	75,890
Added needs	830,101	893,394	875,337	18,057
Support services:				
Pupil	290,350	243,984	241,172	2,812
Instructional staff	136,542	192,167	175,848	16,319
General administrative	198,940	216,499	211,860	4,639
School administrative	547,743	558,347	552,161	6,186
Business services	191,568	215,850	205,857	9,993
Operations and maintenance	722,367	738,204	707,632	30,572
Transportation	407,746	518,973	448,394	70,579
Information services	188,682	250,875	242,755	8,120
Community services	24,439	40,756	37,959	2,797
Athletics	253,280	262,641	260,189	2,452
Total expenditures	<u>7,911,281</u>	<u>8,253,578</u>	<u>8,005,162</u>	<u>248,416</u>
Excess (deficiency) of revenues over expenditures	(58,132)	0	207,381	207,381
<u>Other Financing Sources (Uses)</u>				
Operating transfers out	16,694	0	0	0
Net change in fund balance	(41,438)	0	207,381	207,381
Fund balance - beginning of year	<u>921,428</u>	<u>921,428</u>	<u>921,428</u>	<u>0</u>
Fund balance - end of year	<u>\$ 879,990</u>	<u>\$ 921,428</u>	<u>\$ 1,128,809</u>	<u>\$ 207,381</u>

**REESE PUBLIC SCHOOLS**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)**

	<u><b>2015</b></u>	<u><b>2014</b></u>
Reporting unit's proportion of net pension liability (%)	0.04282 %	0.04233 %
Reporting unit's proportionate share of net pension liability	\$ 10,457,744	\$ 9,323,429
Reporting unit's covered-employee payroll	\$ 3,535,782	\$ 3,560,714
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	33.81018 %	38.19103 %
Plan fiduciary net position as a percentage of total pension liability	62.92000 %	66.15000 %

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

**REESE PUBLIC SCHOOLS**  
**Required Supplemental Information**  
**Schedule of the Reporting Unit's Contributions**  
**Michigan Public School Employees Retirement Plan**  
Last 10 Reporting Unit Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,009,708	\$ 778,962
Contributions in relation to statutorily required contributions*	<u>1,009,708</u>	<u>778,962</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>
Reporting unit's covered-employee payroll	\$ 3,582,753	\$ 3,554,972
Contributions as a percentage of covered-employee payroll	28.18 %	21.91 %

\*Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

With the implementation of GASB Statement No. 68 in 2015, the 10 year history will be provided prospectively until a full 10 year history is shown.

REESE PUBLIC SCHOOLS  
Notes to Required Supplementary Information  
For the Year Ended June 30, 2016

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

**Changes of assumptions:** Assumption changes are 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.

REESE PUBLIC SCHOOLS  
 Other Supplemental Information  
 Balance Sheet  
 Nonmajor Governmental Funds  
June 30, 2016

	<u>Special Revenue Fund Food Service</u>
<u>Assets</u>	
Cash and investments	\$ 75,089
Receivables - net:	
Due from other funds	1,570
Due from other governmental units	<u>4,710</u>
Total assets	<u>\$ 81,369</u>
<u>Liabilities and Fund Balance</u>	
<u>Liabilities</u>	
Accounts payable	\$ 9,049
Due to other funds	1
Unearned revenue	<u>2,998</u>
Total liabilities	<u>12,048</u>
<u>Fund Balance</u>	
Restricted for food service	<u>69,321</u>
Total fund balance	<u>\$ 81,369</u>

REESE PUBLIC SCHOOLS  
 Other Supplemental Information  
 Statement of Revenues, Expenditures  
 and Changes in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended June 30, 2016

	<u>Special Revenue Fund Food Service</u>
<u>Revenues</u>	
Local sources	
Other local sources	\$ 112,850
State sources	16,969
Federal sources	<u>293,155</u>
Total revenues	<u>422,974</u>
<u>Expenditures</u>	
Current:	
Food services	<u>412,659</u>
Excess (deficiency) of revenues over expenditures	10,315
Fund balance - beginning of year	<u>59,006</u>
Fund balance - end of year	<u><u>\$ 69,321</u></u>



**REESE PUBLIC SCHOOLS**  
**Other Supplemental Information**  
**Schedule of Bonded Indebtedness - 2015 Bond Refunding**  
**For the Year Ended June 30, 2016**

PURPOSE

The 2005 bonds were refunded, the original bonds were issued for the purpose of erecting, furnishing and equipping additions to, and partially remodeling, refurbishing and re-equipping the Reese Elementary, Middle and High School buildings, acquiring and installing educational technology, and developing and improving the sites.

DATE OF ISSUE

March 19, 2015

INTEREST PAYABLE

May 1 and November 1 of each year

AMOUNT OF ISSUE

\$ 5,860,000

AMOUNT REDEEMED

During prior years  
During current year

\$ 0  
290,000      290,000

BALANCE OUTSTANDING - June 30, 2016

\$ 5,570,000

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	4.00%	\$ 305,000	\$ 222,800	\$ 527,800
2018	4.00%	315,000	210,600	525,600
2019	4.00%	330,000	198,000	528,000
2020	4.00%	340,000	184,800	524,800
2021	4.00%	355,000	171,200	526,200
2022	4.00%	370,000	157,000	527,000
2023	4.00%	385,000	142,200	527,200
2024	4.00%	400,000	126,800	526,800
2025	4.00%	415,000	110,800	525,800
2026	4.00%	435,000	94,200	529,200
2027	4.00%	450,000	76,800	526,800
2028	4.00%	470,000	58,800	528,800
2029	4.00%	490,000	40,000	530,000
2030	4.00%	510,000	20,400	530,400
		<u>\$ 5,570,000</u>	<u>\$ 1,814,400</u>	<u>\$ 7,384,400</u>



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

Independent Auditor's Report

September 7, 2016

Board of Education  
Reese Public Schools  
Reese, Michigan

We have audited, in accordance with U.S. generally accepted auditing standards 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 Reese Public Schools (School District), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise Reese Public Schools' basic financial statements and have issued our report thereon dated September 7, 2016.

### Internal Control Over Financial Reporting

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

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



Board of Education  
Reese Public Schools  
September 7, 2016

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Reese Public Schools' 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*.

**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.

*Weinlander Fitzhugh*



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

September 7, 2016

Board of Education  
Reese Public Schools  
Reese, Michigan

### **Report on Compliance for Each Major Federal Program**

We have audited Reese Public Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Reese Public Schools' major federal programs for the year ended June 30, 2016. Reese Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Reese Public Schools' compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, Reese Public Schools, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.



Board of Education  
Reese Public Schools  
September 7, 2016

## **Report on Internal Control Over Compliance**

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

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

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

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

*Weinlander Fitzhugh*

REESE PUBLIC SCHOOLS  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2016

**SECTION I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

- Material weakness(es) identified?  YES  NO
- Significant deficiency(ies) identified?  YES  NONE REPORTED

Noncompliance material to financial statements noted?  YES  NO

**Federal Awards**

Internal Control over major programs:

- Material weakness(es) identified?  YES  NO
- Significant deficiency(ies) identified?  YES  NONE REPORTED

Type of auditor's report issued on compliance of major programs: Unmodified opinion

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027A	IDEA Special Education

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

Auditee qualified as low-risk auditee?  YES  NO

**SECTION II - Financial Statement Findings**

There are no matters reported.

**SECTION III - Federal Award Findings and Questioned Costs**

There are no matters reported.

**REESE PUBLIC SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2016**

Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u>	Federal CFDA <u>Number</u>	Approved Grant Award <u>Amount</u>	(Memo Only) Prior Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>July 1, 2015</u>	<u>Adjustments</u>	Current Year Receipts <u>(Cash Basis)</u>	Current Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>June 30, 2016</u>
<u>U.S. Department of Education</u>								
Passed through Michigan								
Department of Education:								
ECIA Title I -								
Educationally Deprived								
1515301415	84.010	\$ 152,676	\$ 146,197	\$ 146,197	\$ 0	\$ 146,197	\$ 0	\$ 0
1515301516		152,560	0	0	0	0	144,100	144,100
			<u>146,197</u>	<u>146,197</u>	<u>0</u>	<u>146,197</u>	<u>144,100</u>	<u>144,100</u>
ECIA Title I -								
Migrant Education								
1518301415	84.011	139,163	4,037	4,037	0	138,500	134,463	0
1518301516		159,498	0	0	0	0	3,728	3,728
			<u>4,037</u>	<u>4,037</u>	<u>0</u>	<u>138,500</u>	<u>138,191</u>	<u>3,728</u>
Title II -								
Improving Teacher quality								
1505201516	84.367	47,027	0	0	0	46,388	46,388	0
Passed through Tuscola ISD:								
IDEA Special Education								
1004551516	84.027A	291,113	0	0	0	291,113	291,113	0
Total U.S. Department of Education								
			<u>150,234</u>	<u>150,234</u>	<u>0</u>	<u>622,198</u>	<u>619,792</u>	<u>147,828</u>

See accompanying notes to Schedule of Expenditures of Federal Awards

REESE PUBLIC SCHOOLS  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2016

Federal Grantor Pass Through Grantor <u>Program Title Grant Number</u>	Federal CFDA <u>Number</u>	Approved Grant Award <u>Amount</u>	(Memo Only) Prior Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>July 1, 2015</u>	<u>Adjustments</u>	Current Year Receipts <u>(Cash Basis)</u>	Current Year <u>Expenditures</u>	Accrued (Deferred) Revenue <u>June 30, 2016</u>
U.S. Department of Agriculture								
Passed through Michigan Department of Education:								
Child Nutrition Cluster:								
School Breakfast Program 1619701516	10.553	\$ 99,168	\$ 0	\$ 0	\$ 0	\$ 99,168	\$ 99,168	\$ 0
National School Lunch Program Cash Assistance 1619601516	10.555	156,998	0	0	0	156,998	156,998	0
Non-Cash Assistance (Commodities) Entitlement		25,935	0	0	0	25,935	25,935	0
National School Lunch Program Subtotal			<u>0</u>	<u>0</u>	<u>0</u>	<u>182,933</u>	<u>182,933</u>	<u>0</u>
Summer Food Service Program for Children Cash Assistance	10.559							
140900		9,994	9,994	527	(527)	0	0	0
141900		1,948	1,948	3,198	(3,198)	0	0	0
150900		11,182	3,353	0	3,353	11,182	7,829	0
151900		1,158	372	0	372	1,157	785	0
160900		1,991	0	0	0	0	1,991	1,991
161900		221	0	0	0	0	221	221
Non-Cash Assistance (Commodities) Entitlement		227	0	0	0	227	227	0
Summer Food Service Program Subtotal			<u>15,667</u>	<u>3,725</u>	<u>0</u>	<u>12,566</u>	<u>11,053</u>	<u>2,212</u>
Total Child Nutrition Cluster			<u>15,667</u>	<u>3,725</u>	<u>0</u>	<u>294,667</u>	<u>293,154</u>	<u>2,212</u>
			<u>\$ 165,901</u>	<u>\$ 153,959</u>	<u>\$ 0</u>	<u>\$ 916,865</u>	<u>\$ 912,946</u>	<u>\$ 150,040</u>

See accompanying notes to Schedule of Expenditures of Federal Awards



REESE PUBLIC SCHOOLS  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Reese Public Schools under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Reese Public Schools, it is not intended to and does not present the financial position or changes in net position of Reese Public Schools.

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credit made in the normal course of business to amounts reported as expenditures.

**NOTE 2 - PRIOR YEAR ADJUSTMENTS**

Management has utilized the Cash Management System Grant Auditor Report in preparing the Schedule of Expenditures of Federal Awards.

**NOTE 3 - RECONCILIATION OF REVENUE REPORTED IN THE FINANCIAL STATEMENTS**

Total federal expenditures per Schedule of Expenditures of Federal Awards	\$ 912,946
Add:	
Federal Communications Commission E-rate funding	67,101
Revenues per financial statements - federal sources	<u>\$ 980,047</u>

**NOTE 4 - PRIOR YEAR ADJUSTMENTS**

The School District adjusted the prior year accrued (deferred) revenue for the Summer Food Service Program. The accrued (deferred) revenue had been allocated to the incorrect grant year on the prior year Schedule of Expenditures of Federal Awards.