Escanaba Area
Public Schools

Year Ended
June 30, 2015

Financial
Statements and
Single Audit Act
Compliance

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# ESCANABA AREA PUBLIC SCHOOLS

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# ESCANABA AREA PUBLIC SCHOOLS

## Table of Contents

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**INDEPENDENT AUDITORS' REPORT**

November 2, 2015

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

*Management's Responsibility for the Financial Statements*

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

*Independent Auditors' Responsibility*

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

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

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

*Opinions*

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Implementation of GASB Statement No. 68*

As described in Note 16, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

*Other Matters*

*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Taxable Valuations, Tax Rates, and Tax Levies has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards,* we have also issued our report dated November 2, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Rehmann Robson LLC

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## Management's Discussion and Analysis

Escanaba Area Public School's (the "District") management's discussion and analysis is intended to assist the reader in focusing on significant issues, provide an overview of the District's financial activity, identify changes in the District's financial position, and its ability to address the next and subsequent years' challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and is intended to provide the financial results for the fiscal year ended June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District's financial position as a whole. The District-wide financial statements provide information about the activities of the whole District, presenting both an aggregate view of the 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 District's operation in more detail than the District-wide financial statements by providing information about the District's most significant fund - the General Fund and other less significant funds. Another statement, the Statement of Fiduciary Net Position, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

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

Basic Financial Statements

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

Notes to the Basic Financial Statements

*(Required Supplemental Information)*
(other than MD&A, expanded)

*Combining and Individual Fund Financial Statements and Schedules*

*Other Information (Unaudited)*

As mentioned, GASB 34 requires the presentation of two basic types of financial statements: District-wide Financial Statements and Fund Financial Statements.

**District-wide financial statements.** The District-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position and the statement of activities, which appear first in the District's financial statements, include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, and uses the accrual basis of accounting. This means that all of the current year's revenues and expenses are taken into account regardless of when cash is received.

The statement of net position combines and consolidates governmental funds current financial resources (short-term available resources) with capital and long-term obligations, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting, the statement of activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

## Management's Discussion and Analysis

**Fund Financial Statements.** Consistent with previous years, the fund statements are reported using the modified accrual method of accounting. Under this basis of accounting, revenues are recorded when received except where they are measurable and available and therefore, represent resources that may be appropriated. Expenditures are accounted for in the period those goods and services are used in District programs. In addition, capital asset purchases are shown as expenditures and not recorded as an asset. Debt payments are recorded as expenditures in the current year and future debt obligations are not recorded.

Fund types include the General Fund, special revenue fund, debt service funds, capital projects funds, fiduciary funds, and proprietary fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions, grants, and other intergovernmental revenues. The special revenue fund is comprised of food service activities. The debt service funds are used to record the funding and payment of principal and interest on bonded debt. The capital projects funds are used to account for financial resources to be used for the acquisition, construction, or improvements of major capital facilities. The fiduciary funds account for assets held by the District in a trustee capacity or as an agent for various student groups and related activities. The proprietary fund accounts are used for those activities where the flow of economic resources is required. The proprietary fund is comprised of the internal service fund which is used to account for compensating employees for their unpaid sick leave and have announced their retirement.

| | Major Features of District-Wide and Fund Financial Statements | | |
|---|---|---|---|
| | **District-wide Statements** | **Governmental Funds** | **Fiduciary Funds** |
| Scope | Entire District, except for fiduciary funds. | All District activities that are not fiduciary in nature. | Funds administered on behalf of someone else. |
| Required statements | Statement of Net Position. Statement of Activities. | Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balances. | Statement of Fiduciary Net Position. Statement of Changes in Fiduciary Net Position. |
| Accounting basis and focus | Full accrual accounting and economic resources focus. | Modified accrual accounting and current financial resources focus. | Full accrual accounting and economic resources focus. |
| Type of asset and liability information | All assets and liabilities both financial and capital, short-term and long-term. | Generally assets expected to be used and liabilities that come due during the year or soon thereafter. No capital assets or long-term liabilities. | All assets and liabilities, both short-term and long-term. |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid. | Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable. | All additions and deductions during the year, regardless of when cash is received or paid. |

### Financial Analysis of the District as a Whole

| | Net Position | | |
|---|---|---|---|
| | District-Wide Activities | | Percent |
| | 2015 | 2014 | Change |
| **Assets** | | | |
| Current and other assets | $ 6,446,726 | $ 6,350,091 | 1.52% |
| Capital assets, net | 36,149,828 | 37,130,748 | -2.64% |
| **Total assets** | 42,596,554 | 43,480,839 | -2.03% |
| **Deferred outflows of resources** | | | |
| Deferred charge on bond refunding | 3,977,898 | - | 100.00% |
| Deferred pension amounts | 1,118,509 | 259,771 | 330.58% |
| **Total deferred outflows of resources** | 5,096,407 | 259,771 | 1861.88% |
| **Liabilities** | | | |
| Long-term liabilities | 31,009,278 | 33,315,886 | -6.92% |
| Other liabilities | 33,384,433 | 3,731,262 | 794.72% |
| **Total liabilities** | 64,393,711 | 37,047,148 | 73.82% |
| **Deferred inflows of resources** | 3,260,394 | - | 100.00% |
| **Net position** | | | |
| Net investment in capital assets | 7,292,254 | 6,453,494 | 13.00% |
| Restricted for: | | | |
| Capital projects | 8,223 | 95,894 | -91.42% |
| Debt service | 747,303 | 817,363 | -8.57% |
| Food service | 31,565 | 50,764 | -37.82% |
| Unrestricted (deficit) | (28,040,489) | (724,053) | 3772.71% |
| **Total net position** | $ (19,961,144) | $ 6,693,462 | -398.22% |

### Summary of Net Position

The District's net position totaled approximately ($19,961,000) and $6,693,000 for 2015 and 2014, respectively. Total net position can be separated into three categories: net investment in capital assets, restricted and unrestricted.

Net investment in capital assets is a combination of funds invested in capital assets, less accumulated depreciation and related debt. The original cost of capital assets is approximately $52,326,000 and $52,191,000 for 2015 and 2014, respectively. The threshold for recording capital assets is $5,000. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less any estimated salvage value, expensed over the estimated useful life of the assets. Total accumulated depreciation is approximately $16,176,000 for 2015 and $15,060,000 for 2014. Total debt related to capital assets is approximately $28,858,000 for 2015 and $31,162,000 for 2014.

Restricted net position for capital projects, debt service, and food service are by their nature restricted for use by laws or regulations by the State of Michigan. These funds totaled approximately $8,000, $747,000, and $32,000 respectively for 2015, and approximately $96,000, $817,000 and $51,000 for capital projects, debt service and food service, respectively, for 2014.

The remaining balance in unrestricted net position represents a deficit of approximately $28,040,000 for 2015 and $724,000 for 2014. As noted earlier, the increase of the deficit in 2015 is a result of the requirement to report the District's net pension liability of approximately $29,492,000 on its statement of net position due to the implementation of GASB 68 effective June 30, 2015.

The District implemented GASB Statement No. 68 in the current year. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPSERS net pension liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of $19,961,144.

The results of operations for the District as a whole are reported in the statement of activities. A summary of the District-wide results of operations for the year ended June 30, 2015 and 2014 is as follows:

| | Change in Net Position | | |
|---|---|---|---|
| | District-Wide Activities | | Percent |
| | 2015 | 2014 | Change |
| **Program revenues** | | | |
| Charges for services - local | $ 546,637 | $ 573,299 | -4.65% |
| Operating grants - federal, state, and local | 1,986,877 | 1,976,863 | 0.51% |
| **Total program revenues** | 2,533,514 | 2,550,162 | -0.65% |
| **General revenue** | | | |
| Property taxes - operations | 3,754,416 | 3,846,964 | -2.41% |
| Property taxes - debt retirement | 3,016,034 | 3,032,622 | -0.55% |
| State of Michigan aid - unrestricted | 14,060,842 | 13,800,932 | 1.88% |
| State of Michigan aid - restricted | 2,639,938 | 2,431,278 | 8.58% |
| Other | 184,054 | 151,474 | 21.51% |
| **Total general revenue** | 23,655,284 | 23,263,270 | 1.69% |
| **Total revenue** | 26,188,798 | 25,813,432 | 1.45% |
| **Expenses** | | | |
| Instruction | 12,752,712 | 13,588,087 | -6.15% |
| Supporting services | 7,318,895 | 6,674,007 | 9.66% |
| Community services | 49,732 | 67,399 | -26.21% |
| Food services | 1,145,621 | 1,137,606 | 0.70% |
| Interest on long-term debt | 1,425,186 | 1,360,316 | 4.77% |
| Unallocated depreciation | 1,163,384 | 1,177,609 | -1.21% |
| **Total expenses** | 23,855,530 | 24,005,024 | -0.62% |
| **Change in net position** | 2,333,268 | 1,808,408 | 29.02% |
| Net position, beginning of year | 6,693,462 | 4,885,054 | 37.02% |
| Restatement for implementation of GASB 68 | (28,949,131) | - | 0.00% |
| Restatement for payroll accrual | (38,743) | - | 0.00% |
| | (22,294,412) | 4,885,054 | -556.38% |
| **Net position, end of year** | $ (19,961,144) | $ 6,693,462 | -398.22% |

## Management's Discussion and Analysis

Of the District's total revenues available to operate the District, 2.09% or approximately $547,000 came from fees charged to those who benefited from the programs. Revenues from other governments or organizations that subsidize certain programs with grants and other directed types of funding approximated 7.59% or approximately $1,987,000.

The State foundation allowance accounted for 63.77% or approximately $16,701,000 of the revenue available. This revenue is determined by a formula that incorporates pupil headcount, the annual per pupil allowance, and the non-homestead property taxable values of the District. The increase of 2.89% in overall State Aid is mainly due to the significant increase in 147c MPSERS UAAL Rate Stabilization Allowance in the amount of $368,686 or 62% from the prior fiscal year.

The expense portion of table above shows the financial support of each functional area required during the year. Overall expenses were comparable to the prior fiscal year with a slight decrease of .62%. Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately $12,753,000 or 53.46% of total expenses. Support services cost approximately $7,319,000 or 30.68% of total expenses, which include such items as transportation, maintenance, security, supervision, counseling, athletics, and a variety of similar services that support the District’s mission of educating children.

### Major Governmental Funds Budgeting and Operating Highlights

The overall condition of the governmental funds has continued to improve from the prior year. The General Fund balance increased approximately $234,000. This is a result of an increase in State revenue. There was an increase of approximately $396,000 for 147c MPSERS UAAL Rate Stabilization revenue, an increase of approximately $184,000 for 22c Foundation Equity Payment revenue, and increase of $161,000 for 22B Discretionary Payment revenue.

### The District's Funds

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

The District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known and the State of Michigan's budget has been finalized. Therefore, it is expected that there will be changes between the initial budget and subsequent amendments, as actual enrollments are known and the State of Michigan's budget is adopted by October 1 and any subsequent budget amendments are made. The most significant fund budgeted is the General Fund. The General Fund budget was amended three times during the year.

### General Fund Operations

Financial Highlights - General Fund

| Fiscal Year | Revenue | Expenditures and Transfers | Fund Balance | Enrollment | Increase/ (Decrease) in Student Enrollment |
|---|---|---|---|---|---|
| 2005-2006 | $ 21,315,476 | $ 22,779,695 | $ 2,855,418 | 2,963 | (86) |
| 2006-2007 | 21,174,541 | 21,438,666 | 2,591,293 | 2,882 | (81) |
| 2007-2008 | 21,516,630 | 21,580,929 | 2,526,994 | 2,778 | (104) |
| 2008-2009 | 21,431,735 | 21,407,472 | 2,551,257 | 2,716 | (62) |
| 2009-2010 | 22,728,518 | 23,507,969 | 1,771,806 | 2,712 | (4) |
| 2010-2011 | 22,590,284 | 22,716,143 | 1,647,236 | 2,628 | (84) |
| 2011-2012 | 22,202,500 | 22,869,719 | 980,017 | 2,587 | (41) |
| 2012-2013 | 21,418,411 | 21,115,220 | 1,283,208 | 2,522 | (65) |
| 2013-2014 | 21,649,496 | 20,995,286 | 1,443,710 | 2,511 | (11) |
| 2014-2015 | 22,001,072 | 21,766,576 | 1,639,463 | 2,479 | (32) |

In the General Fund operations, the actual revenue was approximately $22,001,000. This is above the original budgeted revenues of approximately $21,298,000 and below the final amended budgeted revenues of approximately $22,116,000, a variance of approximately 0.52%. The actual expenditures of the General Fund operations were approximately $21,767,000. This is above the original budget of approximately $21,522,000 and below the final budget of approximately $22,224,000, a variance of approximately 2.06%.

**Governmental Fund Expenditures**

Below is a summary of the governmental fund expenditures by fund and their percentages of total governmental funds:

| | Expenditures | Percentage |
|---|---|---|
| General Fund | $21,766,576 | 83% |
| Nonmajor governmental funds | 4,573,435 | 17% |
| **Total** | $26,340,011 | 100% |

Revenues for all governmental funds totaled approximately $26,189,000. Below is a summary of the governmental fund revenues by source and their percentages of total governmental funds:

| | Revenues | Percentage |
|---|---|---|
| Local sources | $ 7,745,804 | 30% |
| State sources | 16,751,518 | 63% |
| Federal sources | 1,546,847 | 6% |
| Other | 144,628 | 1% |
| **Total** | $26,188,797 | 100% |

**Unrestricted State Aid**

The District is predominately funded by State Aid based on a blended count formula that the State of Michigan utilizes. State revenues to the District have increased by approximately $469,000 from the previous year. State aid membership counts were 2,479 and 2,511 for fiscal 2015 and 2014, respectively.

**Property Taxes**

The District levies 18 mills of property taxes on all non-homestead property and 6 mills on commercial personal property located within the District for General Fund operations. The levy is assessed on the taxable value of the property. The increase in taxable value is limited to the lesser of the inflation rate or the prior year of 5%. When a property is sold, the taxable valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of the market value. The fiscal 2015 non-homestead and personal property tax levies totaled approximately $3,754,000.

The District levied 4.75 mills of property taxes on all classes of property located within the District for bonded debt retirement. The levy is used to pay the principal and interest on bond obligations. The total amount levied for debt retirement for fiscal year 2015 was approximately $3,016,000.

**Operating Grants - Federal, State, and Local**

The primary sources of operating grants are the Federal Title I and Title II programs, the State funded At Risk program, and the Special Education Obligation funds required under the Headlee Amendment, State of Michigan legislation. Both Title I and Title II and At Risk programs assist students who are deemed to be at risk in the instructional process. For fiscal 2015, the District has utilized approximately $597,000, $221,000 and $474,000 for the Title I, Title II and At Risk programs, respectively.

### Enrollment

The District's 2014-2015 blended enrollment totaled 2,479, which is a decrease of 32 students from the previous year. Escanaba Area Public Schools is located in Michigan's Upper Peninsula and is the second largest district in Upper Michigan.

The past two years have seen changes in the economic condition of the community. The District has begun to see improvements in the regional economic condition. Continual close monitoring of the regional employment opportunities along with birth rates will help the District project enrollment changes over time.

Student enrollment FTE (full time equivalent) is important to the financial health of the District because state funding is based on a per pupil FTE formula.

### Capital Assets and Debt Administration

**Capital Assets.** At the end of fiscal 2015, the School District had approximately $52,326,000 invested in land and building, machinery and equipment, vehicles and buses. Of this amount approximately $16,176,000 has been depreciated. Net book value totals approximately $36,150,000. The years of construction of the District buildings ranges from 1931 to 2015. The District currently owns five elementary buildings of which two have been previously closed due to declining enrollment. Of the closed buildings, one building is used to operate the Escanaba Student Success Center and the Escanaba Virtual Career Center. The other building is currently being used for storage for excess building equipment. Beginning in fiscal year 2013 the reconfiguration of building grade levels was completed with K-3 in each of three elementary buildings, 4-6 became the Upper Elementary building, 7-8 became the Junior High and 9-12 became the Senior High School. Due to budget constraints related to declining enrollment, the State of Michigan financial status, and increasing fringe benefits, the ability to maintain these buildings has been becoming increasingly difficult. This reconfiguration was based on declining enrollment and efficient use of all facilities to meet the educational needs of the students of the District.

The District's capitalization policy is to capitalize assets purchased in amounts of more than $5,000 that have an estimated useful life in excess of one year.

### Outstanding Debt at Year End

**Long-term Debt.** As of June 30, 2015, the District had approximately $28,410,000 in bonds outstanding from capital projects and approximately $186,000 in installment purchase agreements outstanding. The District collects bonded debt across the total property values. Therefore, total growth in valuation is an important element in determining the District's ability to retire bonded debt and/or to incur additional debt.

For more detailed information regarding capital assets and debt administration, please review the notes to financial statements located in the financial section of this report.

### Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2015 fiscal year budgets. There are many important factors affecting the budget, two of which are our student count and state per-pupil foundation allowance. In the 2013-2014 year our student count dipped to a blended count of 2,511. In 2014-2015, we declined to 2,479 students. This was a reduction of 32 students in one year, and equates to approximately $228,032 less in state foundation allowance. Enrollment is expected to continue to decline into the 2015-2016 school year as the Upper Peninsula of Michigan's employment opportunities continue to be limited. The 2016 fiscal year budget will reflect new programs and new opportunities for students while continually monitoring costs as state and local funding remains conservative.

## Management's Discussion and Analysis

The Board of Education and administration worked closely with staff and community members to create a budget that would provide unique opportunities for students while remaining fiscally responsible. Continued changes in staff and programs were included in the fiscal 2016 budget. While the Board of Education has chosen to use some fund balance to maintain programs, they have focused on reducing costs to align revenue and expenditures in the fiscal 2016 budgets. The Board and Administration continue to develop a strategy to reduce spending while providing a quality education to Escanaba students and maintain the long-term fiscal health of the District.

**Contacting the District's Financial Management**

This report is designed to give an overview of the financial conditions of the Escanaba Area Public Schools. If you should desire additional detailed financial information, you may address it to Kevin Pascoe, the Director of Business Services, Escanaba Area Public Schools, District Administration Office, 1500 Ludington Street, Escanaba, Michigan 49829 or you may call (906)786-5412.

# BASIC FINANCIAL STATEMENTS

# DISTRICT-WIDE FINANCIAL STATEMENTS

## ESCANABA AREA PUBLIC SCHOOLS

### Statement of Net Position
June 30, 2015

| | Governmental Activities |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 2,833,479 |
| Investments | 4,494 |
| Receivables | 3,590,190 |
| Inventories | 18,563 |
| Capital assets not being depreciated | 720,597 |
| Capital assets being depreciated, net | 35,429,231 |
| **Total assets** | 42,596,554 |
| **Deferred outflows of resources** | |
| Deferred charge on bond refunding | 1,118,509 |
| Deferred pension amounts | 3,977,898 |
| **Total deferred outflows of resources** | 5,096,407 |
| **Liabilities** | |
| Accounts payable and accrued liabilities | 2,145,106 |
| Unearned revenue | 12,217 |
| State aid anticipation notes payable | 1,733,769 |
| Long-term liabilities: | |
| Due within one year | 2,096,145 |
| Due in more than one year | 28,913,133 |
| Net other postemployment benefit obligation | 965 |
| Net pension liability | 29,492,376 |
| **Total liabilities** | 64,393,711 |
| **Deferred inflows of resources** | |
| Deferred pension amounts | 3,260,394 |
| **Net position** | |
| Net investment in capital assets | 7,292,254 |
| Restricted for: | |
| Capital projects | 8,223 |
| Debt service | 747,303 |
| Food service | 31,565 |
| Unrestricted (deficit) | (28,040,489) |
| **Total net position** | $ (19,961,144) |

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

## ESCANABA AREA PUBLIC SCHOOLS

### Statement of Activities
For the Year Ended June 30, 2015

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue |
|---|---|---|---|---|
| Governmental activities: | | | | |
| Instruction | $ 12,752,712 | $ - | $ 1,054,043 | $ (11,698,669) |
| Supporting services | 7,318,895 | 104,567 | 244,664 | (6,969,664) |
| Community services | 49,732 | - | - | (49,732) |
| Food services | 1,145,621 | 442,070 | 688,170 | (15,381) |
| Interest on long-term debt | 1,425,186 | - | - | (1,425,186) |
| Unallocated depreciation | 1,163,384 | - | - | (1,163,384) |
| Total | $ 23,855,530 | $ 546,637 | $ 1,986,877 | (21,322,016) |
| General revenues: | | | | |
| Property taxes - operations | | | | 3,754,416 |
| Property taxes - debt retirement | | | | 3,016,034 |
| State of Michigan aid - unrestricted | | | | 14,060,842 |
| State of Michigan aid - restricted | | | | 2,639,938 |
| Other | | | | 184,054 |
| Total general revenues | | | | 23,655,284 |
| **Change in net position** | | | | 2,333,268 |
| Net position (deficit), beginning of year, as restated | | | | (22,294,412) |
| **Net position (deficit), end of year** | | | | $ (19,961,144) |

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

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# FUND FINANCIAL STATEMENTS

## ESCANABA AREA PUBLIC SCHOOLS

### Balance Sheet
Governmental Funds
June 30, 2015

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 1,786,659 | $ 1,036,326 | $ 2,822,985 |
| Investments | - | 4,494 | 4,494 |
| Accounts receivable | 397,298 | 146,499 | 543,797 |
| Due from other funds | 39,563 | - | 39,563 |
| Due from other governmental units | 3,046,393 | - | 3,046,393 |
| Inventories | - | 18,563 | 18,563 |
| **Total assets** | $ 5,269,913 | $ 1,205,882 | $ 6,475,795 |
| **Liabilities** | | | |
| Accounts payable | $ 55,267 | $ 36,765 | $ 92,032 |
| Salaries payable | 896,794 | - | 896,794 |
| Due to other funds | - | 39,563 | 39,563 |
| Accrued liabilities | 932,403 | 20,014 | 952,417 |
| Unearned revenues | 12,217 | - | 12,217 |
| State aid anticipation notes payable | 1,733,769 | - | 1,733,769 |
| **Total liabilities** | 3,630,450 | 96,342 | 3,726,792 |
| **Fund balances** | | | |
| Nonspendable for inventories | - | 18,563 | 18,563 |
| Restricted: | | | |
| Debt service | - | 940,672 | 940,672 |
| Capital projects | - | 8,223 | 8,223 |
| Food service | - | 13,002 | 13,002 |
| Committed for capital projects | - | 129,080 | 129,080 |
| Assigned for subsequent years' expenditures | 311,363 | - | 311,363 |
| Unassigned | 1,328,100 | - | 1,328,100 |
| **Total fund balances** | 1,639,463 | 1,109,540 | 2,749,003 |
| **Total liabilities and fund balances** | $ 5,269,913 | $ 1,205,882 | $ 6,475,795 |

The accompanying notes are integral part of these financial statements.

**ESCANABA AREA PUBLIC SCHOOLS**

## Reconciliation

Fund Balances of Governmental Funds
to Net Position of Governmental Activities
June 30, 2015

| | |
|---|---|
| **Fund balances - total governmental funds** | $ 2,749,003 |
| Amounts reported for *governmental activities* in the statement of net position are different because: | |
| Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement. | |
| Capital assets not being depreciated | 720,597 |
| Capital assets being depreciated, net | 35,429,231 |
| Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds. | |
| Net pension liability | (29,492,376) |
| Deferred outflows related to the net pension liability | 3,977,898 |
| Deferred inflows related to the net pension liability | (3,260,394) |
| Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | |
| Bonds and installment purchase agreements payable | (28,596,250) |
| Deferred loss on bond refunding | 1,118,509 |
| Unamortized bond premiums, net | (1,379,833) |
| Accrued interest on bonds payable | (193,369) |
| Compensated absences | (1,033,195) |
| Net other postemployment benefit obligation | (965) |
| **Net position of governmental activities** | $ (19,961,144) |

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

## ESCANABA AREA PUBLIC SCHOOLS

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

| | General Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|
| **Revenues** | | | |
| Local sources | $ 4,246,249 | $ 3,499,555 | $ 7,745,804 |
| State sources | 16,700,780 | 50,738 | 16,751,518 |
| Federal sources | 909,415 | 637,432 | 1,546,847 |
| Other sources | 144,628 | - | 144,628 |
| **Total revenues** | 22,001,072 | 4,187,725 | 26,188,797 |
| **Expenditures** | | | |
| Current: | | | |
| Instruction | 14,238,850 | - | 14,238,850 |
| Supporting services | 7,370,224 | - | 7,370,224 |
| Community services | 50,177 | - | 50,177 |
| Food services | - | 1,149,751 | 1,149,751 |
| Debt service: | | | |
| Principal | 72,664 | 1,867,930 | 1,940,594 |
| Interest and fiscal charges | 34,661 | 1,176,411 | 1,211,072 |
| Bond issuance costs | - | 211,612 | 211,612 |
| Capital outlay | - | 167,731 | 167,731 |
| **Total expenditures** | 21,766,576 | 4,573,435 | 26,340,011 |
| **Revenues over (under) expenditures** | 234,496 | (385,710) | (151,214) |
| **Other financing sources (uses)** | | | |
| Proceeds from issuance of long-term debt | - | 21,163,392 | 21,163,392 |
| Payment to refunded debt escrow agent | - | (21,049,780) | (21,049,780) |
| Transfers in | - | 1,361,650 | 1,361,650 |
| Transfers out | - | (1,361,650) | (1,361,650) |
| **Total other financing sources (uses)** | - | 113,612 | 113,612 |
| **Net changes in fund balances** | 234,496 | (272,098) | (37,602) |
| Fund balances, beginning of year | 1,443,710 | 1,381,638 | 2,825,348 |
| Prior period adjustment | (38,743) | - | (38,743) |
| **Fund balances, beginning of year, as restated** | 1,404,967 | 1,381,638 | 2,786,605 |
| **Fund balances, end of year** | $ 1,639,463 | $ 1,109,540 | $ 2,749,003 |

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

## ESCANABA AREA PUBLIC SCHOOLS

### Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2015

| | |
|---|---|
| **Net change in fund balances - total governmental funds** | $ (37,602) |
| Amounts reported for *governmental activities* in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Capital assets purchased/constructed | 199,331 |
| Depreciation expense | (1,163,384) |
| Loss on disposal of capital asset | (16,867) |
| Governmental funds report bond refunding costs and bond premiums as expenditures and revenue, respectively. However, in the statement of activities, these costs are allocated over the life on the related bonds and reported as interest expense. | |
| Amortization of deferred loss on bond refunding | 858,738 |
| Amortization of bond issue discounts | (224,819) |
| Amortization of bond premium | 98,559 |
| Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt or the statement of net position. | |
| Proceeds from issuance of long-term debt | (21,163,392) |
| Principal payments on long-term debt | 22,250,594 |
| Change in net other postemployment benefit obligation | 5,539 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | |
| Change in net pension liability and related deferred amounts | 174,259 |
| Change in the accrual for compensated absences | 1,345,666 |
| Change in accrued interest payable on long-term debt | 6,646 |
| **Change in net position of governmental activities** | $ 2,333,268 |

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

## ESCANABA AREA PUBLIC SCHOOLS

### Statement of Revenues, Expenditures and Change in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---|---|---|---|---|
| **Revenues** | | | | |
| Local sources | $ 4,441,618 | $ 4,461,780 | $ 4,246,249 | $ (215,531) |
| State sources | 15,842,500 | 16,520,006 | 16,700,780 | 180,774 |
| Federal sources | 839,099 | 972,331 | 909,415 | (62,916) |
| Other sources | 175,000 | 161,551 | 144,628 | (16,923) |
| **Total revenues** | 21,298,217 | 22,115,668 | 22,001,072 | (114,596) |
| **Expenditures** | | | | |
| Current: | | | | |
| Instruction | 14,121,046 | 14,393,335 | 14,238,850 | (154,485) |
| Supporting services: | | | | |
| Instructional support services | 1,795,302 | 2,099,865 | 2,041,181 | (58,684) |
| Office of the principal | 1,241,944 | 1,253,044 | 1,249,295 | (3,749) |
| District support services | 913,193 | 1,013,694 | 951,127 | (62,567) |
| Operations and maintenance | 1,709,716 | 1,677,331 | 1,570,627 | (106,704) |
| Pupil transportation | 1,104,240 | 1,186,638 | 1,119,651 | (66,987) |
| Athletics | 416,487 | 434,861 | 438,343 | 3,482 |
| Community services | 110,736 | 56,124 | 50,177 | (5,947) |
| Debt service: | | | | |
| Principal | 74,000 | 72,700 | 72,664 | (36) |
| Interest and fiscal charges | 35,600 | 36,100 | 34,661 | (1,439) |
| **Total expenditures** | 21,522,264 | 22,223,692 | 21,766,576 | (457,116) |
| **Net change in fund balance** | (224,047) | (108,024) | 234,496 | 342,520 |
| Fund balance, beginning of year | 1,443,710 | 1,443,710 | 1,443,710 | - |
| Prior period adjustment | - | (2,500) | (38,743) | (36,243) |
| **Fund balances, beginning of year, as restated** | 1,443,710 | 1,441,210 | 1,404,967 | (36,243) |
| **Fund balance, end of year** | $ 1,219,663 | $ 1,333,186 | $ 1,639,463 | $ 306,277 |

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

## Statement of Net Position

Proprietary Fund
June 30, 2015

| | Governmental Activities<br>Internal Service Fund |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 10,494 |
| **Liabilities** | |
| Employee benefits payable | $ 10,494 |

* NOTE: There was no revenues, expenditures or cash flow activities for the year ended June 30, 2015.

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

## Statement of Fiduciary Net Position

Fiduciary Funds
June 30, 2015

| | Private Purpose Trusts | Agency Funds |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 57,567 | $ 111,914 |
| Accrued interest | 21,373 | - |
| Investments - at fair value | 5,517,450 | - |
| **Total assets** | 5,596,390 | $ 111,914 |
| **Liabilities** | | |
| Due to student groups | - | $ 111,914 |
| **Net position restricted for scholarships** | $ 5,596,390 | |

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

## Statement of Changes in Fiduciary Net Position

Fiduciary Funds

For the Year Ended June 30, 2015

| | Private Purpose Trusts |
|---|---|
| **Additions** | |
| Contributions | $ 238,746 |
| Investment income: | |
| Interest and dividends | 146,534 |
| Gain on sale of investments | 92,432 |
| Net decrease in fair value of investments | (158,559) |
| Net investment income | 80,407 |
| **Total additions** | 319,153 |
| **Deductions** | |
| Scholarships and trophies | 417,868 |
| Trustee fees | 33,704 |
| **Total deductions** | 451,572 |
| **Change in net position** | (132,419) |
| Net position, beginning of year | 5,728,809 |
| **Net position, end of year** | $ 5,596,390 |

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

# NOTES TO FINANCIAL STATEMENTS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Reporting entity**

The accounting policies of the *Escanaba Area Public Schools* (the "District") conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the District:

The District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate component units of the District. Based on application of the criteria, the 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 District. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2015.

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

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.

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

The District-wide financial statements and the Private Purpose Trust Fund are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The Agency Fund follows the accrual basis of accounting, but does not have a measurement focus.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period, except taxes which must be collected within 60 days, and reimbursement type grants which must be collected within one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state school aid, expenditure-driven grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources not accounted for and reported in another fund.

Additionally, the District reports the following funds:

The *Food Service Special Revenue Fund* accounts and reports the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The *2010 Construction Capital Project Fund* is used to account for the renovation of buildings of the District as a result of the bond issues approved by the voters. These funds are restricted for the purposes specified in the bond issue.

The *Public Improvement Capital Project Fund* accounts for the financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

The *2001 Debt Retirement Fund* accounts for financial resources restricted for principal and interest payments on bonds payable. Revenues are generated primarily through property tax millage.

The *2010 Debt Retirement Fund* accounts for financial resources restricted for principal and interest payments on bonds payable. Revenues are generated primarily through property tax millage.

The *2014 Refunding Bonds Fund* accounts for financial resources restricted for principal and interest payments on bonds payable. Revenues are generated primarily through property tax millage.

The *Internal Service Fund* is used for the financing of unused terminal sick leave plan payments.

The *Private-purpose Trust Funds* are trust arrangements under which principal and income benefit individuals in the form of scholarships. The District maintains three private-purpose trust funds.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

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

The effect of interfund activity has been eliminated from the District-wide financial statements.

**Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and equity**

*Deposits and investments*

The District's cash and cash equivalents include cash on hand, demand deposits, savings accounts, certificates of deposit with maturities of less than three months, and shares in a government money market account.

Investments are reported at fair value.

*Receivables*

The District follows the practice of recording as receivables at year end, revenues that have been earned but not yet received. Receivables consist primarily of state school aid payments from the State of Michigan and Federal grant funds earned but not yet collected. No amounts have been identified as potentially uncollectible by management, and therefore, no amount has been recorded as a provision for bad debts.

*Inventories*

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consist of expendable supplies held for sale or consumption. The cost is recorded as an expenditure when consumed or sold rather than when purchased. Reported inventories are equally offset by nonspendable fund balance, which indicates that they do not constitute "available spendable resources" even though they are a component of current assets.

*Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

| Assets | Years |
|---|---|
| Buildings and improvements | 20-50 |
| Machinery and equipment | 5-10 |
| Vehicles and buses | 5-10 |

*Deferred outflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports the deferred charge on bond refunding and deferred outflows of resources related to the net pension liability. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The remaining portion of the deferred outflow of resources liability represent contributions to the plan subsequent to the plan measurement date. More detailed information can be found in Note 11.

*Salaries payable and other accrued liabilities*

A liability is recorded at June 30, 2015 for those amounts owed to teachers and other employees of the District who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.

The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The District pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

*Accrued compensated absences*

Most employees of the District are compensated for leaves of absence attributable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16. This liability is shown on the statement of net position.

*Deferred Inflows of Resources*

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District's deferred inflows of resources are related to pension costs. More detailed information can be found in Note 11.

*Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium and/or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

*Bonded construction costs*

The 2010 Construction Capital Project Fund includes activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Michigan Revised School Code. Beginning in the year of issuance, the District has recorded the annual construction activity in the 2010 Construction Capital Project Fund.

*Fund balances*

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision-making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify, or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the District’s intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education has delegated the authority to assign fund balance to the Director of Business Services or their designee. Unassigned fund balance is the residual classification for the General Fund.

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

Restricted net position represent assets which are legally restricted by outside parties or enabling legislation.

*Property Taxes*

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2014 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the District as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

*Interfund Transactions*

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

*Pensions*

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

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## 2. DEFICIT NET POSITION

Governmental activities reported a deficit in unrestricted net position in the amount of $28,040,489 at June 30, 2015. Total net position amounted to a deficit of $19,961,144.

## 3. BUDGETARY INFORMATION

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

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

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. The approved budgets of the District were adopted at the functional level by the Board of Education for all governmental funds, which is the legal level of control. During the year ended June 30, 2015 athletics expenditures in the General Fund exceeded the budgeted amount of $434,861 by $3,482.

## 4. DEPOSITS AND INVESTMENTS

The following is a reconciliation of deposit and investment balances as of June 30, 2015:

| | Totals |
|---|---|
| **Governmental Activities** | |
| Cash and cash equivalents | $ 2,833,479 |
| Investments | 4,494 |
| **Fiduciary Funds** | |
| Private Purpose Trusts: | |
| Cash and cash equivalents | 57,567 |
| Investments | 5,517,450 |
| Agency Funds: | |
| Cash and cash equivalents | 111,914 |
| **Total** | $ 8,524,904 |
| **Deposits and investments** | |
| Bank deposits (checking accounts, savings accounts, and certificates of deposit) | $ 3,001,360 |
| Investments | 5,521,944 |
| Cash on hand | 1,600 |
| **Total** | $ 8,524,904 |

Michigan law authorizes the District to deposit and invest in:

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

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

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

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

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

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

The purpose of investments is to maximize the returns on the District's excess cash balances consistent with safety of those monies and with the desired liquidity of the investments.

The District's scholarship funds, which are reported as private purpose trust funds, are invested with a balanced objective. This balanced objective is a balance between current income and long-term capital appreciation. The Scholarship Committee reviews investment performance on an annual basis to ensure compliance with the objectives.

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

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investments:

| | Original Cost | Less than One Year | 1 - 5 Years | More than Five Years | Fair Value |
|---|---|---|---|---|---|
| Corporate bonds | $ 483,745 | $ 75,847 | $ 353,537 | $ 82,353 | $ 511,737 |
| Investments not subject to maturity | | | | | 5,010,207 |
| | | | | | $ 5,521,944 |

Certificates of deposit of $38,660 are considered bank deposits for risk purposes.

*Investment and Deposit Risk*

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The corporate bonds listed above have ratings ranging from A- to AA+ from Standard and Poors.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year-end, $2,736,567 of the District's bank balance of $3,045,103 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, the custodial credit risk cannot be determined because these investments are uncategorized as to credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

## 5. RECEIVABLES

Receivables are 85% due from other governments and 15% due from customers.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are 4% due to vendors, 42% salaries payable, and 54% other accrued liabilities.

## 7. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

The District reports interfund balances between certain funds. These interfund balances resulted primarily from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. As of June 30, 2015, the Food Service Fund had an outstanding liability to the General Fund for $39,563.

Transfers are used to: 1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; 2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and 3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. During the year ended June 30, 2015, the 2010 Debt Fund transferred $1,361,650 to the 2014 Refunding Bonds Fund.

## 8. CAPITAL ASSETS

Capital assets activity was as follows for the year ended June 30, 2015:

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| Capital assets, not being depreciated: | | | | | |
| Land | $ 720,597 | $ - | $ - | $ - | $ 720,597 |
| Capital assets, being depreciated: | | | | | |
| Buildings and improvements | 47,250,795 | 75,578 | - | - | 47,326,373 |
| Machinery and equipment | 2,583,743 | 123,753 | (64,112) | - | 2,643,384 |
| Vehicles and buses | 1,635,585 | - | - | - | 1,635,585 |
| | 51,470,123 | 199,331 | (64,112) | - | 51,605,342 |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (12,333,301) | (892,694) | - | - | (13,225,995) |
| Machinery and equipment | (1,454,799) | (184,363) | 47,245 | - | (1,591,917) |
| Vehicles and buses | (1,271,872) | (86,327) | - | - | (1,358,199) |
| | (15,059,972) | (1,163,384) | 47,245 | - | (16,176,111) |
| Total capital assets being depreciated, net | 36,410,151 | (964,053) | (16,867) | - | 35,429,231 |
| **Governmental activities capital assets, net** | $ 37,130,748 | $ (964,053) | $ (16,867) | $ - | $ 36,149,828 |

Depreciation expense of $1,163,384 is reported as unallocated in the statement of activities.

## 9. STATE AID ANTICIPATION NOTES PAYABLE

The District annually issues state aid anticipation notes in advance of receiving its state aid payments.

Short-term debt activity related to these notes for the year ended June 30, 2015 was as follows:

| | Balance July 1, 2014 | Additions | Deductions | Balance June 30, 2015 |
|---|---|---|---|---|
| State aid anticipation notes payable | $ 1,494,475 | $ 3,800,000 | $ (3,560,706) | $ 1,733,769 |

The note which carries interest rates ranging from 0.420%-1.235% is repaid annually as a reduction of state aid with the remaining outstanding balance repaid in a lump sum in July and August.

## Notes to Financial Statements

### 10. LONG-TERM DEBT

Long-term debt activity of the District for the year ending June 30, 2015 was as follows:

| | Balance July 1, 2014 | Additions | Deductions | Balance June 30, 2015 | Due Within One Year |
|---|---|---|---|---|---|
| General obligation bonds | $ 30,870,000 | $ 19,685,000 | $ (22,145,000) | $ 28,410,000 | $ 1,800,000 |
| Installment purchase agreements | 291,844 | - | (105,594) | 186,250 | 106,251 |
| Total installment debt | 31,161,844 | 19,685,000 | (22,250,594) | 28,596,250 | 1,906,251 |
| Bond premium | - | 1,478,392 | (98,559) | 1,379,833 | 98,559 |
| Bond discount | (224,819) | - | 224,819 | - | - |
| Accrued compensated absences | 2,378,861 | 317,649 | (1,663,315) | 1,033,195 | 91,335 |
| Total | $ 33,315,886 | $ 21,481,041 | $ (23,787,649) | $ 31,009,278 | $ 2,096,145 |

As of June 30, 2015, the District changed it's calculation of the estimated compensated absences accrual balance. Prior to June 30, 2015, the estimate had been calculated at 100% for all employees. The District has determined that it is more reasonable to calculate the estimate based on the number of years an employee has been with the District. This change in estimate resulted in a reduction adjustment in the liability of approximately $1,281,000 for the 2015 fiscal year. The number of employed years for the accrual estimate is as follows:

| Years from Eligibility | Percentage Accrued |
|---|---|
| 0-1 | 100% |
| 2 | 80% |
| 3 | 60% |
| 4 | 40% |
| 5 | 20% |

Long-term debt at June 30, 2015, includes the following:

| | |
|---|---|
| **General Obligation Bonds** | |
| $7,950,000, 2006 refunding bonds, due in annual installments ranging from$30,000 to $1,680,000 with final payment due on May 1, 2021. Interest is paid semi-annually at rates varying from 3.50% to 4.00%. | $ 7,380,000 |
| $6,670,000, 2010 refunding bonds, due in annual installments ranging from $555,000 to $1,325,000 with final payment due on May 1, 2017. Interest is paid semi-annually at rates varying from 2.00% to 4.00%. | 1,880,000 |
| $19,685,000, 2014 refunding unlimited tax bonds, due in annual installments ranging from $515,000 to $1,800,000 with final payment due May 1, 2030. Interest is paid semi-annually at rates varying from 3.00% to 5.00%. | 19,150,000 |
| **Total general obligation bonds** | $ 28,410,000 |
| **Installment Purchase Agreements** | |
| $166,798, Installment purchase agreements for two buses, due in annual installments of $34,000 through May 2018, plus interest charged at 2.19%. | $ 102,000 |
| $101,055, Installment purchase agreement with Apple Inc. for computer equipment, due in annual installments ranging from $32,903 to $34,213 through July 2015, plus interest charged at 3.00%. | 33,912 |
| $163,322, Installment purchase agreements for two buses, due in annual installments of $32,664 through March 2016, plus interest charged at 2.41%. | 32,338 |
| $30,015, Chevrolet Silverado, due in annual payments of $6,000 through May 2018, plus interest at 2.12%. | 18,000 |
| **Total installment purchase agreements** | $ 186,250 |

On February 21, 2010, the District advance refunded a portion of the 2001 debt issue. This resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $531,110 and is being charged to operations through the year 2021 using the straight-line method.

On October 5, 2011, the District advance refunded the remaining portion of the 2001 debt issue not previously refunded. This resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $61,000 and is being charged to operations through the year 2017 using the straight-line method.

On May 11, 2010, the District issued new general obligation bonds for the purpose of renovating the high school and other buildings. The new bonds have a face value of $21,670,000. The net amount received was $21,382,030. The net difference is due to discounts upon the sale of the bonds. This discount is being amortized over the life of the bonds.

On November 4, 2014, the School District advance refunded $21,049,780, of 2010 School Building bonds to provide resources to purchase U.S. government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments on $21,049,780 of refunded debt. As a result, the bonds are considered defeased and the liability has been removed from the statement of net position. The refunding resulted in a savings of $1,030,419 and an economic gain of $934,059.

**Other Long-term liabilities**

**Early retirement incentive**

The current employment contracts with teachers and administrators allow the option of early retirement to those employees who meet state requirements for retirement. Qualified retirees shall receive an early retirement incentive of $150 per month for a period of up to six years. At June 30, 2015, 48 retirees were receiving or eligible to begin receiving the early retirement incentive, with $273,900 being paid to these individuals during 2015. The total early retirement incentive liability at June 30, 2015 was $170,700. This balance is included in accrued compensated absences.

**Accrued compensated absences**

Accrued employee benefits included in long-term debt are for the accumulated terminal leave of employees from unused sick leave and the early retirement incentive, as previously discussed. The total outstanding accumulated terminal leave and the early retirement incentive at June 30, 2015 was $1,033,195.

The estimated debt service requirements on bonded debt for principal and interest to maturity as of June 30, 2015 are as follows:

| | General Obligation Bonds | | |
|---|---|---|---|
| **Year Ending June 30,** | **Principal** | **Interest** | **Total** |
| 2016 | $ 1,800,000 | $ 1,155,800 | $ 2,955,800 |
| 2017 | 1,900,000 | 1,088,250 | 2,988,250 |
| 2018 | 1,940,000 | 1,017,800 | 2,957,800 |
| 2019 | 2,025,000 | 940,200 | 2,965,200 |
| 2020 | 2,110,000 | 854,900 | 2,964,900 |
| 2021-2025 | 9,465,000 | 2,919,450 | 12,384,450 |
| 2026-2030 | 9,170,000 | 942,350 | 10,112,350 |
| **Total** | $ 28,410,000 | $ 8,918,750 | $ 37,328,750 |

## Notes to Financial Statements

The estimated debt service requirements on installment purchase agreements for principal and interest to maturity as of June 30, 2015 are as follows:

| | Installment Purchase Agreements | | |
|---|---|---|---|
| Year Ending June 30, | Principal | Interest | Total |
| 2016 | $ 106,251 | $ 4,415 | $ 110,666 |
| 2017 | 40,000 | 1,744 | 41,744 |
| 2018 | 40,000 | 872 | 40,872 |
| **Total** | $ 186,251 | $ 7,031 | $ 193,282 |

The debt service requirements for accrued compensated absences are dependent upon future employee retirements and terminations. Thus, future payments are unknown at June 30, 2015. Compensated absences and early retirement incentives are generally liquidated by the General Fund.

## 11. RETIREMENT PLAN

*General Information about the Pension Plan*

Plan Description. The District contributes to the Michigan Public School Employees Retirement System (“MPSERS”), a cost-sharing multiple-employer pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Services with oversight from a 12-member board. Benefit provisions are established and may be amended by state statute. The Office of Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report can be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

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:

| Plan Name | Plan Type | Plan Status |
|---|---|---|
| Member Investment Plan (MIP) | Defined Benefit | Closed |
| Basic | Defined Benefit | Closed |
| Pension Plus | Hybrid | Open |
| Defined Contribution | Defined Contribution | Open |

The *Member Investment Plan* (MIP) includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7%* plan.

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are match at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

*Benefits Provided.* MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

| Plan | Eligibility Based on Years of Service | Vesting |
|---|---|---|
| Member Investment Plan (MIP) | Age 46 with 30 years or age 60 with 10 years | 10 years |
| Basic | Age 55 with 30 years or age 60 with 10 years | 10 years |
| Pension Plus | Age 60 with 10 years | 4 years |
| Defined Contribution | Age 46 with 30 years or age 60 with 10 years | 4 years |

*Contributions.* Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 7.63% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services. For the plan year ended September 30, 2015, an additional 1.13% MPSERS liability prepayment was invoiced as a one-time cost. Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization and one-time prepayment rates, range from 27.52% to 31.83% of covered payroll. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2015, inclusive of the MPSERS UAAL Stabilization and one-time prepayment, was $3,140,498.

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

At June 30, 2015, the District reported a liability of $29,492,376 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2014, the District's proportion (as calculated by MPSERS) was .13389495%.

For the year ended June 30, 2015, the District recognized pension expense of $2,389,016. At June 30, 2015, the District reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources | Net Deferred Outflows (Inflows) of Resources |
|---|---|---|---|
| Changes in assumptions | $ 1,088,402 | $ - | $ 1,088,402 |
| Net difference between projected and actual earnings on pension plan investments | - | 3,260,394 | (3,260,394) |
| | 1,088,402 | 3,260,394 | (2,171,992) |
| District contributions subsequent to the measurement date | 2,889,496 | - | 2,889,496 |
| **Total** | $ 3,977,898 | $ 3,260,394 | $ 717,504 |

The amount of deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| Year Ended June 30, | Amount |
|---|---|
| 2016 | $ (532,081) |
| 2017 | (532,081) |
| 2018 | (532,081) |
| 2019 | (575,749) |
| | $ (2,171,992) |

*Actuarial Assumptions.* The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Wage inflation | 3.5% |
| Salary increases | 3.5% to 12.3%, including wage inflation at 3.5% |
| Investment rate of return | 8.0% (7.0% for the Pension Plus plan) |
| Cost of living adjustments | 3.0% annual, non-compounded for MIP members |
| Healthcare cost trend rate | 8.5% year 1 graded to 3.5% year 12 |

The mortality table used in this valuation was the RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

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

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return | Expected Money-Weighted Rate of Return |
|---|---|---|---|
| Domestic equity pools | 28.00% | 4.80% | 1.34% |
| Alternative investment pools | 18.00% | 8.50% | 1.53% |
| International equity | 16.00% | 6.10% | 0.98% |
| Fixed income pools | 10.50% | 1.50% | 0.16% |
| Real estate and infrastructure pools | 10.00% | 5.30% | 0.53% |
| Absolute return pools | 15.50% | 6.30% | 0.98% |
| Short-term investment pools | 2.00% | -0.20% | -0.02% |
| | 100.00% | | 5.50% |
| Inflation | | | 2.50% |
| **Investment rate of return** | | | 8.00% |

*Discount Rate.* The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions 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 net pension liability of the District, calculated using the discount rate of 8.0%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

| | 1% Decrease (7.0%) | Current Discount Rate (8.0%) | 1% Increase (9.0%) |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 38,883,129 | $ 29,492,376 | $ 21,580,527 |

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

*Payable to the Pension Plan.* At June 30, 2015, the District reported a payable of $287,546 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2015.

*Other Postemployment Benefits*

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 2.20% to 2.71% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that cover up to 80% of cost.

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

The District's contributions to MPSERS for other postemployment benefits amounted to $760,552 for the year ended June 30, 2015.

## 12. DISTRICT DEFINED BENEFIT LIFE INSURANCE PLAN

*District Life Insurance Plan*

*Plan Description.* The District administers a single-employer defined benefit life insurance plan (the "Plan"). In addition to the retirement benefits described above, the Plan provides various levels of life insurance to certain retirees up to the age 70, depending on the applicable employee group, which are advance funded on an actuarial basis. The Plan does not prepare separately-issued financial statements.

*Basis of Accounting.* The Plan is accounted for using the accrual basis of accounting. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

*Funding Policy.* The contribution requirements of Plan members and the District are established and may be amended by the Board of Education. The required contribution is based on projected pay-as-you go financing requirements, with an additional amount to prefund benefits as determined annually by the Board of Education. For the year ended June 30, 2015, the District contributed $43,296 to the Plan, all of which was to fund current year benefits.

*Annual OPEB Cost and Net OPEB Obligation.* The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The District has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation:

| | |
|---|---|
| Annual required contribution | $ 38,113 |
| Interest on Net OPEB obligation | 260 |
| Adjustment to annual required contribution | (616) |
| Net OPEB cost (expense) | 37,757 |
| Contributions made | (43,296) |
| Decrease in net OPEB obligation | (5,539) |
| Net OPEB obligation, beginning of year | 6,504 |
| **Net OPEB obligation, end of year** | $ 965 |

## Notes to Financial Statements

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal 2015 and the previous two years was:

| Three-Year Trend Information | | | |
|---|---|---|---|
| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
| 2013 | $ 55,919 | 79% | $ 11,522 |
| 2014 | 37,125 | 114% | 6,504 |
| 2015 | 37,757 | 115% | 965 |

*Funded Status and Funding Progress.* As of June 30, 2014, the most recent actuarial date, the accrued liability for benefits was $336,777, all of which was unfunded.

The schedule of employer contributions, presented as required supplementary information (RSI) following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculations.

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

The following simplifying assumptions were made:

*Retirement age for active employees* - Retirement rate percentages varied based on a specific age between 50 and 65 years old.

*Mortality* - Life expectancies were based on the IRS 2014 Non-annuitant (sex distinct) and Annuitant (sex distinct) mortality tables.

*Turnover* - No turnover rates were used in the actuarial valuation.

*Life insurance cost trend rate* - As of June 30, 2014, the most recent actuarial date, premiums decreased from levels valued in 2013, which was the previous actuarial valuation.

*Life insurance premiums* - The monthly premiums were based off of three separate categories of employees at three separate rates: Administrators and Supervisors - $25.00; EEA - $18.75; Teamsters and Non-Union - $16.25.

A discount rate of 4.00% was used. The unfunded actuarial accrued liability is being amortized on the level dollar, closed method. The remaining amortization period at June 30, 2015, was thirteen years.

## 13. NET INVESTMENT IN CAPITAL ASSETS

The composition of net investment in capital assets as of June 30, 2015, was as follows:

| | |
|---|---|
| Capital assets: | |
| Not being depreciated | $ 720,597 |
| Being depreciated, net | 35,429,231 |
| | 36,149,828 |
| Less related debt: | |
| Noncurrent liabilities: | |
| Due within one year | (2,096,145) |
| Due in more than one year | (28,913,133) |
| Deferred charge on bond refunding | 1,118,509 |
| Add back: accrued compensated absences | 1,033,195 |
| | (28,857,574) |
| **Net investment in capital assets** | $ 7,292,254 |

## 14. COMMITMENTS AND CONTINGENCIES

### Scholarships

Each year the District awards numerous scholarships to graduating students, many of which are paid out over a four year period from the Private-Purpose Trust Funds. The District has consistently recorded the expense for scholarships based on when they are paid, since the students must attain minimum grade levels in order to receive their scholarships. At June 30, 2015 there was approximately $1,727,000 of outstanding scholarships for the Anna C. Norton Scholarship Private-Purpose Trust Fund and approximately $3,870,000 for the Co-mingled Private-Purpose Trust Fund.

### Federal Grant Programs

The District participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, not to be material.

**Other**

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

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

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2015.

## 15. SUBSEQUENT EVENTS

In July, 2015, the District entered into an installment purchase agreement for the purpose of purchasing two busses in the amount of $168,570. This agreement requires annual payments of $33,000 plus interest charged at 1.45%. A final payment of $36,570 is due in July 2020.

In August 2015, the District borrowed $3,800,000 on state aid anticipation notes with effective interest charged from 0.64%-1.4625% maturing in July and August 2016.

## 16. RESTATEMENT

The District had a prior period adjustment due to the timing of a payroll accrual. As a result of this change, beginning net position of governmental activities was decreased by $38,743.

The District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* in the current year. As a result of this change, beginning net position of governmental activities was decreased by $28,949,131.

■ ■ ■ ■ ■

# REQUIRED SUPPLEMENTARY INFORMATION

## Required Supplementary Information
MPSERS Cost-Sharing Multiple-Employer Plan

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

| | Year Ended June 30, 2015 |
|---|---|
| District's proportion of the net pension liability | 0.13389495% |
| District's proportionate share of the net pension liability | $ 29,492,376 |
| District's covered-employee payroll | 12,089,451 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 243.95% |
| Plan fiduciary net position as a percentage of the total pension liability | 66.20% |

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

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

## Required Supplementary Information
MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of District Contributions

| | Year Ended June 30, 2015 |
|---|---|
| Contractually required contribution | $ 3,140,498 |
| Contributions in relation to the contractually required contribution | (3,140,498) |
| Contribution deficiency (excess) | $ - |
| District's covered-employee payroll | $ 12,406,912 |
| Contributions as a percentage of covered employee payroll | 25.3% |

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

## ESCANABA AREA PUBLIC SCHOOLS

### Required Supplementary Information

District Defined Benefit Life Insurance Plan

| Schedule of Employer Contributions | | |
|---|---|---|
| Years Ended June 30, | Annual Required Contribution (ARC) | Percentage of ARC Contributed |
| 2013 | $ 55,919 | 79% |
| 2014 | 37,700 | 114% |
| 2015 | 38,113 | 114% |

| Schedule of Funding Progress | | | | | | |
|---|---|---|---|---|---|---|
| Actuarial Valuation Date* | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Under-funded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
| 6/30/2009 | $ - | $ 541,232 | $ 541,232 | -% | $11,876,595 | 5% |
| 6/30/2013 | - | 640,179 | 640,179 | - | 10,680,073 | 6 |
| 6/30/2014 | - | 336,777 | 336,777 | - | N/A | N/A |

* A plan this size is not required to be valued each year. Additional years of data will be included in future years as revised valuations are necessary.

# COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

## Detailed Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual

General Fund

For the Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---|---|---|---|---|
| **Revenues** | | | | |
| Local sources: | | | | |
| Property taxes | $ 3,968,611 | $ 3,974,103 | $ 3,754,472 | $ (219,631) |
| Local restricted | 8,726 | 7,258 | 7,258 | - |
| Other local revenue | 464,281 | 480,419 | 484,519 | 4,100 |
| Total local sources | 4,441,618 | 4,461,780 | 4,246,249 | (215,531) |
| State sources: | | | | |
| State aid unrestricted | 13,438,011 | 13,854,866 | 14,041,653 | 186,787 |
| State aid restricted | 2,404,489 | 2,665,140 | 2,659,127 | (6,013) |
| Total state sources | 15,842,500 | 16,520,006 | 16,700,780 | 180,774 |
| Federal sources | 839,099 | 972,331 | 909,415 | (62,916) |
| Other sources: | | | | |
| Other restricted | 175,000 | 161,551 | 144,628 | (16,923) |
| **Total revenues** | 21,298,217 | 22,115,668 | 22,001,072 | (114,596) |
| **Expenditures** | | | | |
| Instruction: | | | | |
| Salaries | 8,334,574 | 8,396,341 | 8,359,749 | (36,592) |
| Fringe benefits | 4,881,878 | 5,324,518 | 5,293,493 | (31,025) |
| Purchased services | 434,986 | 362,673 | 352,078 | (10,595) |
| Supplies and capital outlay | 469,608 | 309,803 | 233,530 | (76,273) |
| Total instruction | 14,121,046 | 14,393,335 | 14,238,850 | (154,485) |

Continued...

## Detailed Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual

General Fund
For the Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---|---|---|---|---|
| **Expenditures (Continued)** | | | | |
| Support services: | | | | |
| Instructional support services: | | | | |
| Salaries | $ 1,010,800 | $ 1,091,599 | $ 1,076,068 | $ (15,531) |
| Fringe benefits | 635,178 | 724,509 | 714,966 | (9,543) |
| Purchased services | 45,644 | 104,489 | 92,458 | (12,031) |
| Supplies and capital outlay | 103,680 | 179,268 | 157,689 | (21,579) |
| | 1,795,302 | 2,099,865 | 2,041,181 | (58,684) |
| Office of the Principal: | | | | |
| Salaries | 711,717 | 698,043 | 700,300 | 2,257 |
| Fringe benefits | 407,627 | 432,049 | 436,236 | 4,187 |
| Purchased services | 1,950 | 1,950 | 728 | (1,222) |
| Supplies and capital outlay | 120,650 | 121,002 | 112,031 | (8,971) |
| | 1,241,944 | 1,253,044 | 1,249,295 | (3,749) |
| District support services: | | | | |
| Salaries | 325,336 | 354,685 | 351,332 | (3,353) |
| Fringe benefits | 172,095 | 211,498 | 200,549 | (10,949) |
| Purchased services | 351,036 | 390,763 | 358,277 | (32,486) |
| Supplies and capital outlay | 64,726 | 56,748 | 40,969 | (15,779) |
| | 913,193 | 1,013,694 | 951,127 | (62,567) |
| Operations and maintenance: | | | | |
| Salaries | 321,714 | 327,504 | 326,697 | (807) |
| Fringe benefits | 260,627 | 240,377 | 250,772 | 10,395 |
| Purchased services | 502,040 | 527,165 | 487,063 | (40,102) |
| Supplies and capital outlay | 625,335 | 582,285 | 506,095 | (76,190) |
| | 1,709,716 | 1,677,331 | 1,570,627 | (106,704) |
| Pupil transportation: | | | | |
| Salaries | 492,500 | 529,080 | 494,430 | (34,650) |
| Fringe benefits | 376,440 | 439,406 | 420,324 | (19,082) |
| Purchased services | 33,980 | 58,320 | 55,992 | (2,328) |
| Supplies and capital outlay | 201,320 | 159,832 | 148,905 | (10,927) |
| | 1,104,240 | 1,186,638 | 1,119,651 | (66,987) |
| Athletics: | | | | |
| Salaries | 191,474 | 186,265 | 199,736 | 13,471 |
| Fringe benefits | 81,740 | 80,304 | 55,017 | (25,287) |
| Purchased services | 101,935 | 112,125 | 111,498 | (627) |
| Supplies and capital outlay | 41,338 | 56,167 | 72,092 | 15,925 |
| | 416,487 | 434,861 | 438,343 | 3,482 |
| Total support services | 7,180,882 | 7,665,433 | 7,370,224 | (295,209) |

Continued...

## Detailed Schedule of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual

General Fund

For the Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---|---|---|---|---|
| **Expenditures (Concluded)** | | | | |
| Community services: | | | | |
| Salaries | $ 43,552 | $ 37,216 | $ 33,901 | $ (3,315) |
| Fringe benefits | 16,048 | 15,346 | 12,637 | (2,709) |
| Purchased services | - | - | 225 | 225 |
| Supplies and capital outlay | 51,136 | 3,562 | 3,414 | (148) |
| Total community services | 110,736 | 56,124 | 50,177 | (5,947) |
| Debt service: | | | | |
| Principal | 74,000 | 72,700 | 72,664 | (36) |
| Interest and fiscal charges | 35,600 | 36,100 | 34,661 | (1,439) |
| Total debt service | 109,600 | 108,800 | 107,325 | (1,475) |
| **Total expenditures** | 21,522,264 | 22,223,692 | 21,766,576 | (457,116) |
| **Net change in fund balance** | (224,047) | (108,024) | 234,496 | 342,520 |
| Fund balance, beginning of year | 1,443,710 | 1,443,710 | 1,443,710 | - |
| Prior period adjustment | - | (2,500) | (38,743) | (36,243) |
| **Fund balances, beginning of year, as restated** | 1,443,710 | 1,441,210 | 1,404,967 | (36,243) |
| **Fund balance, end of year** | $ 1,219,663 | $ 1,333,186 | $ 1,639,463 | $ 306,277 |

Concluded

## Combining Balance Sheet

Nonmajor Governmental Funds
June 30, 2015

| | Special Revenue Fund | Capital Project Funds | |
|---|---|---|---|
| | Food Service | 2010 Construction | Public Improvement |
| **Assets** | | | |
| Cash and cash equivalents | $ 78,241 | $ 3,729 | $ 145,667 |
| Investments | - | 4,494 | - |
| Accounts receivable | 14,516 | - | - |
| Inventories | 18,563 | - | - |
| **Total assets** | $ 111,320 | $ 8,223 | $ 145,667 |
| **Liabilities** | | | |
| Accounts payable | $ 20,178 | $ - | $ 16,587 |
| Due to other funds | 39,563 | - | - |
| Accrued liabilities | 20,014 | - | - |
| **Total liabilities** | 79,755 | - | 16,587 |
| **Fund balances** | | | |
| Nonspendable for inventories | 18,563 | - | - |
| Restricted: | | | |
| Debt service | - | - | - |
| Capital projects | - | 8,223 | - |
| Food service | 13,002 | - | - |
| Committed for capital projects | - | - | 129,080 |
| **Total fund balances** | 31,565 | 8,223 | 129,080 |
| **Total liabilities and fund balances** | $ 111,320 | $ 8,223 | $ 145,667 |

| Debt Service Funds | | | |
| --- | --- | --- | --- |
| 2001 Debt Retirement | 2010 Debt Retirement | 2014 Refunding Bonds | Total |
| $ 529,416 | $ - | $ 279,273 | $ 1,036,326 |
| - | - | - | 4,494 |
| 78,081 | - | 53,902 | 146,499 |
| - | - | - | 18,563 |
| $ 607,497 | $ - | $ 333,175 | $ 1,205,882 |
| $ - | $ - | $ - | $ 36,765 |
| - | - | - | 39,563 |
| - | - | - | 20,014 |
| - | - | - | 96,342 |
| - | - | - | 18,563 |
| 607,497 | - | 333,175 | 940,672 |
| - | - | - | 8,223 |
| - | - | - | 13,002 |
| - | - | - | 129,080 |
| 607,497 | - | 333,175 | 1,109,540 |
| $ 607,497 | $ - | $ 333,175 | $ 1,205,882 |

## ESCANABA AREA PUBLIC SCHOOLS

### Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

| | Special Revenue Fund | Capital Project Funds | |
|---|---|---|---|
| | Food Service | 2010 Construction | Public Improvement |
| **Revenues** | | | |
| Local sources | $ 442,382 | $ 12 | $ 35,657 |
| State sources | 50,738 | - | - |
| Federal sources | 637,432 | - | - |
| **Total revenues** | 1,130,552 | 12 | 35,657 |
| **Expenditures** | | | |
| Current: | | | |
| Salaries | 310,485 | - | - |
| Fringe benefits | 203,903 | - | - |
| Food services | 635,363 | - | - |
| Debt service: | | | |
| Principal | - | - | 32,930 |
| Interest and fiscal charges | - | - | 11,201 |
| Capital outlay | - | 87,683 | 80,048 |
| **Total expenditures** | 1,149,751 | 87,683 | 124,179 |
| **Revenues over (under) expenditures** | (19,199) | (87,671) | (88,522) |
| **Other financing sources (uses)** | | | |
| Proceeds from issuance of long-term debt | - | - | - |
| Payment to escrow agent | - | - | - |
| Bond issuance cost | - | - | - |
| Transfers in | - | - | - |
| Transfers out | - | - | - |
| **Total other financing sources (uses)** | - | - | - |
| **Net changes in fund balances** | (19,199) | (87,671) | (88,522) |
| Fund balances, beginning of year | 50,764 | 95,894 | 217,602 |
| **Fund balances, end of year** | $ 31,565 | $ 8,223 | $ 129,080 |

| Debt Service Funds | | | |
|---|---|---|---|
| 2001 Debt Retirement | 2010 Debt Retirement | 2014 Refunding Bonds | Total |
| $ 1,789,060 | $ 1,232,444 | $ - | $ 3,499,555 |
| - | - | - | 50,738 |
| - | - | - | 637,432 |
| 1,789,060 | 1,232,444 | - | 4,187,725 |
| | | | |
| - | - | - | 310,485 |
| - | - | - | 203,903 |
| - | - | - | 635,363 |
| | | | |
| 1,300,000 | - | 535,000 | 1,867,930 |
| 396,330 | 373,405 | 395,475 | 1,176,411 |
| - | - | - | 167,731 |
| 1,696,330 | 373,405 | 930,475 | 4,361,823 |
| 92,730 | 859,039 | (930,475) | (174,098) |
| | | | |
| - | - | 21,163,392 | 21,163,392 |
| - | - | (21,049,780) | (21,049,780) |
| - | - | (211,612) | (211,612) |
| - | - | 1,361,650 | 1,361,650 |
| - | (1,361,650) | - | (1,361,650) |
| - | (1,361,650) | 1,263,650 | (98,000) |
| 92,730 | (502,611) | 333,175 | (272,098) |
| 514,767 | 502,611 | - | 1,381,638 |
| $ 607,497 | $ - | $ 333,175 | $ 1,109,540 |

## Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Food Service Special Revenue Fund

For the Year Ended June 30, 2015

| | Original Budget | Final Budget | Actual | Actual Over (Under) Final Budget |
|---|---|---|---|---|
| **Revenues** | | | | |
| Local sources | $ 494,975 | $ 496,230 | $ 442,382 | $ (53,848) |
| State sources | 46,500 | 48,590 | 50,738 | 2,148 |
| Federal sources | 630,000 | 610,000 | 637,432 | 27,432 |
| **Total revenues** | 1,171,475 | 1,154,820 | 1,130,552 | (24,268) |
| **Expenditures** | | | | |
| Current: | | | | |
| Salaries | 327,108 | 327,658 | 310,485 | (17,173) |
| Fringe benefits | 185,020 | 201,256 | 203,903 | 2,647 |
| Food services | 647,300 | 638,900 | 635,363 | (3,537) |
| Capital outlay | 9,300 | - | - | - |
| **Total expenditures** | 1,168,728 | 1,167,814 | 1,149,751 | (18,063) |
| **Change in fund balance** | 2,747 | (12,994) | (19,199) | (6,205) |
| Fund balance, beginning of year | 50,764 | 50,764 | 50,764 | - |
| **Fund balance, end of year** | $ 53,511 | $ 37,770 | $ 31,565 | $ (6,205) |

## ESCANABA AREA PUBLIC SCHOOLS

### Combining Statement of Fiduciary Net Position

Private Purpose Trust Funds - Scholarships

June 30, 2015

| | Scholarship Funds | | | |
|---|---|---|---|---|
| | Anna C. Norton | Co-mingled | Special Education | Total |
| **Assets** | | | | |
| Cash and cash equivalents | $ 7,941 | $ 49,626 | $ - | $ 57,567 |
| Accrued interest receivable | 6,513 | 14,860 | - | 21,373 |
| Investments - at fair value | 1,712,321 | 3,805,129 | - | 5,517,450 |
| **Total assets (equal to net position restricted for scholarships)** | $ 1,726,775 | $ 3,869,615 | $ - | $ 5,596,390 |

## ESCANABA AREA PUBLIC SCHOOLS

### Combining Statement of Changes in Fiduciary Net Position

Private Purpose Trust Funds - Scholarships
For the Year Ended June 30, 2015

| | Scholarship Funds | | | |
|---|---|---|---|---|
| | Anna C. Norton | Co-mingled | Special Education | Total |
| **Additions** | | | | |
| Contributions | $ - | $ 238,746 | $ - | $ 238,746 |
| Investment income: | | | | |
| Interest and dividends | 44,216 | 102,287 | 31 | 146,534 |
| Gain on sale of investments | 29,672 | 62,760 | - | 92,432 |
| Net decrease in fair value of investments | (37,480) | (121,079) | - | (158,559) |
| Net investment income | 36,408 | 43,968 | 31 | 80,407 |
| **Total additions** | 36,408 | 282,714 | 31 | 319,153 |
| **Deductions** | | | | |
| Scholarships and trophies | 53,283 | 339,953 | 24,632 | 417,868 |
| Trustee fees | 10,375 | 23,329 | - | 33,704 |
| **Total deductions** | 63,658 | 363,282 | 24,632 | 451,572 |
| **Change in net position** | (27,250) | (80,568) | (24,601) | (132,419) |
| Net position, beginning of year | 1,754,025 | 3,950,183 | 24,601 | 5,728,809 |
| **Net position, end of year** | $ 1,726,775 | $ 3,869,615 | $ - | $ 5,596,390 |

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## Schedule of Changes in Fiduciary Net Position (Unaudited)

Co-mingled Scholarships Fund
For the Year Ended June 30, 2015

| | | Additions | | | | |
|---|---|---|---|---|---|---|
| | Net Position July 1, 2014 | Contributions | Interest and Dividends | Gain on sale of Investments | Increase in Fair Value of Investments | Total Additions |
| **Investment accounts** | | | | | | |
| Adamini, Peter Memorial | $ 11,225 | $ - | $ 306 | $ 188 | $ (363) | $ 131 |
| Aronson, Arthur V. and Elin C. | 109,382 | - | 2,985 | 1,832 | (3,534) | 1,283 |
| Beauchamp, Grace Huston | 15,807 | - | 431 | 265 | (511) | 185 |
| Beck, Conrad D. | 9,063 | - | 247 | 152 | (293) | 106 |
| Bennets, Jeanee | 13,595 | - | 371 | 228 | (439) | 160 |
| Berhow, Rona Rae Memorial | 1,000 | 1,000 | 27 | 17 | (32) | 1,012 |
| Berndt, Sherry | 46,028 | - | 1,256 | 771 | (1,487) | 540 |
| Besse, John and Patricia, and Abrahamson(s) | 220,000 | - | 6,003 | 3,684 | (7,110) | 2,577 |
| Bero, Willard and Joyce | 58,280 | - | 1,591 | 976 | (1,883) | 684 |
| Bonifas, Catherine | 119,277 | - | 3,256 | 1,997 | (3,854) | 1,399 |
| Bosk, Robert & Olga | 51,561 | 5,000 | 1,407 | 863 | (1,666) | 5,604 |
| Chernick, John Memorial | 2,763 | - | 75 | 46 | (89) | 32 |
| Class of 1963 | 1,500 | - | 41 | 25 | (48) | 18 |
| Class of 1959 | 18,057 | 5,466 | 493 | 302 | (583) | 5,678 |
| Cohodas, Sam M. | 9,691 | - | 265 | 162 | (313) | 114 |
| Coplan Family Music | 46,628 | - | 1,273 | 781 | (1,506) | 548 |
| Coplan, BA Memorial | 6,742 | 50,114 | 184 | 113 | (218) | 50,193 |
| Cvengros, Jerry Memorial | 4,125 | 1,540 | 113 | 69 | (133) | 1,589 |
| Cunningham Family | 10,063 | - | 275 | 169 | (325) | 119 |
| Dagenais, Elmer & Phoebe | - | 10,000 | - | - | - | 10,000 |
| Derkos, Danny Memorial | - | 10,000 | - | - | - | 10,000 |
| Derouin, Dean | 2,971 | 1,000 | 81 | 50 | (96) | 1,035 |
| Diedrich, Louis | 14,936 | - | 408 | 250 | (483) | 175 |
| Dufour, Susan C. and Thomas D. | 7,919 | - | 216 | 133 | (256) | 93 |
| Dunstone, Robert Memorial | - | 4,100 | - | - | - | 4,100 |
| Edick, Edward E. | 11,798 | - | 322 | 198 | (381) | 139 |
| Escanaba Educational Trust | 16,309 | - | 445 | 273 | (527) | 191 |
| Fernstrom, Esther | 9,946 | - | 271 | 167 | (321) | 117 |
| Ferrari, Joan Hesse | 10,804 | 250 | 295 | 181 | (349) | 377 |
| Fontaine, Sally Stack | 300 | 10,000 | 8 | 6 | (10) | 10,004 |
| Fleming, Lawrence and Nina | 16,967 | - | 463 | 284 | (548) | 199 |
| Freidhoff, Steve Memorial | 1,953 | - | 53 | 33 | (63) | 23 |
| Gasman, John T. Memorial | 1,282 | - | 35 | 21 | (41) | 15 |
| Gessner, Charles H. Family | 91,220 | - | 2,490 | 1,528 | (2,947) | 1,071 |
| Gordon, Dr. E. James | 273,243 | - | 7,458 | 4,576 | (8,828) | 3,206 |
| Grab, George | 32,256 | - | 880 | 540 | (1,042) | 378 |
| Hansen, John Wesley Memorial | 16,427 | - | 448 | 275 | (531) | 192 |
| Haslow, Robert L. Memorial | - | 5,250 | - | - | - | 5,250 |
| Johnson, Bradley D. | 69,891 | | 1,908 | 1,170 | (2,258) | 820 |
| Karkkainen, Melvin | 2,714 | 1,000 | 74 | 45 | (88) | 1,031 |
| Kirsten, Herbert and Irene | 17,567 | - | 479 | 294 | (568) | 205 |
| Klemmetsen, Magda and Peder and | 320,926 | - | 8,759 | 5,374 | (10,368) | 3,765 |
| Koontz, John D. and Barbara Memorial | 4,460 | - | 122 | 75 | (144) | 53 |
| LaFave, Olive C. | 34,062 | - | 930 | 570 | (1,100) | 400 |
| Lemerand, Clarence and Della | 396,346 | - | 10,818 | 6,637 | (12,805) | 4,650 |
| Lindstrom, James | 4,324 | - | 118 | 72 | (140) | 50 |
| Louis, Frank B. and Mamie A. | 151,832 | - | 4,144 | 2,543 | (4,905) | 1,782 |
| McCotter, Delores | 1,874 | - | 51 | 31 | (61) | 21 |
| McDermott, Thomas Memorial | 51,678 | 1,750 | 1,410 | 865 | (1,670) | 2,355 |
| McKie, Donald | 29,046 | - | 793 | 486 | (938) | 341 |
| McInerney, Dr. Thomas and Dr. Edna | 71,358 | - | 1,948 | 1,195 | (2,305) | 838 |
| Micensky, Robert | 3,267 | - | 89 | 55 | (106) | 38 |

| Deductions | | | | | | | |
|---|---|---|---|---|---|---|---|
| Scholarships and Trophies | Trustee Fees | Total Deductions | Adjustments | Change in Net Position | Net Position June 30, 2015 | Accumulated Contributions to Fund | Remaining Balance |
| $ 500 | $ 70 | $ 570 | $ - | $ (439) | $ 10,786 | $ 8,510 | $ 2,276 |
| 3,950 | 680 | 4,630 | - | (3,347) | 106,035 | 80,325 | 25,710 |
| 700 | 98 | 798 | - | (613) | 15,194 | 10,000 | 5,194 |
| 400 | 56 | 456 | - | (350) | 8,713 | 4,040 | 4,673 |
| 650 | 85 | 735 | - | (575) | 13,020 | 11,898 | 1,122 |
| 1,000 | 6 | 1,006 | - | 6 | 1,006 | 2,000 | (994) |
| 2,100 | 286 | 2,386 | - | (1,846) | 44,182 | 31,376 | 12,806 |
| 5,000 | 1,368 | 6,368 | (100,000) | (103,791) | 116,209 | 120,000 | (3,791) |
| 2,600 | 362 | 2,962 | - | (2,278) | 56,002 | 40,000 | 16,002 |
| 5,400 | 742 | 6,142 | - | (4,743) | 114,534 | 50,000 | 64,534 |
| 2,400 | 321 | 2,721 | - | 2,883 | 54,444 | 44,500 | 9,944 |
| 125 | 17 | 142 | - | (110) | 2,653 | 2,200 | 453 |
| 500 | 9 | 509 | - | (491) | 1,009 | 1,500 | (491) |
| 929 | 122 | 1,051 | - | 4,627 | 22,684 | 19,685 | 2,999 |
| 450 | 60 | 510 | - | (396) | 9,295 | 5,186 | 4,109 |
| 2,100 | 290 | 2,390 | - | (1,842) | 44,786 | 25,000 | 19,786 |
| - | 42 | 42 | - | 50,151 | 56,893 | 56,856 | 37 |
| - | 26 | 26 | - | 1,563 | 5,688 | 5,665 | 23 |
| 500 | 63 | 563 | - | (444) | 9,619 | 6,100 | 3,519 |
| - | - | - | - | 10,000 | 10,000 | - | - |
| - | - | - | - | 10,000 | 10,000 | - | - |
| 150 | 18 | 168 | - | 867 | 3,838 | 2,104 | 1,734 |
| 700 | 93 | 793 | - | (618) | 14,318 | 11,400 | 2,918 |
| 350 | 49 | 399 | - | (306) | 7,613 | 5,170 | 2,443 |
| - | - | - | - | 4,100 | 4,100 | - | - |
| 500 | 73 | 573 | - | (434) | 11,364 | 5,507 | 5,857 |
| 600 | 101 | 701 | - | (510) | 15,799 | 11,603 | 4,196 |
| 450 | 62 | 512 | - | (395) | 9,551 | 4,226 | 5,325 |
| 500 | 67 | 567 | - | (190) | 10,614 | 7,695 | 2,919 |
| 300 | 2 | 302 | - | 9,702 | 10,002 | 10,300 | (298) |
| 800 | 106 | 906 | - | (707) | 16,260 | 10,000 | 6,260 |
| 100 | 12 | 112 | - | (89) | 1,864 | 1,941 | (77) |
| 100 | 8 | 108 | - | (93) | 1,189 | 1,115 | 74 |
| 4,200 | 567 | 4,767 | - | (3,696) | 87,524 | 64,963 | 22,561 |
| 5,000 | 1,699 | 6,699 | - | (3,493) | 269,750 | 218,131 | 51,619 |
| 750 | 201 | 951 | - | (573) | 31,683 | 20,000 | 11,683 |
| 750 | 102 | 852 | - | (660) | 15,767 | 11,250 | 4,517 |
| - | - | - | - | 5,250 | 5,250 | - | - |
| 3,200 | 435 | 3,635 | - | (2,815) | 67,076 | 48,803 | 18,273 |
| 1,000 | 21 | 1,021 | - | 10 | 2,724 | 6,000 | (3,276) |
| 800 | 109 | 909 | - | (704) | 16,863 | 10,000 | 6,863 |
| 11,200 | 1,996 | 13,196 | - | (9,431) | 311,495 | 232,350 | 79,145 |
| 200 | 28 | 228 | - | (175) | 4,285 | 1,455 | 2,830 |
| 1,500 | 212 | 1,712 | - | (1,312) | 32,750 | 20,000 | 12,750 |
| 12,150 | 2,462 | 14,612 | - | (9,962) | 386,384 | 300,741 | 85,643 |
| 192 | 27 | 219 | - | (169) | 4,155 | 4,100 | 55 |
| 7,750 | 944 | 8,694 | - | (6,912) | 144,920 | 89,945 | 54,975 |
| 100 | 12 | 112 | - | (91) | 1,783 | 1,500 | 283 |
| 2,200 | 324 | 2,524 | - | (169) | 51,509 | 46,420 | 5,089 |
| 1,350 | 181 | 1,531 | - | (1,190) | 27,856 | 24,176 | 3,680 |
| 3,300 | 444 | 3,744 | - | (2,906) | 68,452 | 50,000 | 18,452 |
| 150 | 20 | 170 | - | (132) | 3,135 | 2,470 | 665 |

Continued...

## ESCANABA AREA PUBLIC SCHOOLS

**Schedule of Changes in Fiduciary Net Position (Unaudited)**
Co-mingled Scholarships Fund
For the Year Ended June 30, 2015

| | Net Position July 1, 2014 | Additions: Contributions | Additions: Interest and Dividends | Additions: Gain on sale of Investments | Additions: Increase in Fair Value of Investments | Total Additions |
|---|---|---|---|---|---|---|
| **Investment accounts** | | | | | | |
| Milkiewicz, Kim Ann | $ 12,637 | $ - | $ 345 | $ 212 | $ (408) | $ 149 |
| Milkiewicz, Stephen M. | 5,446 | - | 149 | 91 | (176) | 64 |
| Molin, Jack and Class of 1944 | 33,815 | 6,355 | 923 | 566 | (1,092) | 6,752 |
| Mroczkowski, Dale/Fritolay | 1,293 | - | 35 | 22 | (42) | 15 |
| Nordberg, Carl A. | 17,826 | 25 | 487 | 299 | (576) | 235 |
| O'Donnell, Anne C. | 31,884 | - | 870 | 534 | (1,030) | 374 |
| Olson, Joanne Taylor | 13,690 | - | 374 | 229 | (442) | 161 |
| Owen, Robert A. and Ruth | 35,464 | - | 968 | 594 | (1,146) | 416 |
| Owens, Georgia Gibbs/Irwin and Marge Gibbs | 247,077 | - | 6,744 | 4,138 | (7,983) | 2,899 |
| Peterson, Ken | 2,083 | - | 57 | 35 | (67) | 25 |
| Pfotenhauer/Gessner | 13,874 | - | 379 | 232 | (448) | 163 |
| Puckelwartz, William H. | 32,231 | - | 880 | 540 | (1,041) | 379 |
| Reade, H.W. | 25,196 | - | 688 | 422 | (814) | 296 |
| Ruwitch, George | 37,650 | - | 1,028 | 631 | (1,216) | 443 |
| Sayklly, Josephine | 12,247 | - | 334 | 205 | (396) | 143 |
| Schram, Dick Memorial | 14,603 | - | 399 | 245 | (472) | 172 |
| St. Louis, Maria, George and Stanley | 380,910 | - | 10,397 | 6,379 | (12,306) | 4,470 |
| St. Pierre | 4,314 | - | 118 | 72 | (139) | 51 |
| Stein, Danile | 50,924 | - | 1,390 | 853 | (1,645) | 598 |
| Taylor, Al Family | 134,681 | - | 3,676 | 2,255 | (4,352) | 1,579 |
| Taylor, Francis and Nancy | 134,921 | - | 3,683 | 2,259 | (4,359) | 1,583 |
| Taylor, Naomi Memorial | 37,569 | - | 1,025 | 629 | (1,214) | 440 |
| Timmer, Gene | 3,735 | - | 102 | 63 | (121) | 44 |
| VanEffen, William J. | 7,956 | - | 217 | 133 | (257) | 93 |
| Wickstrom, Carl | 2,044 | - | 56 | 34 | (66) | 24 |
| Wylie, Henry | 4,288 | - | 117 | 72 | (139) | 50 |
| Young, A.J. | 26,793 | - | 731 | 449 | (866) | 314 |
| | 3,747,614 | 112,850 | 102,287 | 62,760 | (121,079) | 156,818 |
| **Cash accounts** | | | | | | |
| Addison, Ruth | 7,568 | 5,136 | - | - | - | 5,136 |
| Felton, Oliver Memorial | 6,989 | 5,902 | - | - | - | 5,902 |
| Henslee, Forrest and Mary | 21,852 | 3,780 | - | - | - | 3,780 |
| Hirn, Robert & Elva | 141,818 | 69,543 | - | - | - | 69,543 |
| Kintziger, Louis J. | 7,783 | 4,586 | - | - | - | 4,586 |
| Maki, Arnie & Violet | 8,368 | 10,746 | - | - | - | 10,746 |
| Pearson, Harold R. and Mary Noyes | (8,433) | - | - | - | - | - |
| Sackerson, Edward J. | 12,812 | 5,000 | - | - | - | 5,000 |
| Miscellaneous contributions | 3,812 | 21,203 | - | - | - | 21,203 |
| | 202,569 | 125,896 | - | - | - | 125,896 |
| Total | $ 3,950,183 | $ 238,746 | $ 102,287 | $ 62,760 | $ (121,079) | $ 282,714 |

| Deductions | | | | | | | |
|---|---|---|---|---|---|---|---|
| Scholarships and Trophies | Trustee Fees | Total Deductions | Adjustments | Change in Net Position | Net Position June 30, 2015 | Accumulated Contributions to Fund | Remaining Balance |
| $ 600 | $ 79 | $ 679 | $ - | $ (530) | $ 12,107 | $ 2,600 | $ 9,507 |
| - | 34 | 34 | - | 30 | 5,476 | 8,500 | (3,024) |
| 1,770 | 217 | 1,987 | - | 4,765 | 38,580 | 29,644 | 8,936 |
| 1,000 | 8 | 1,008 | - | (993) | 300 | 2,293 | (1,993) |
| 825 | 111 | 936 | - | (701) | 17,125 | 11,562 | 5,563 |
| 1,500 | 198 | 1,698 | - | (1,324) | 30,560 | 21,005 | 9,555 |
| 625 | 85 | 710 | - | (549) | 13,141 | 10,000 | 3,141 |
| 1,600 | 221 | 1,821 | - | (1,405) | 34,059 | 25,000 | 9,059 |
| 11,200 | 1,537 | 12,737 | - | (9,838) | 237,239 | 153,755 | 83,484 |
| 100 | 13 | 113 | - | (88) | 1,995 | 1,500 | 495 |
| 602 | 86 | 688 | - | (525) | 13,349 | 10,000 | 3,349 |
| 1,500 | 200 | 1,700 | - | (1,321) | 30,910 | 12,962 | 17,948 |
| 1,200 | 157 | 1,357 | - | (1,061) | 24,135 | 10,150 | 13,985 |
| 1,800 | 234 | 2,034 | - | (1,591) | 36,059 | 28,096 | 7,963 |
| 550 | 76 | 626 | - | (483) | 11,764 | 10,000 | 1,764 |
| 700 | 91 | 791 | - | (619) | 13,984 | 10,090 | 3,894 |
| 17,500 | 2,369 | 19,869 | - | (15,399) | 365,511 | 234,975 | 130,536 |
| 200 | 27 | 227 | - | (176) | 4,138 | 3,361 | 777 |
| 2,400 | 317 | 2,717 | - | (2,119) | 48,805 | 35,000 | 13,805 |
| 2,517 | 838 | 3,355 | - | (1,776) | 132,906 | 100,000 | 32,906 |
| 4,067 | 839 | 4,906 | - | (3,323) | 131,598 | 100,000 | 31,598 |
| 1,750 | 234 | 1,984 | - | (1,544) | 36,025 | 25,000 | 11,025 |
| 253 | 23 | 276 | - | (232) | 3,503 | 2,814 | 689 |
| 350 | 49 | 399 | - | (306) | 7,650 | 5,000 | 2,650 |
| 3,125 | 13 | 3,138 | - | (3,114) | (1,070) | 7,180 | (8,250) |
| 200 | 27 | 227 | - | (177) | 4,111 | 2,708 | 1,403 |
| 1,200 | 168 | 1,368 | - | (1,054) | 25,739 | 9,900 | 15,839 |
| 148,780 | 23,329 | 172,109 | (100,000) | (115,289) | 3,632,324 | 2,650,651 | 981,674 |
| | | | | | | | |
| - | - | - | - | 5,136 | 12,704 | 9,304 | 3,400 |
| 6,200 | - | 6,200 | - | (298) | 6,691 | 12,025 | (5,334) |
| 975 | - | 975 | - | 2,805 | 24,657 | 25,171 | (514) |
| 44,113 | - | 44,113 | - | 25,430 | 167,248 | 127,530 | 39,718 |
| 3,850 | - | 3,850 | - | 736 | 8,518 | 11,813 | (3,295) |
| 11,000 | - | 11,000 | - | (254) | 8,114 | 20,472 | (12,358) |
| - | - | - | - | - | (8,433) | - | (8,433) |
| 5,000 | - | 5,000 | - | - | 12,812 | 10,000 | 2,812 |
| 20,035 | - | 20,035 | - | 1,168 | 4,980 | 31,078 | (26,098) |
| 91,173 | - | 91,173 | - | 34,723 | 237,291 | 247,393 | (10,102) |
| | | | | | | | |
| $ 239,953 | $ 23,329 | $ 263,282 | $ (100,000) | $ (80,566) | $ 3,869,615 | $ 2,898,044 | $ 971,572 |

Concluded

## ESCANABA AREA PUBLIC SCHOOLS

### Statement of Changes in Fiduciary Assets and Liabilities

Agency Fund

For the Year Ended June 30, 2015

| | Balance July 1, 2014 | Additions | Deletions | Balance June 30, 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 115,960 | $ 150,542 | $ (154,588) | $ 111,914 |
| **Liabilities** | | | | |
| Accounts payable | $ 2,518 | $ - | $ (2,518) | $ - |
| Due to student activities | 113,442 | 150,542 | (152,070) | 111,914 |
| **Total liabilities** | $ 115,960 | $ 150,542 | $ (154,588) | $ 111,914 |

The balances due to student activities consist of the following:

| | Balance July 1, 2014 | Additions | Deletions | Balance June 30, 2015 |
|---|---|---|---|---|
| **Upper Elementary** | | | | |
| Interest | $ 173 | $ 17 | $ - | $ 190 |
| Parents as partners | 97 | - | (79) | 18 |
| Library fund | 2,068 | 4,505 | (4,853) | 1,720 |
| Music fund - band | (200) | - | - | (200) |
| Pop fund | 266 | 498 | (775) | (11) |
| Working account | 423 | 1,382 | (1,379) | 426 |
| Student council | 31 | - | - | 31 |
| 4th grade | 3,349 | 11,790 | (12,186) | 2,953 |
| 5th grade | 398 | 2,917 | (2,829) | 486 |
| Mid School 6-1 | 147 | 9,527 | (9,503) | 171 |
| Mid School special ed | 124 | - | - | 124 |
| Drama | 422 | 15 | (23) | 414 |
| **Total Upper Elementary** | 7,298 | 30,651 | (31,627) | 6,322 |
| **Elementary** | 7,012 | 4,228 | (4,232) | 7,008 |
| **Senior High Activities** | | | | |
| Publications | 6,969 | - | 51 | 7,020 |
| Activities | 601 | - | 197 | 798 |
| Prior Classes | 9,249 | - | 2,447 | 11,696 |
| Music | 18,210 | - | (6,013) | 12,197 |
| Clubs | 19,348 | - | 1,937 | 21,285 |
| General | 20,536 | - | (12,602) | 7,934 |
| Concessions | (321) | - | 3,281 | 2,960 |
| | | | - | |
| **Total Senior High Activities** | 74,592 | - | (10,702) | 63,890 |

Continued...

## ESCANABA AREA PUBLIC SCHOOLS

### Statement of Changes in Fiduciary Assets and Liabilities

Agency Fund
For the Year Ended June 30, 2015

| | Balance July 1, 2014 | Additions | Deletions | Balance June 30, 2015 |
|---|---|---|---|---|
| **Athletic Camps** | | | | |
| Boys basketball | $ 2,427 | $ 13,703 | $ (13,278) | $ 2,852 |
| Cheerleading | 727 | 6,417 | (4,518) | 2,626 |
| Cross country | 1,420 | 2,089 | (2,548) | 961 |
| Football | 4,821 | 26,084 | (26,455) | 4,450 |
| Girls basketball | 156 | 6,731 | (6,289) | 598 |
| Golf | 48 | 10,234 | (9,974) | 308 |
| Gymnastics | - | 50 | (50) | - |
| Boy's tennis | 149 | 4,315 | (279) | 4,185 |
| Girl's tennis | 113 | - | - | 113 |
| Boy's Track | 80 | 1,865 | (1,115) | 830 |
| Volleyball | 256 | 1,500 | (1,228) | 528 |
| Wrestling | 653 | 599 | (680) | 572 |
| Baseball | 500 | 650 | - | 1,150 |
| Girls softball | 1,529 | 6,868 | (3,506) | 4,891 |
| Girl's Track | - | 973 | - | 973 |
| **Total Athletic Camps** | 12,879 | 82,078 | (69,920) | 25,037 |
| **Junior High Activities** | | | | |
| Interest | 3 | - | - | 3 |
| Student council | 544 | 497 | (309) | 732 |
| Challenge day | 4,011 | - | (2,450) | 1,561 |
| Yearbook | 1,091 | 2,966 | (2,495) | 1,562 |
| Working account | 72 | 257 | (236) | 93 |
| Builders club | 1,414 | 6,458 | (6,867) | 1,005 |
| 7th grade 7-1 | 166 | - | - | 166 |
| 8th grade 8-1 | 386 | 50 | (75) | 361 |
| Concession | 603 | 3,973 | (3,973) | 603 |
| Band | 4,942 | 17,813 | (19,184) | 3,571 |
| Robotics | (1,571) | 1,571 | - | - |
| **Total Junior High Activities** | 11,661 | 33,585 | (35,589) | 9,657 |
| **Total** | $ 113,442 | $ 150,542 | $ (152,070) | $ 111,914 |

Concluded

# OTHER INFORMATION (UNAUDITED)

## Schedule of Taxable Valuations, Tax Rates and Tax Levies (Unaudited)

For the Year Ended June 30, 2015

| | Taxable Valuation | Per $1,000 Valuation | Tax Levy |
|---|---|---|---|
| **General Fund** | | | |
| (on non-homestead taxable valuation only) | | | |
| City of Escanaba | $138,567,993 | 6-18 mills | $ 2,494,224 |
| Wells Township (Delta County) | 44,147,590 | 6-18 mills | 794,657 |
| Ford River Township | 17,710,582 | 6-18 mills | 318,790 |
| Cornell Township | 8,277,459 | 6-18 mills | 148,994 |
| Wells Township (Marquette County) | 1,089,530 | 6-18 mills | 19,612 |
| **Total General Fund** | $209,793,154 | 6-18 mills | $ 3,776,277 |
| **2010 Debt Retirement Fund** | | | |
| (on total taxable valuation) | | | |
| City of Escanaba | $300,747,888 | 2.13 mills | $ 583,451 |
| Wells Township (Delta County) | 234,834,460 | 2.13 mills | 455,579 |
| Ford River Township | 61,218,228 | 2.13 mills | 118,763 |
| Cornell Township | 20,642,211 | 2.13 mills | 40,046 |
| Wells Township (Marquette County) | 1,583,649 | 2.13 mills | 3,072 |
| **Total 2010 Debt Retirement Fund** | $619,026,436 | 2.13 mills | $ 1,200,911 |
| **2001 Debt Retirement Fund** | | | |
| (on total taxable valuation) | | | |
| City of Escanaba | $300,747,888 | 2.62 mills | $ 845,102 |
| Wells Township (Delta County) | 234,834,460 | 2.62 mills | 659,885 |
| Ford River Township | 61,218,228 | 2.62 mills | 172,023 |
| Cornell Township | 20,642,211 | 2.62 mills | 58,005 |
| Wells Township (Marquette County) | 1,583,649 | 2.62 mills | 4,450 |
| **Total 2001 Debt Retirement Fund** | $619,026,436 | 2.62 mills | $ 1,739,464 |

# SINGLE AUDIT ACT COMPLIANCE

Rehmann

Rehmann Robson

902 South Huron
Cheboygan, MI 49721
Ph: 231.627.3143
Fx: 231.627.5787
rehmann.com

## INDEPENDENT AUDITORS' REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

November 2, 2015

Board of Education
Escanaba Area Public Schools
Escanaba, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Escanaba Area Public Schools* (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 2, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Rehmann Robson LLC

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## Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

| Federal Agency / Cluster / Program Title | CFDA Number | Passed Through | Pass-through / Grantor Number | Approved Grant Award Amount |
|---|---|---|---|---|
| **U.S. Department of Agriculture** | | | | |
| Child Nutrition Cluster: | | | | |
| Cash assistance: | | | | |
| National school lunch - breakfast | 10.553 | MDE | 141970 | $ 84,774 |
| National school lunch - breakfast | 10.553 | MDE | 151970 | 85,216 |
| National school lunch program section 11 all lunches | 10.555 | MDE | 141960 | 467,016 |
| National school lunch program section 11 all lunches | 10.555 | MDE | 151960 | 418,236 |
| Summer food service program - operating | 10.559 | MDE | 140900 | 4,112 |
| Summer food service program - operating | 10.559 | MDE | 150900 | 12,702 |
| Summer food service program - administrative | 10.559 | MDE | 151900 | 1,328 |
| Non-cash assistance: | | | | |
| Entitlement commodities | 10.555 | MDE | n/a | 57,367 |
| Bonus commodities | 10.555 | MDE | n/a | 215 |
| **Total U.S. Department of Agriculture** | | | | |
| **U.S. Department of Education** | | | | |
| Title I, Part A Cluster: | | | | |
| Title I, Part A - Improving Basic Programs | 84.010 | MDE | 141530-1314 | 654,397 |
| Title I, Part A - Improving Basic Programs | 84.010 | MDE | 151530-1415 | 625,865 |
| Title I, Part A - Improving Basic Programs | 84.010 | GLAS | 151530-1415 | 4,730 |
| Indian Education 14/15 | 84.060A | Direct | n/a | 40,076 |
| Title II, Part A - Improving Teacher Quality | 84.367 | MDE | 140520-1314 | 306,642 |
| Title II, Part A - Improving Teacher Quality | 84.367 | MDE | 150520-1415 | 259,601 |
| Title VI, Part B Rural and Low Income | 84.358 | MDE | 150660-1415 | 46,788 |
| **Total U.S. Department of Education** | | | | |
| **U.S. Department of Health and Human Services** | | | | |
| Medicaid Cluster: | | | | |
| Medicaid Outreach | 93.778 | DISD | n/a | 6,228 |
| **Total Federal Financial Assistance** | | | | |

See notes to schedule of expenditures of federal awards.

| Accrued Revenue June 30, 2014 | Current Year Cash Received | Expenditures (Memo Only) Prior Year(s) | Expenditures Year Ended June 30, 2015 | Accrued Revenue June 30, 2015 |
|---|---|---|---|---|
| $ 14,987 | $ 21,469 | $ 78,292 | $ 6,482 | $ - |
| - | 85,216 | - | 85,216 | - |
| 71,366 | 131,688 | 406,694 | 60,322 | - |
| - | 418,236 | - | 418,236 | - |
| 2,224 | 6,336 | 2,224 | 4,112 | - |
| - | - | - | 4,963 | 4,963 |
| - | - | - | 519 | 519 |
| - | 57,367 | - | 57,367 | - |
| - | 215 | - | 215 | - |
| 88,577 | 720,527 | 487,210 | 637,432 | 5,482 |
| 66,333 | 66,333 | 619,903 | - | - |
| - | 534,074 | - | 592,756 | 58,682 |
| - | - | - | 4,730 | 4,730 |
| 66,333 | 600,407 | 619,903 | 597,486 | 63,412 |
| - | 30,214 | - | 40,076 | 9,862 |
| 55,161 | 55,161 | 244,405 | - | - |
| - | 180,463 | - | 220,595 | 40,132 |
| 55,161 | 235,624 | 244,405 | 220,595 | 40,132 |
| - | 29,110 | - | 45,030 | 15,920 |
| 121,494 | 895,355 | 864,308 | 903,187 | 129,326 |
| - | 6,228 | - | 6,228 | - |
| $ 210,071 | $ 1,622,110 | $ 1,351,518 | $ 1,546,847 | $ 134,808 |

## Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

**RECONCILIATION TO GRANT SECTION AUDITORS' REPORT**

| | |
|---|---|
| Current payments per the Grant Auditor Report | $ 1,438,408 |
| Plus: | |
| Change in Child Nutrition Cluster accounts receivable | 83,095 |
| 2013/2014 adjustments to Child Nutrition Cluster | 1,101 |
| 2014/2015 adjustments to Child Nutrition Cluster | (2,882) |
| Title I amounts passed through Gladstone Area Public School District receivable | 4,730 |
| Entitlement and bonus commodities | 57,582 |
| Direct award from Department of Education | 40,076 |
| **Total current year receipts per schedule of expenditures of federal awards** | $ 1,622,110 |

Concluded

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Escanaba Area Public Schools (the "District") under programs of the federal government for the year ended June 30, 2015. 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 the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

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

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

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this Schedule. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities. Spoilage and pilferage are included in expenditure amounts reported.

### 3. PASS-THROUGH AGENCIES

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

| Pass-through Agency Abbreviation | Pass-through Agency Name |
|---|---|
| DISD | Delta-Schoolcraft Intermediate School District |
| GLAS | Gladstone Area Public School District |
| MDE | Michigan Department of Education |

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

November 2, 2015

Board of Education
Escanaba Area Public Schools
Escanaba, MI

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Escanaba Area Public Schools* (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 2, 2015.

**Internal Control Over Financial Reporting**

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

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

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 District’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questions costs as item 2015-001 to be a material weakness.

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.

**Compliance and Other Matters**

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

**District's Response to Findings**

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

**Purpose of this Report**

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

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

November 2, 2015

Board of Education
Escanaba Area Public Schools
Escanaba, Michigan

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

We have audited the compliance of *Escanaba Area Public Schools* (the "District") with the types of compliance requirements described in the *2 CFR 200 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2015. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

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

*Independent Auditors' Responsibility*

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

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

*Opinion on the Major Federal Program*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2015.

**Report on Internal Control Over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

*Purpose of this Report*

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

Rehmann Robson LLC

# Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

## SECTION I - SUMMARY OF AUDITORS' RESULTS

**Financial Statements**

| | | |
|---|---|---|
| Type of auditors' report issued: | Unmodified | |
| Internal control over financial reporting: | | |
| Material weakness(es) identified? | X yes | no |
| Significant deficiency(ies) identified? | yes | X none reported |
| Noncompliance material to financial statements noted? | yes | X no |

**Federal Awards**

| | | |
|---|---|---|
| Internal control over major programs: | | |
| Material weakness(es) identified? | yes | X no |
| Significant deficiency(ies) identified? | yes | X none reported |
| Type of auditors' report issued on compliance for major programs: | Unmodified | |
| Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? | yes | X no |

Identification of a major program:

| CFDA Number | Name of Federal Program or Cluster |
|---|---|
| 10.553, 10.555 & 10.559 | Child Nutrition Cluster |
| 84.367 | Title II Part A |

| | | |
|---|---|---|
| Dollar threshold used to distinguish between Type A and Type B programs: | $ 300,000 | |
| Auditee qualified as low-risk auditee? | yes | X no |

## Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

### SECTION II – FINANCIAL STATEMENT FINDINGS

**Finding 2015-001:** **Recording, processing and summarizing data (Repeat).**

**Finding type:** Material weakness in internal control over financial reporting

**Criteria:** All governmental units are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

**Condition:** As is the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the District has placed reliance on its external auditors, who cannot by definition be considered a part of the District's internal controls.

**Cause:** This condition was caused by the District's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

**Effect:** As a result of this condition, the District lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task. Additionally, the District's financial statements were initially misstated by amounts that were material to the financial statements under audit.

**Recommendation:** The District should record all journal entries necessary to arrive at a reasonably adjusted trial balance prior to generating trial balances to be used for preparation of year-end financial statements.

**District's Response:** The District has historically relied on its independent external auditors to assist in recording, processing and summarizing certain accounting data, however, it is now the District's intensions to record all the necessary transactions and journal entries in order to provide a materially adjusted trial balance for all future audits.

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings noted.

## Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2015

**Finding 2014-FS-1 – Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.**

Management lacked internal controls over the preparation of the financial statements in accordance with GAAP. This finding was corrected.

**Finding 2014-FS-2 – Recording, processing and summarizing data.**

This is a repeat finding in the current year, see finding 2015-001.

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**INDEPENDENT AUDITORS' COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

November 2, 2015

Board of Education
Escanaba Area Public Schools
Escanaba, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Escanaba Area Public Schools* (the "District") as of and for the year ended June 30, 2015, and have issued our report thereon dated November 2, 2015. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility in Relation to the Financial Statement Audit**

As communicated in our engagement letter dated May 21, 2015, our responsibility, as described by professional standards, is to form and express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the District solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding internal control over financial reporting and compliance noted during our audit in a separate letter to you dated November 2, 2015.

**Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and in our meeting about planning matters on August 26, 2015.

**Compliance with All Ethics Requirements Regarding Independence**

The engagement team, others in our firm, as appropriate, and our firm has complied with all relevant ethical requirements regarding independence.

**Qualitative Aspects of the District's Significant Accounting Practices**

*Significant Accounting Policies*

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the District is included in Note 1 to the financial statements.

As described in Note 16 to the financial statements, the District changed accounting policies related to accounting for pension plans by adopting Statement of Governmental Accounting Standards Board (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions*. The cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Activities.

No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

*Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.

- The assumptions used in the actuarial valuations of the pension and other postemployment benefits plans are based on historical trends and industry standards.

We evaluated the key factors and assumptions used to develop these estimates and determined that they are reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units. In addition, the financial statements include a net pension liability and other pension-related amounts, which are dependent on estimates made by the plan. These estimates are based on historical trends and industry standards, but are not within the control of management.

**Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

**Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The material misstatements detected as a result of audit procedures and corrected by management are described in Attachment B to this letter.

The schedule of adjustments passed is included with management's written representations in Attachment C to this letter, and summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole and each applicable opinion unit.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the District's financial statements or the auditors' report. No such disagreements arose during the course of the audit.

**Representations Requested from Management**

We have requested certain written representations from management, which are included in Attachment C to this letter.

**Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

**Other Significant Matters, Findings, or Issues**

In the normal course of our professional association with the District, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the District's auditors.

**Other Information in Documents Containing Audited Financial Statements**

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole. We made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Upcoming Changes in Accounting Standards**

Generally accepted accounting principles (GAAP) are continually changing in order to promote the usability and enhance the applicability of information included in external financial reporting. While it would not be practical to include an in-depth discussion of every upcoming change in professional standards, Attachment A to this letter contains a brief overview of recent pronouncements of the Governmental Accounting Standards Board (GASB) and their related effective dates. Management is responsible for reviewing these standards, determining their applicability, and implementing them in future accounting periods.

This information is intended solely for the use of the governing body and management of *Escanaba Area Public Schools* and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Robson LLC

## Attachment A – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2015 Audit

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the District. For the complete text of these and other GASB standards, visit www.gasb.org and click on the "Standards & Guidance" tab. If you have questions regarding the applicability, timing, or implementation approach for any of these standards, please contact your audit team.

**GASB 72 ■ Fair Value Measurement and Application**

*Effective 06/15/2016 (your FY 2016)*

This standard defines "fair value" as the price that would be received to sell an asset in an orderly transaction between market participants (an "exit price"). Fair value measurement is currently applied principally to investments, which GASB 72 does not change. However, it does introduce specific methods for measuring fair value when a market price is not readily available, and establishes a 3-level hierarchy of fair value that is disclosed in the footnotes, based on the presence or absence of observable market inputs.

**GASB 73 ■ Pensions and Related Assets Not Within the Scope of GASB 68**

*Effective 06/15/2016 (your FY 2016)*

This standard addresses accounting and financial reporting for pensions that were not covered by GASB Statement No. 68, because the plan assets are not held in trust. Essentially, it applies the same treatment as GASB 68, but reflects the total pension liability and plan assets separately, rather than a net pension liability. We do not expect this standard to have any significant effect on the District.

**GASB 74 ■ Postemployment Benefit Plans Other than Pension Plans**

*Effective 06/15/2017 (your FY 2017)*

This standard requires the calculation of a net other postemployment benefit (OPEB) liability based on an actuarial valuation of retiree healthcare and similar benefits administered by an OPEB trust. It mirrors the new accounting and financial reporting requirements of GASB 67 for pension plans.

**GASB 75 ■ Postemployment Benefits Other than Pensions**

*Effective 06/15/2018 (your FY 2018)*

This standard builds on the requirements of GASB 74 by requiring employers that provide other postemployment benefits (OPEB) to recognize a net OPEB liability on their statements of net position. It mirrors the new accounting and financial reporting requirements of GASB 68 for pension benefits.

**GASB 76 ■ The Hierarchy of GAAP for State and Local Governments**

*Effective 06/15/2016 (your FY 2016)*

This standard clarifies the source of "generally accepted accounting principles" (GAAP) for governments. Authoritative sources of GAAP now include (1) GASB pronouncements, (2) GASB implementation guides, and (3) AICPA literature specifically cleared by the GASB. This standard does not change existing GAAP.

## Attachment A – Upcoming Changes in Accounting Standards / Regulations

For the June 30, 2015 Audit

**GASB 77 ■ Tax Abatement Disclosures**

*Effective 12/15/2016 (your FY 2017)*

This standard requires governments to disclose certain information about tax abatement agreements made to foster economic development or otherwise benefit the government or its citizens. Required disclosures include a brief description of the arrangement, the gross dollar amount of taxes abated in the current period, and any additional commitments made by the government as part of the agreement.

**2 CFR 200 ■ Uniform Guidance for Federal Awards**

*Cost Principles Effective 12/26/2014; Single Audit Requirements Effective 12/26/2015 (your FY 2016)*

The Office of Management and Budget (OMB) has consolidated seven separate circulars (including administrative requirements, cost principles, and audit requirements) into a single federal regulation. The new Uniform Guidance covers all aspects of federal grants from pre-award through the single audit. While much of the guidance was simply reorganized and recodified, there were also several substantive changes to the single audit thresholds. A single audit will now only be required if total expenditures of federal awards exceed $750,000 (up from $500,000). The OMB also made revisions to the list of compliance requirements tested in a single audit.

In addition, the Uniform Guidance now explicitly requires grant recipients to have sound internal controls (which should be consistent with the COSO framework), and documented procedures for grant administration. Written procedures are required for payments (cash draws), procurement (including conflicts of interest), allowability of costs, compensation, and travel costs. Rehmann is available to assist grant recipients in developing/documenting these policies and procedures in compliance with the new requirements.

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## ESCANABA AREA PUBLIC SCHOOLS

### Attachment B -Proposed and Accepted Government-Wide Audit Adjustments

For the June 30, 2015 Audit

| | Account number | Description | Debit | Credit |
|---|---|---|---|---|
| 1 | 934-000-014 | GASB 34 - GA Instructional Services | $ 339,111 | $ - |
| | 934-000-018 | GASB 34 - GA Maintenance | 15,070 | - |
| | 934-000-020 | GASB 34 - GA Capital Outlay | 132,418 | - |
| | 934-000-026 | GASB 34 - GA Principal | 1,868,690 | - |
| | 934-000-025 | GASB 34 - GA Unallocated Depreciation | - | 1,177,609 |
| | 934-000-027 | GASB 34 - GA Interest Expense | - | 54,783 |
| | 934-000-007 | GASB 34 - GA Net Assets | - | 1,122,897 |
| | *To close out prior year GASB34 activity to fund balance.* | | | |
| 2 | 934-111-006 | GASB 34 - OPEB Life Insurance | 5,539 | - |
| | 934-000-014 | GASB 34 - GA Instructional services | - | 5,539 |
| | *To record PPA for prior year OPEB and adjust current year OPEB to actual.* | | | |
| 3 | 934-000-001 | GASB 34 - GA Capital Assets | 199,331 | - |
| | 934-000-020 | GASB 34 - GA Capital Outlay | - | 199,331 |
| | *To record current year additions to fixed assets.* | | | |
| 4 | 934-000-002 | GASB 34 - GA Accumulated Depreciation | 47,245 | - |
| | 934-000-029 | GASB 34 - GA Capital Outlay | 16,867 | - |
| | 934-000-001 | GASB 34 - GA Capital Assets | - | 64,112 |
| | *To record current year disposal.* | | | |
| 5 | 934-000-018 | GASB 34 - GA Maintenance | 94,283 | - |
| | 934-000-020 | GASB 34 - GA Capital Outlay | - | 94,283 |
| | *To eliminate remaining capital outlay expense.* | | | |
| 6 | 934-000-025 | GASB 34 - GA Unallocated Depreciation | 1,163,384 | - |
| | 934-000-002 | GASB 34 - GA Accumulated Depreciation | - | 1,163,384 |
| | *To record current year depreciation expense.* | | | |
| 7 | 934-000-005 | GASB 34 - GA Current Portion of Long-Term Debt | 32,930 | - |
| | 934-000-027 | GASB 34 - GA Interest Expense | 1,995 | - |
| | 934-000-020 | GASB 34 - GA Capital Outlay | - | 34,925 |
| | *To record capital lease payment for Apple Inc. equipment.* | | | |
| 8 | 934-000-006 | GASB 34 - GA Compensated Absences | 29,235 | - |
| | 934-000-006.1 | GASB 34 - GA Compensated Absences-Current | - | 29,235 |
| | *To record adjustment for current portion of compensated absences.* | | | |
| 9 | 934-000-006 | GASB 34 - GA Compensated Absences | 1,345,666 | - |
| | 934-000-014 | GASB 34 - GA Instructional Services | - | 1,345,666 |
| | *To adjust long-term portion of compensated absences.* | | | |
| 10 | 934-000-003 | GASB 34 - GA Accrued Liabilities | 6,646 | - |
| | 934-000-027 | GASB 34 - GA Interest Expense | - | 6,646 |
| | *Current year change in accrued interest payable.* | | | |
| 11 | 934-000-005 | GASB 34 - GA Current Portion of Long-Term Debt | 1,907,664 | - |
| | 934-000-004 | GASB 34 - GA Long-Term Debt | - | 1,907,664 |
| | *To reclassify long term debt and eliminate current portion of long term debt(reduced by capital lease payment).* | | | |

## ESCANABA AREA PUBLIC SCHOOLS

### Attachment B -Proposed and Accepted Government-Wide Audit Adjustments
For the June 30, 2015 Audit

| | Account number | Description | Debit | Credit |
|---|---|---|---|---|
| 12 | 934-000-004 | GASB 34 - GA Long-Term Debt | $ 2,004,810 | $ - |
| | 934-000-005 | GASB 34 - GA current portion of Long-Term Debt | - | 2,004,810 |
| | *To reclassify current portion of long term debt.* | | | |
| 13 | 934-000-004 | GASB 34 - GA Long-Term Debt | 1,907,664 | - |
| | 934-000-020 | GASB 34 - GA Capital Outlay | 32,930 | - |
| | 934-000-026 | GASB 34 - GA Principal | - | 1,940,594 |
| | *To record current year payments of long-term debt.* | | | |
| 14 | 934-000-027 | GASB 34 - GA Interest Expense | 105,861 | - |
| | 934-000-003.5 | Amortization of Deferred Loss | - | 105,861 |
| | *To record original issue discount amortization.* | | | |
| 15 | 934-000-030 | GASB 34 - GA Proceeds | 21,163,392 | - |
| | 934-000-003.6 | Amortization of Original Issue Discount | 63,151 | - |
| | 934-000-003.7 | Issue Discount - Current | 15,156 | - |
| | 934-000-004 | GASB 34 - GA Long-Term Debt | 20,310,000 | - |
| | 934-000-003.4 | Deferred Loss | 964,599 | - |
| | 934-000-003.1 | GASB 34 - Premium on Bond Refunding | - | 1,478,392 |
| | 934-000-004 | GASB 34 - GA Long-Term Debt | - | 19,685,000 |
| | 934-000-026 | GASB 34 - GA Principal | - | 21,049,780 |
| | 934-000-003.3 | Original Issue Discount | - | 303,126 |
| | *To record long-term debt related to issuance of the 2014 Refunding Bonds.* | | | |
| 16 | 934-000-003.8 | Amortization of Original Issue Premium | 98,559 | - |
| | 934-000-027 | GASB 34 - GA Interest Expense | - | 98,559 |
| | *To record amortization premium for bond refunding.* | | | |
| 17 | 934-000-007.1 | GASB 34 - GA net assets PPA | 28,949,131 | - |
| | 934-000-002.3 | GASB 34 - Deferred Outflows of Resources | 2,424,885 | - |
| | 934-000-003.9 | GASB 34 - GA Net Pension Liability | - | 31,374,016 |
| | *To record restatement for implementation of GASB 68.* | | | |
| 18 | 934-000-003.9 | GASB 34 - GA Net Pension Liability | 1,881,640 | - |
| | 934-000-002.3 | GASB 34 - Deferred Outflows of Resources | 464,610 | - |
| | 934-000-002.3 | GASB 34 - Deferred Outflows of Resources | 1,088,403 | - |
| | 934-000-006.2 | GASB 34 - GA Deferred Inflows of Resources | - | 3,260,394 |
| | 934-000-033 | GASB 34 - GA Pension Expense Community Service | - | 445 |
| | 934-000-034 | GASB 34 - GA Pension Expense Instruction | - | 126,480 |
| | 934-000-035 | GASB 34 - GA Pension Expense Support | - | 43,204 |
| | 934-000-036 | GASB 34 - GA Pension Expense Food Service | - | 4,130 |
| | *To record change in net pension liability and related deferred amounts.* | | | |

GA = Governmental Activities

## ESCANABA AREA PUBLIC SCHOOLS

### Attachment B -Proposed and Accepted Fund Level Audit Adjustments
For the June 30, 2015 Audit

| | Account number | Description | Debit | Credit |
|---|---|---|---|---|
| 1 | 11-2-451-9822 | Accrued Sick Leave Payable | $ 6,757.38 | $ - |
| PBC | 11-1-111-2990-000-1010-01954-0000 | Terminal Sick Leave Payable | - | 6,757.38 |
| | *To correct Terminal Leave payable as of 6/30/15.* | | | |
| 2 | 11-0-311-0501-000-1010-00000-2014 | Prop A Obligation 22A | 18,938.67 | - |
| PBC | 11-0-311-0501-000-1010-00000-0000 | Prop A Obligation 22A | 297,145.61 | - |
| | 11-2-121-9753-000-0101 | Other Receivables | 379.52 | - |
| | 11-0-312-0509-000-3700-00000-0000 | Headlee Data Coll 152a | - | 0.34 |
| | 11-0-312-0509-000-2081-00000-0000 | One Time Retirement 147c | - | 2,428.32 |
| | 11-0-311-0509-000-2070-00000-0000 | One Time 4-5 Best Practice | - | 4,162.16 |
| | 11-0-311-0505-000-1020-00000-0000 | District Performance 22F | - | 0.14 |
| | 11-0-311-0503-000-1010-00000-0000 | Equity Payment 22C | - | 309,865.07 |
| | 11-0-311-0502-000-1010-00000-2014 | Discretionary Pay. 22B | - | 7.70 |
| | 11-0-311-0502-000-1010-00000-0000 | Discretionary Pay. 22B | - | 0.07 |
| | *To adjust State Aid Receivable to 8/20/15 actual.* | | | |
| 3 | 11-0-519-0712-000-1010-00000-0000 | Reimburse Special Ed. Isd | 6,228.00 | - |
| PBC | 11-0-418-0712-000-1010-00000-0000 | Reimburse Special Ed. Isd | - | 6,228.00 |
| | *To reclassify revenue.* | | | |
| 4 | 54-0-153-0822-000-0000-00000-0000 | Increase in FMV Investment | 20,928.50 | - |
| PBC | 54-0-192-0387-000-0000-00000-8065 | Priv. Derouin, Dean | - | 1,000.00 |
| | 54-0-192-0387-000-0000-00000-8319 | Private Contributions | - | 128.50 |
| | 54-0-192-0387-000-0000-00000-8090 | Priv. Ferrari, Joan Hesse | - | 250.00 |
| | 54-0-192-0387-000-0000-00000-8057 | Priv. Dagenais, Elmer & Phoebe Memorial | - | 10,000.00 |
| | 54-0-192-0387-000-0000-00000-8072 | Priv. Dunstone, Robert Memorial | - | 4,100.00 |
| | 54-0-192-0387-000-0000-00000-8042 | Private Contributions | - | 350.00 |
| | 54-0-192-0387-000-0000-00000-8205 | Private Contributions | - | 5,100.00 |
| | *To record January through June 2015 contributions.* | | | |
| 5 | 32-1-511-7120-000-0000-2010 | Notes and Loan Payments | 98,000.00 | - |
| RR * | 32-1-511-7120-000-0000-2014 | Notes and Loan Payments | - | 98,000.00 |
| | *To record payment from 2010 Debt Fund to Escrow Fund.* | | | |
| 6 | 32-1-511-7120-000-0000-2010 | Notes and Loan Payments | 20,951,780.00 | - |
| RR * | 32-1-511-7121-000-0000-00000-2014 | Bond Issuance Cost | 211,612.00 | - |
| * | 32-0-591-0388-000-0000-00000-2014 | Bond Proceeds | - | 21,163,392.00 |
| | *To record issuance of 2014 Refunding Bond.* | | | |
| 7 | 82-1-225-7160-000-1010-07100-0000 | Payments On Bus Loans | 32,930.00 | - |
| RR | 82-1-284-6417-000-1010-06020-0000 | Capital Outlay Technology Te(Ba) | - | 32,930.00 |
| | *To record principal payment on Apple equipment.* | | | |
| 8 | 52-1-294-7910-000-0000-00000-0000 | Miscellaneous | 666.67 | - |
| PBC | 52-2-402-9801 | Accounts Payable | - | 666.67 |
| | *To adjust a voided check adjustment.* | | | |

## ESCANABA AREA PUBLIC SCHOOLS

### Attachment B -Proposed and Accepted Fund Level Audit Adjustments

For the June 30, 2015 Audit

| | | Account number | Description | Debit | Credit |
|---|---|---|---|---|---|
| 9 | | 32-1-511-7120-000-0000-2014 | Notes and Loan Payments | $ 633,000.00 | $ - |
| RR | | 32-1-511-7120-000-0000-00000-2010 | Notes and Loan Payments | - | 633,000.00 |
| | | *To reclassify 2014 bond principal payment.* | | | |
| 10 | * | 32-1-511-7220-000-0000-00000-2014 | Interest On Notes & Loans | 396,775.00 | - |
| RR | | 32-1-511-7220-000-0000-00000-2010 | Interest On Notes & Loans | - | 396,775.00 |
| | | *To reclassify 2014 bond interest payment.* | | | |
| 11 | * | 32-1-632-8112-000-0101-06020-2010 | Operating Transfers Out | 1,028,475.00 | - |
| RR | * | 32-0-632-0901-000-0851-2014 | Operating Transfers In | - | 1,028,475.00 |
| | | *To reclassify interest and principal from 2010 bond to 2014 bond.* | | | |
| 12 | * | 32-1-632-8112-000-0101-06020-2010 | Operating Transfers Out | 333,175.04 | - |
| RR | * | 32-2-101-9734-2014 | State Bank 47235820 | 279,273.42 | - |
| | * | 32-2-121-9753-2014 | Other Receivables | 53,901.62 | - |
| | * | 32-0-632-0901-000-0851-2014 | Operating Transfers In | - | 333,175.04 |
| | | 32-2-101-9734 | State Bank 47235820 | - | 279,273.42 |
| | | 32-2-121-9753-2010 | Other Receivables | - | 53,901.62 |
| | | *To reclass bond proceeds.* | | | |

* *Identifies new accounts to record 2014 bond issuance*

RR Rehmann Robson

PBC Prepared By Client

## Attachment C – Management Representations
For the June 30, 2015 Audit

The following pages contain the written representations that we requested from management.

# ESCANABA AREA PUBLIC SCHOOLS

District Administration Office
1500 Ludington Street
Escanaba, MI 49829

Superintendent Office
Phone (906) 786-5411
FAX (906) 786-4469

Business Office
Phone (906) 786-5412
FAX (906) 786-0106

November 2, 2015

Rehmann Robson
P.O. Box 250
902 South Huron Street
Cheboygan, MI 49721

This representation letter is provided in connection with your audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the ***Escanaba Area Public Schools*** (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, for the purpose of expressing opinions on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations and the respective budgetary comparison for the General Fund of the District in conformity with accounting principles generally accepted for governments in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 2, 2015:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated May 21, 2015, for the preparation and fair presentation of the financial statements of the various opinion units referred to above in accordance with U.S. GAAP. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
2. We have reviewed and approved the various adjusting journal entries that were proposed by you for recording in our books and records and reflected in the financial statements.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions used by us in making accounting estimates are reasonable.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
8. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the applicable opinion units and to the financial statements as a whole.

9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
10. With regard to items reported at fair value:
    a. The underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action.
    b. The measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied.
    c. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.
    d. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
11. All funds and activities are properly classified.
12. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.
13. All components of net position and fund balance classifications have been properly reported.
14. All revenues within the statement of activities have been properly classified as program revenues and general revenues.
15. All expenses have been properly classified in or allocated to functions and programs in the statement of activities, and allocations, if any, have been made on a reasonable basis.
16. All interfund and intra-entity transactions and balances have been properly classified and reported.
17. Deposit and investment risks have been properly and fully disclosed.
18. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.
19. All required supplementary information is measured and presented within the prescribed guidelines.
20. We believe that the actuarial assumptions and methods used to measure the other postemployment benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.
21. We are responsible for the fair presentation of the District's proportionate share of the net pension liability of the Michigan Public School Employees Retirement System (MPSERS) and related amounts. We provided MPSERS with complete and accurate information regarding the District's participation in the plan, and have reviewed the information provided by MPSERS for inclusion in the District's financial statements.

**Information Provided**

22. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of the various opinion units referred to above, such as records, documentation, meeting minutes, and other matters;
    b. Additional information that you have requested from us for the purpose of the audit; and
    c. Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
23. All transactions have been recorded in the accounting records and are reflected in the financial statements.
24. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

25. We have no knowledge of any fraud or suspected fraud that affects the District and involves:
    a. Management;
    b. Employees who have significant roles in internal control; or
    c. Others where the fraud could have a material effect on the financial statements.
26. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the District's financial statements communicated by employees, former employees, vendors, regulators, or others.
27. We are not aware of any pending or threatened litigation and claims whose effects should be considered when preparing the financial statements and we have not consulted legal counsel concerning litigation or claims.
28. We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.
29. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.
30. The District has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
31. We have disclosed to you all guarantees, whether written or oral, under which the District is contingently liable.
32. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
33. There are no:
    a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.
34. The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.
35. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
36. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB-62. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

**Supplementary Information in Relation to the Financial Statements as a Whole**

37. With respect to the supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the supplementary information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

**Required Supplementary Information**

38. With respect to the required supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with accounting principles generally accepted in the United States of America.
    b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.
    d. We believe the significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.

**OMB Circular A-133**

39. With respect to federal awards, we represent the following to you:
    a. We are responsible for understanding and complying with and have complied with the requirements of Circular A-133.
    b. We are responsible for the preparation and presentation of the schedule of expenditures of federal awards in accordance with Circular A-133.
    c. We believe the schedule of expenditures of federal awards, including its form and content, is fairly presented in accordance with Circular A-133.
    d. The methods of measurement or presentation have not changed from those used in the prior period.
    e. We believe the significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards, and the basis for our assumptions and interpretations, are reasonable and appropriate in the circumstances.
    f. We are responsible for including the auditor's report on the schedule of expenditures of federal awards in any document that contains the schedule and that indicates that the auditor has reported on such information.
    g. When the schedule of expenditures of federal awards is not presented with the audited financial statements, management will make the audited financial statements readily available to the intended users of the schedule of expenditures of federal awards no later than the date of issuance by the entity of the schedule of expenditures of federal awards and the auditor's report thereon.

h. We have, in accordance with Circular A-133, identified in the schedule of expenditures of federal awards, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, and other assistance.
i. We are responsible for complying with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program; and we have complied, in all material respects, with these requirements.
j. We have provided to you our interpretations of any compliance requirements that have varying interpretations.
k. We are responsible for establishing and maintaining effective internal control over compliance requirements applicable to federal programs that provide reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to significant deficiencies, including material weaknesses, reported in the schedule of findings and questioned costs.
l. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to federal programs.
m. We have received no requests from a federal agency to audit one or more specific programs as a major program.
n. We have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including the results of other audits or program reviews. We also know of no instances of noncompliance occurring subsequent to the end of the period audited.
o. We have charged costs to federal awards in accordance with applicable cost principles, including amounts claimed or used for matching determined in accordance with relevant guidelines in the U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and the U.S. Office of Management and Budget's, *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
p. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
q. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the basic financial statements have been prepared (and are prepared on a basis consistent with the schedule of expenditures of federal awards).
r. The copies of federal program financial reports provided to you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
s. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by Circular A-133, and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
t. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.

u. We are responsible for and have accurately completed the appropriate sections of the Data Collection Form as required by Circular A-133, and we are responsible for preparing and implementing a correction action plan for each audit finding.
v. We have disclosed all contracts or other agreements with service organizations and disclosed to you all communications from these service organizations relating to noncompliance at the organizations.
w. We have reviewed, approved, and taken responsibility for the financial statements and related notes.
x. We have disclosed to you the nature of any subsequent events that provide additional evidence with respect to conditions that existed at the end of the reporting period that affect noncompliance during the reporting period.

Kevin C. Pascoe

Kevin Pascoe, Director of Business Services

Michele Lemire

Michele Lemire, Superintendent

# ESCANABA AREA PUBLIC SCHOOLS

## Attachment C - Schedule of Adjustments Passed (SOAP)

For the June 30, 2015 Audit

In accordance with generally accepted auditing standards, we have prepared the following schedule of proposed audit adjustments, which we believe are immaterial both individually and in the aggregate. We are providing this schedule to both management and those charged with governance to receive their assurance that they agree that the amounts listed below are not material to the financial statements, either individually or in the aggregate, and do not need to be recorded.

| | Effect of Passed Adjustment - Over(Under)Statement | | | | |
|---|---|---|---|---|---|
| | Assets | Liabilities | Beginning Equity | Revenues | Expenses/ Expenditures |
| **General Fund / Governmental Activities** | | | | | |
| Under-accrual of UAAL in the current year. | $ - | $ (97,497) | $ - | $ - | $ (97,497) |
| Over-accrual of MESSA insurance in the prior year. | - | - | (19,425) | - | (19,425) |
| **General Fund/Governmental Activities** Cumulative effect of items noted above | $ - | $ (97,497) | $ (19,425) | $ - | $ (116,922) |
| **Misstatement as a percentage of total assets - governmental activities** | 0.00% | -0.23% | -0.05% | 0.00% | -0.27% |

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