Johannesburg-Lewiston Area Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2015

Dennis, Gartland & Niergarth

CONTENTS

JOHANNESBURG-LEWISTON AREA SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis, a requirement of GASB 34, is intended to be the Johannesburg-Lewiston Area Schools District's ("the District") analysis of the financial results for the year ended June 30, 2015. The intent of this discussion and analysis is to provide a look at the District's performance and current position. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

The overall financial condition of the District remains strong. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available.

The liabilities of the District exceeded its assets at the close of the most recent fiscal year by $(882,000) (negative net position).

The School District implemented the provisions of GASB 68, Financial Reporting for Pension Plans, during the year by retroactive restatement of the June 30, 2014 net position. The net pension liability of the School District was $9,065,507 and $8,170,436 at June 30, 2014 and 2015, respectively.

The District's total net position increased by $429,102 in the 2014/15 school year.

At the end of the current fiscal year, the fund balance for the District's General Fund is $735,315 with an increase of $68,719 for the fiscal year ended June 30, 2015.

USING THE ANNUAL REPORT

Generally accepted accounting principles ("GAAP") requires the reporting of two types of financials statements: District Wide Financial Statements and Fund Financial Statements.

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole (government-wide statements), and then proceed to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements.

Reporting the District as a Whole – *The Statement of Net Position and Statement of Activities*

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

The two statements report the District's net position and any changes in them. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions on a State level, student enrollment growth, quality of local service and facility improvements prior to arriving at any conclusion regarding the overall health of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements.

Governmental Funds

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

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the District's net position as of June 30, 2015 and 2014.

TABLE 1 Governmental Activities

	6/30/2015	6/30/2014
Assets		
Current assets	$ 1,506,801	$1,516,538
Noncurrent assets – capital	7,342,390	7,741,220
Total assets	8,849,191	9,257,758
Deferred outflows of resources		
Deferred outflow for pension obligation	897,846	-
Total assets and deferred outflows of resources	$ 9,747,037	$ 9,257,758
Liabilities		
Current liabilities	$ 1,587,517	$1,584,604
Noncurrent liabilities	37,849	978,900
Net pension liability	8,170,436	9,065,507
Total liabilities	9,795,802	11,629,011
Deferred inflow of resources for pension obligation	903,245	-
Net position		
Invested in capital assets, net	6,402,390	5,899,547
Restricted	123,968	133,011
Unrestricted	(7,478,369)	(8,403,811)
Total net position	(952,011)	(2,371,253)
Total liabilities, deferred inflow of resources and net position	$ 9,747,037	$ 9,257,758

The District currently reports negative unrestricted net position related to the net position liability.

The results of this year's operations for the District as a whole are represented in the statement of activities (Table 2), which shows the changes in net position for the years ended June 30, 2015 and 2014.

TABLE 2 Governmental Activities

	6/30/2015	6/30/2014
Program revenues		
Charges for services	$ 157,353	$ 111,372
Operating grants and contributions	1,508,711	1,467,097
Capital grants and contributions	30,513	13,072
General revenues		
Property taxes	5,937,913	6,239,496
State School Aid	596,686	399,946
Other and interest	8,034	17,500
Total revenues	8,239,210	8,248,483
Functions/ program expenses		
Instruction	4,250,495	4,209,776
Supporting services	3,001,900	2,862,900
Food service	329,903	305,842
Athletics	148,716	135,502
Interest and other	79,094	138,677
Total expenses	7,810,108	7,652,697
Change in net position	$ 429,102	$ (595,786)

The June 30, 2014 expenses have not been restated for the retroactive restatement of the net pension liability.

As reported in the statement of activities, the cost of all governmental activities for the year was $7,810,108. While $5,937,913 in revenue was generated directly from local taxpayers, another $157,353 was generated through "charges for actual services" to local districts, or individuals that benefited directly from our services. State, federal, other regional grants and programs brought $1,539,224 to the District. The District received $596,686 in state education funding and $8,034 in other miscellaneous sources, inclusive of investment earnings. Net position for the year ending June 30, 2015 increased by $429,102.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared in accordance with Michigan Law. The most significant budgeted fund is the General Fund. During the fiscal year of 2014/15 the District amended the budgets of these major governmental funds several times. This has been the normal business practice of the District. Due to the timing of grant awards and pupil counts, the general fund budget could change significantly from the beginning to the end of the year.

General Fund

The General Fund revenues were higher than expenditures in the past year of operations by $68,719. The District has evaluated expenditures in all operational areas in order to make budgetary cuts where necessary. General Fund expenditures in total increased by $232,013 from 2013/14 to 2014/15.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's assets have accumulated $11,707,596 of depreciation. Our capitalized assets include our buildings, land, equipment and transportation fleet. This year saw a $398,830 decrease in Net Capital Assets. A categorized listing of the assets is below.

TABLE 3 Governmental Activities

	6/30/2015	6/30/2014
Land	$ 6,253	$ 6,253
Land improvements	814,868	814,868
Buildings and improvements	14,942,476	14,942,476
Buses and vehicles	953,107	873,562
Furniture and equipment	2,333,282	2,284,851
Total capital assets	19,043,733	18,915,757
Accumulated depreciation	(11,707,596)	(11,180,790)
Total capital assets, net	$ 7,342,390	$ 7,741,220

Long Term Debt

The District owes $977,849 on debt that will be paid over the next two years. Debt principal in an amount of $760,000 was paid on the 2004 Refunding Bond. The District borrowed $29,923 to purchase band equipment during the 2010/11 year which it finished repaying in the 2014/15 year. The District also made principal payments in the amount of $135,000 on the 2012 bus bond during 2014/15. The District's liability for compensated absences decreased by $1,051 to a total of $37,849. Total long-term debt decreased by $902,724 in the year ended June 30, 2015.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan is still slow. The exact implications on school funding are unknown at this time. Our budgets were prepared with these factors in mind. We also are dependent on student counts which vary from year to year, for our foundation allowance.

REQUESTS FOR INFORMATION

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

Superintendent, Johannesburg-Lewiston Area Schools, 10854 M-32, Johannesburg, MI 49751 – Phone 989-732-1773

DG&N DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Johannesburg-Lewiston Area Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Johannesburg-Lewiston Area Schools*** (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

415 Munson Avenue | P.O. Box 947 | Traverse City, Michigan 49685-0947
231-946-1722 ph | 231-946-2762 fax | www.dgncpa.com

Opinions

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

Emphasis of Matter

Accounting Changes

As described in Note A to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement 68, *Financial Reporting for Pension Plans*, during the year ended June 30, 2015.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *iv* and budgetary comparison information on page 32, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 28, 2015

Johannesburg-Lewiston Area Schools

STATEMENT OF NET POSITION

June 30, 2015

		Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
ASSETS		
Current assets		
Cash and cash equivalents	$	1,242,022
Due from other governments		259,606
Accounts receivable		4,129
Inventory		1,044
Total current assets		1,506,801
Non-current assets		
Capital assets, net of accumulated depreciation		7,342,390
Total assets		8,849,191
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflow for pension obligation		897,846
Total assets and deferred outflows of resources	$	9,747,037
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
LIABILITIES		
Current liabilities		
Accounts payable	$	120,900
Salaries payable and related liabilities		522,058
Unearned revenues		4,560
Current portion of long-term debt		940,000
Total current liabilities		1,587,518
Non-current portion of long-term liabilities		37,849
Net pension liability		8,170,436
Total liabilities		9,795,803
DEFERRED INFLOWS OF RESOURCES		
Deferred inflow of resources for pension obligation		903,245
NET POSITION		
Invested in capital assets, net of related debt		6,402,390
Restricted for		
Food service		30,959
Debt service		93,009
Unrestricted (deficit)		(7,478,369)
Total net position		(952,011)
Total liabilities, deferred inflows of resources and net position	$	9,747,037

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

Johannesburg-Lewiston Area Schools

STATEMENT OF ACTIVITIES

Year ended June 30, 2015

Functions/Program	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense)/ Revenue and Changes in Net Position: Governmental Activities
Governmental activities					
Instruction	$ 4,250,495	$ -	$ 330,096	$ -	$ (3,920,399)
Supporting services	3,001,900	27,897	920,492	-	(2,053,511)
Food service	329,903	89,959	258,123	-	18,179
Athletics	148,716	39,497	-	30,513	(78,706)
Other	17,559	-	-	-	(17,559)
Interest on long-term debt	61,535	-	-	-	(61,535)
Total governmental activities	$ 7,810,108	$ 157,353	$ 1,508,711	$ 30,513	(6,113,531)

General revenues	
Property taxes	
Levied for general purposes	4,951,406
Levied for debt service	986,507
State school aid - unrestricted	596,686
Investment and other	8,034
Total general general purpose revenues	6,542,633
Change in net position	429,102
Net position, beginning of year, *as restated*	(1,381,113)
Net position, end of year	$ (952,011)

Johannesburg-Lewiston Area Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	2004 Refunding Bonds	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,110,976	$ 82,473	$ 48,573	$ 1,242,022
Due from other governments	259,606	-	-	259,606
Accounts receivable	4,129	-	-	4,129
Inventory	-	-	1,044	1,044
Due from other funds	-	701	1,545	2,246
Total assets	$ 1,374,711	$ 83,174	$ 51,162	$ 1,509,047
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 115,092	$ 83	$ -	$ 115,175
Salaries payable and related liabilities	522,058	-	-	522,058
Due to other funds	2,246	-	-	2,246
Unearned revenues	-	-	4,560	4,560
Total liabilities	639,396	83	4,560	644,039
FUND BALANCES				
Nonspendable for inventory	-	-	1,044	1,044
Restricted				
Food service	-	-	29,915	29,915
Debt service	-	83,091	15,643	98,734
Committed				
Subsequent year's expenditures	142,829	-	-	142,829
Unassigned	592,486	-	-	592,486
Total fund balances	735,315	83,091	46,602	865,008
Total liabilities and fund balances	$ 1,374,711	$ 83,174	$ 51,162	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is $19,049,986 and the accumulated depreciation is $11,707,596.		7,342,390
Deferred outflow of resources for net pension obligation		897,846
Interest is accrued on outstanding bonds and installment debts in governmental activities, whereas in governmental funds, an interest expenditure is reported when due.		(5,725)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
	Bonds payable	(940,000)
	Compensated absences payable	(37,849)
	Net pension liability	(8,170,436)
Deferred inflow of resources for net pension obligation		(903,245)
Total net assets - governmental activities		$ (952,011)

Johannesburg-Lewiston Area Schools

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

Year ended June 30, 2015

	General Fund	2004 Refunding Bonds	Non-Major Governmental Funds	Total
Revenues				
Property taxes	$ 4,951,406	$ 852,378	$ 130,215	$ 5,933,999
State sources	1,252,123	-	14,880	1,267,003
Federal sources	333,959	-	243,243	577,202
Interest earnings	3,965	6	7	3,978
Other	363,155	3,914	89,959	457,028
Total revenues	6,904,608	856,298	478,304	8,239,210
Expenditures				
Current				
Instruction	3,966,323	-	-	3,966,323
Supporting services	2,681,859	-	-	2,681,859
Food service	-	-	329,903	329,903
Athletics	148,716	-	-	148,716
Other	16,200	-	107	16,307
Debt service				
Principal	6,673	760,000	135,000	901,673
Interest	838	61,800	5,173	67,811
Other	-	1,252	-	1,252
Capital outlay	26,251	-	79,715	105,966
Total expenditures	6,846,860	823,052	549,898	8,219,810
REVENUES OVER (UNDER) EXPENDITURES	57,748	33,246	(71,594)	19,400
Other financing sources (uses)				
Transfers in	10,971	-	1,029	12,000
Transfers out	-	-	(12,000)	(12,000)
Total other financing sources (uses)	10,971	-	(10,971)	-
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	68,719	33,246	(82,565)	19,400
Fund balance, beginning of year	666,596	49,845	129,167	845,608
Fund balance, end of year	$ 735,315	$ 83,091	$ 46,602	$ 865,008

Johannesburg-Lewiston Area Schools

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

Year ended June 30, 2015

Total Net Change in Fund Balance - Governmental Funds			$ 19,400
Amounts reported for governmental activities in the statement of activities are different because:			
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.			
	Capital outlays	$ 145,756	
	Depreciation expense	(542,990)	(397,234)
Gain or loss on capital asset disposals are recorded in the Statement of Activities. In the governmental funds, only the proceeds from the sale are reported.			
	Loss on sale of capital assets		(1,596)
Change in deferred outflows of resources for pension obligation.			897,846
Repayment of long-term debt are expenditures in the governmental funds, but reduces long-term liabilities in the statement of net position and does not affect the statement of activities.			
	Bonds	$ 895,000	
	Installment debt	6,673	
	Net pension liability	(95,069)	806,604
In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, compensated absences earned was less than the amounts used by $1,051.			1,051
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds and installment debt.			6,276
Change in deferred inflows of resources for pension obligation.			(903,245)
Changes in Net Position of Governmental Activities			$ 429,102

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

Johannesburg-Lewiston Area Schools

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS

June 30, 2015

	Student Activity Fund
ASSETS	
Cash and cash equivalents	$ 163,364
LIABILITIES	
Due to student groups	$ 163,364

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Johannesburg-Lewiston Area Schools (the "School District") operates under a Board-Superintendent form of government and provides education services to Johannesburg and Lewiston residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

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

The Financial Reporting Entity

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

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

Fund Types and Major Funds

Activities in Major Funds

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

The *2004 Refunding Bonds Debt Retirement Fund* is used to record tax, interest and other revenue for the payment of general long-term debt principal, interest and related costs.

Other Governmental Funds

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted or Board committed to expenditures for special purposes. The Food Service Fund is accounted for as a Special Revenue Fund.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The *Capital Projects Funds* are used to account for financial resources set aside for the acquisition or construction of capital assets. The 2012 School Bus Fund is accounted for as a capital project fund.

Fiduciary Funds

The *Agency Fund* accounts for assets held by the School District as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Student Activity Fund is an Agency Fund.

Cash and Cash Equivalents

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

Inventories

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

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 2 to 50 years. The School District generally capitalizes assets with costs of $1,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

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

Buildings	10 - 50 years
Improvements, other than buildings	10 - 50 years
Buses and vehicles	7 - 15 years
Furniture and equipment	2 - 15 years

Long-Term Debt and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond discounts and premiums are deferred and amortized over the life of the bonds. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources and discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

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

Spending Policy

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

Program Revenues

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

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

Allocation of Expenses

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

The School District has elected to not allocate indirect expenses.

Pension Plan

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

Use of Estimates in the Preparation of Financial Statements

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

Accounting Changes

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

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

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

Net position at June 30, 2014, *as originally stated*	$ 6,694,254
Record net pension liability at June 30, 2014	(8,075,367)
Net position at June 30, 2014, *as restated*	$ (1,381,113)

NOTE B - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

NOTE C - CASH AND CASH EQUIVALENTS

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

	Cash and Equivalents
Cash on hand	$ 215
Bank deposits	1,405,171
	$ 1,405,386

Deposits

Custodial Credit Risk - Deposits

In the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2015, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was $1,405,386 and the bank balance was $1,528,280. As of June 30, 2015, $828,321 of the bank balance was exposed to custodial risk because it was uninsured and uncollateralized.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Deferred Revenue and Property Tax Calendar

Property taxes are levied, billed and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the counties and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, $18 per $1,000 of equalized non-principal residence property value in the School District of $272.6 million and $6 per $1,000 of commercial personal property value in the School District of $2.0 million was levied for general operating purposes. For debt service purposes, $2.35 per $1,000 of equalized principal, non-principal residence property and commercial personal property value in the School District of $412.7 million was levied.

Intergovernmental Receivables and Unearned Revenue

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

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

Due from State of Michigan State Aid	$ 215,386
Due from Federal grants	44,220
	$ 259,606

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated				
Land	$ 6,253	$ -	$ -	$ 6,253
Capital assets being depreciated				
Land improvements	814,868	-	-	814,868
Buildings and improvements	14,942,476	-	-	14,942,476
Buses and vehicles	873,562	79,545	-	953,107
Furniture and equipment	2,284,851	66,211	(17,780)	2,333,282
Total capital assets being depreciated	18,915,757	145,756	(17,780)	19,043,733
Less accumulated depreciation	(11,180,790)	(542,990)	16,184	(11,707,596)
Total capital assets, net	$ 7,741,220	$ (397,234)	$ (1,596)	$ 7,342,390

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

Instruction	$ 307,587
Support services	235,403
Total depreciation expense	$ 542,990

NOTE F - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Receivables and Payables

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

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds		
General Fund	$ -	$ 2,246
2004 Refunding Bonds Fund	701	-
Non-Major Governmental Funds		
Food Service Fund	1,442	-
2012 Bus Bond Debt Fund	103	-
	$ 2,246	$ 2,246

Transfers and Payments

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

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

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

Fund	Transfers In	Transfers Out
Major Governmental Funds		
General Fund	$ 10,971	$ -
Food Service Fund	-	12,000
2012 School Bus Fund	1,029	-
	$ 12,000	$ 12,000

NOTE G - LONG-TERM LIABILITIES

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

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
2004 Refunding Bond	$ 1,545,000	$ -	$ (760,000)	$ 785,000	$ 785,000
2012 Bus Bond	290,000	-	(135,000)	155,000	155,000
Installment debt	6,673	-	(6,673)	-	-
Accumulated leave liability	38,900	-	(1,051)	37,849	-
Total long-term debt	$ 1,880,573	$ -	$ (902,724)	$ 977,849	$ 940,000

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability and installment debt will be liquidated primarily by the General Fund.

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

2004 Refunding General Obligation Bonds due in annual installments of $760,000 to $785,000; interest rate of 4.0%; matures May 2016.	$ 785,000
2012 School Bus Bonds due in annual installments of $135,000 to $155,000; interest rate of 1.65% to 1.90%; matures May 2016.	155,000
Accumulated leave liability	37,849
Total long-term debt	$ 977,849

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

Years Ending June 30,	Principal	Interest	Total
2016	$ 940,000	$ 34,346	$ 974,346

Interest expense for the year ended June 30, 2015 was $61,535 and interest paid for the year ended June 30, 2015 was $67,811.

Accumulated Leave Liability

Employees of the School District accumulate earned but unused compensated sick leave days, as specified by the bargaining units' contract. 25% of sick leave is accrued when incurred for non-teachers and 50% for teachers. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

NOTE H - RISK MANAGEMENT

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

The School District pays unemployment claims on a reimbursement basis. At June 30, 2015, there were no significant unbilled claims.

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

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

NOTE I - PENSION PLAN AND POST-EMPLOYMENT BENEFITS

Plan Description

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

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by the State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit ("DB") pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Pension Reform 2010

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

Pension Reform 2012

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

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

Regular Retirement

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

There is no mandatory retirement age.

Non-Duty and Duty Disability Benefit

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

Survivor Benefit

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

Funding Policy

Defined Benefit Plan

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

Defined Contribution Plan

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

Employee Contributions

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

Employer Contributions

Employer contributions to the system are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of the cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 23 year period for the 2013 fiscal year.

This space was left blank intentionally.

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

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

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

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

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

The School District's contributions to the MPSERS Defined Benefit Plan for the year ended June 30, 2015 was $717,422, which is equal to the required contribution for the year. The covered payroll for the year ended June 30, 2015 was $3,252,935.

The School District's contributions to the MPSERS Defined Contribution Plan were $1,196, for the year ended June 30, 2015, which is equal to the pension expense recognized by the School District for the year.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above. The School District's contributions for post-employment health care benefits were $110,980 for the year ended June 30, 2015.

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

Pension Liabilities

At June 30, 2015, the School District reported a liability of $8,170,436 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At September 30, 2014, the School District's proportion was 0.03709%.

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

For the year ended June 30, 2015, the School District recognized pension expense of $661,828. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	301,472	-
Net difference between projected and actual earnings on pension plan investments	-	903,245
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	-	-
Reporting Unit contributions subsequent to the measurement date	596,374	-
Total	$ 897,846	$ 903,245

From the above table, $596,374 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net position liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

Year Ended June 30,	Amount
2015	$ 147,419
2016	147,419
2017	147,419
2018	159,516

10-Year Trend Information - Defined Benefit Plan

Schedule of School District's Proportionate Share of Net Pension Liability

	9/30/2014
School District's proportion of collective net pension liability	0.03709 %
School District's proportionate share of collective net pension liability	$ 8,170,436
School District's covered-employee payroll	3,158,497
School District's proportionate share of collective net pension liability as a percentage of covered-employee payroll	258.68 %
Plan fiduciary net position as a percentage of total pension liability	66.20 %

Schedule of School District's Contributions

	6/30/2015
Contractually required employer contributions	$ 717,422
School District contributions recognized by the Plan	717,422
Contributions difference	$ -
Contributions difference as a percentage of required employer contributions	- %
School District's covered-employee payroll	$ 3,252,935
Contributions as a percentage of covered-employee payroll	22.05 %

Actuarial Assumptions

Valuation Assumptions

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

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

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

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

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

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

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

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

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

Mortality Assumptions

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

Experience Study

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

Long-Term Expected Rate of Return on Investments

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

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

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

Discount Rate

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

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

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

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

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

	1% Lower (7.0%)	Discount Rate (8.0%)	1% Higher (9.0%)
School District's proportionate share of net pension liability	$10,772,009	$ 8,170,436	$ 5,978,573

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

The School District reported $40,758 and $632 payable to the plan at June 30, 2015 for legally required defined benefit and defined contribution plan contributions including post-employment health care benefits, respectively.

NOTE J - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Johannesburg-Lewiston Education Association. The Board of Education and the Johannesburg-Lewiston Education Association had a contract for September 1, 2014 through August 31, 2016.

The support personnel at the School District are organized under the Johannesburg-Lewiston Educational Support Personnel Association. The Board of Education and the Johannesburg-Lewiston Educational Support Personnel Association have a contract for July 1, 2013 through June 30, 2015, and July 1, 2015 through June 30, 2017.

NOTE K - LEASE OBLIGATIONS

The School District leases copiers under the terms of noncancellable operating leases. Rental expense for the operating leases amounted to $20,952 for the year ended June 30, 2015. Future minimum rentals to be paid for operating leases are as follows:

Years Ending June 30,	
2016	$ 20,952
2017	20,952
2018	15,714
	$ 57,618

REQUIRED SUPPLEMENTARY INFORMATION

Johannesburg-Lewiston Area Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Over (Under)
Revenues				
Local	$ 5,174,924	$ 5,103,150	$ 5,102,520	$ (630)
State	1,006,565	1,274,035	1,260,138	(13,897)
Federal	295,288	333,339	333,959	620
Other	191,000	220,140	218,962	(1,178)
Total revenues	6,667,777	6,930,664	6,915,579	(15,085)
Expenditures				
Instruction				
Basic programs	3,218,452	3,239,622	3,192,150	(47,472)
Added needs	879,278	796,307	794,780	(1,527)
Supporting services				
Student services	240,023	260,023	253,511	(6,512)
General administration	296,856	314,375	308,917	(5,458)
School administration	781,983	765,217	759,211	(6,006)
Buildings and grounds	705,340	704,655	692,499	(12,156)
Transportation	640,210	584,762	572,636	(12,126)
Other	69,977	112,376	111,055	(1,321)
Athletics	154,517	155,225	154,589	(636)
Other financing uses	11,275	11,865	7,512	(4,353)
Total expenditures	6,997,911	6,944,427	6,846,860	(97,567)
REVENUES OVER (UNDER) EXPENDITURES	(330,134)	(13,763)	68,719	82,482
Fund balance, beginning of year	666,596	666,596	666,596	-
Fund balance, end of year	$ 336,462	$ 652,833	$ 735,315	$ 82,482

COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS

Johannesburg-Lewiston Area Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Special Revenue Fund	Debt Service	Capital Projects	
	Food Service Fund	2012 Bus Bond	2012 School Bus	Total
ASSETS				
Cash and cash equivalents	$ 33,033	$ 15,540	$ -	$ 48,573
Inventory	1,044	-	-	1,044
Due from other funds	1,442	103	-	1,545
Total assets	$ 35,519	$ 15,643	$ -	$ 51,162
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Unearned revenues	$ 4,560	$ -	$ -	$ 4,560
FUND BALANCES				
Nonspendable	1,044	-	-	1,044
Restricted				
Food service	29,915	-	-	29,915
Debt service	-	15,643	-	15,643
Total fund balances	30,959	15,643	-	46,602
Total liabilities and fund balances	$ 35,519	$ 15,643	$ -	$ 51,162

Johannesburg-Lewiston Area Schools

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

Year ended June 30, 2015

	Special Revenue Fund	Debt Service	Capital Projects	
	Food Service Fund	2012 Bus Bond	2012 School Bus	Total
Revenues				
Property taxes	$ -	$ 130,215	$ -	$ 130,215
State sources	14,880	-	-	14,880
Federal sources	243,243	-	-	243,243
Interest earnings	7	-	-	7
Other	89,959	-	-	89,959
Total revenues	348,089	130,215	-	478,304
Expenditures				
Food service	329,903	-	-	329,903
Debt service				
Principal	-	135,000	-	135,000
Interest	-	5,173	-	5,173
Capital outlay	169	-	79,546	79,715
Other	-	107	-	107
Total expenditures	330,072	140,280	79,546	549,898
REVENUES OVER (UNDER) EXPENDITURES	18,017	(10,065)	(79,546)	(71,594)
Other financing sources				
Transfers in	-	-	1,029	1,029
Transfers out	(12,000)	-	-	(12,000)
Total other financing sources (uses)	(12,000)	-	1,029	(10,971)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	6,017	(10,065)	(78,517)	(82,565)
Fund balance, beginning of year	24,942	25,708	78,517	129,167
Fund balance, end of year	$ 30,959	$ 15,643	$ -	$ 46,602

FEDERAL PROGRAMS

Johannesburg-Lewiston Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2015

Federal Grantor/ Pass-through Grantor Program Title	Federal CFDA Number	Approved Grant Amount	(Deferred) Receivable June 30, 2014	Current Year Receipts	Current Year Expenditures	(Deferred) Receivable June 30, 2015
United States Department of Agriculture						
Passed through Michigan Department of Education						
Child Nutrition Cluster						
School Breakfast Program	10.553					
141970		$ 7,905	$ -	$ 7,905	$ 7,905	$ -
151970		60,234	-	60,024	60,024	-
Total School Breakfast Program		68,139	-	67,929	67,929	-
National School Lunch	10.555					
141960		16,583	-	16,583	16,583	-
151960		123,488	-	123,488	123,488	-
Entitlement Commodities		-	-	17,831	17,831	-
Total National School Lunch		140,071	-	157,902	157,902	-
Total Child Nutrition Cluster		208,210	-	225,831	225,831	-
Child and Adult Care Food Program	10.558					
141920		1,664	-	1,663	1,663	-
151920		14,667	-	14,667	14,667	-
142010		111	-	111	111	-
152010		971	-	971	971	-
Total Child and Adult Care Food Program		17,413	-	17,412	17,412	-
Total United States Department of Agriculture		225,623	-	243,243	243,243	-
United States Department of Education						
Passed through Michigan Department of Education						
Title I Grants to Local Educational Agencies	84.010					
141530-1314		291,275	95,638	95,638	-	-
151530-1415		254,091	-	225,039	254,091	29,052
Total Title I Grants to Local Education Agencies		545,366	95,638	320,677	254,091	29,052
Rural Education	84.358B					
15066-1415		13,741	-	13,741	13,741	-

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

Johannesburg-Lewiston Area Schools

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year ended June 30, 2015

Federal Grantor/ Pass-through Grantor Program Title	Federal CFDA Number	Approved Grant Amount	(Deferred) Receivable June 30, 2014	Current Year Receipts	Current Year Expenditures	(Deferred) Receivable June 30, 2015
Improving Teacher Quality State Grants	84.367					
140520-1314		$ 42,619	$ 7,215	$ 17,169	$ 9,954	$ -
150520-1415		59,207	-	37,142	52,310	15,168
Total Improving Teach Quality State Grants		101,826	7,215	54,311	62,264	15,168
Total passed through Michigan Department of Education		660,933	102,853	388,729	330,096	44,220
Passed through Cheboygan-Otsego-Presque Isle ESD						
Special Education - Grants to States (IDEA, Part B)	84.027	240	-	240	240	-
Medical Assistance Program (Medicaid, Title XIX)	93.778	1,886	-	1,886	1,886	-
Total passed through Cheboygan-Otsego-Presque Isle ESD		2,126	-	2,126	2,126	-
Passed through Alpena Public Schools						
Vocational Education	84.048	1,334	(402)	1,335	1,737	-
Total United States Department of Education		664,393	102,451	392,190	333,959	44,220
Total Federal Financial Assistance		$ 890,016	$ 102,451	$ 635,433	$ 577,202	$ 44,220

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

Johannesburg-Lewiston Area Schools

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2015

Note 1 The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.

Note 2 Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.

Note 3 The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Section Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

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

Board of Education
Johannesburg-Lewiston Area Schools

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 ***Johannesburg-Lewiston Area Schools*** (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 28, 2015.

Internal Control Over Financial Reporting

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

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

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

415 Munson Avenue | P.O. Box 947 | Traverse City, Michigan 49685-0947
231-946-1722 ph | 231-946-2762 fax | www.dgncpa.com

A *significant deficien*cy 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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2015-002 to be a significant deficiency.

Compliance and Other Matters

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

School District's Response to Findings

The School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dennis, Gartland & Niergarth

October 28, 2015

DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants
Business Advisors

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

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

Board of Education
Johannesburg-Lewiston Area Schools

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

415 Munson Avenue | P.O. Box 947 | Traverse City, Michigan 49685-0947
231-946-1722 ph | 231-946-2762 fax | www.dgncpa.com

Opinion on Each Major Federal Program

In our opinion, Johannesburg-Lewiston Area Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

Dennis, Gartland & Niergarth

October 28, 2015

Johannesburg-Lewiston Area Schools

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

CURRENT YEAR

Section 1 - Summary of Auditors' Results

1. The auditor's report represents an unmodified opinion on the general purpose financial statements of Johannesburg-Lewiston Area Schools.

2. There was one material weakness and one significant deficiency in internal control over financial reporting as a result of the audit of the basic financial statements. See Section 2 - Findings in Accordance with Government Auditing Standards.

3. There were no compliance findings disclosed that were material to the School District's financial statements.

4. The auditor's report does not disclose any reportable conditions in internal control over major programs.

5. The report over compliance for major programs was unmodified.

6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

7. The School District's major programs were the Child Nutrition Cluster (School Breakfast Program, CFDA #10.553 and National School Lunch Program, CFDA #10.555) and Title I, CFDA #84.010.

8. The dollar threshold for distinguishing between Type A and Type B programs was $300,000.

9. Johannesburg-Lewiston Area Schools did not qualify as a low-risk auditee.

Section 2 - Findings in Accordance with Governmental Auditing Standards

Finding Number 2015-001

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

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

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

Effect: As a result of this condition, the School District lacks a thorough segregation of duties.

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

Finding Number 2015-002

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

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

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

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

Management's Response: The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and footnotes prior to approving them and accepting responsibility for their content and presentation.

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

None

PRIOR YEAR

Findings in Accordance with Governmental Auditing Standards

Finding Numbers 2014-001 and 2014-002 are equivalent to findings 2015-001 and 2015-002 and there is no change in status.

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

Finding Number 2014-003
Child Nutrition Cluster: School Breakfast Program CFDA #10.553; National School Lunch Program CFDA #10.555
Allowability - Meal Components and Quantities on Breakfast Menus
Immaterial Noncompliance

Criteria: Per Federal regulations 7 CFR, §220.23, meals offered to each age/grade group must include the food components and food quantities specified in the meal pattern guidelines.

Condition: The School District did not consistently indicate on breakfast menus the side choices available with each entree and that milk and fruit/juice was available with each meal.

Cause: Food service staff used an outdated format when preparing menus.

Effect: Children may not obtained balanced nutrition.

Context: The School District was aware of the need for improved breakfast menus. New breakfast menus were designed prior to the beginning of the 2014/2015 school year.

Questioned Costs: None.

Recommendation: Redesign of the breakfast menu to include proper identification of meal components and quantities.

Management's Response and Planned Corrective Actions: The School District has worked closely with the Michigan Department of Education to develop breakfast menus in compliance with meal pattern guidelines. For the 2014/2015 school year, a separate breakfast menu will be prepared on a monthly basis, which clearly indicates the availability of side choices with each entree and to indicate milk and fruit/juice is available with each meal.

Responsible Party for Corrective Action: Rick Holt, Superintendent, and Carol Havrilla, Executive Assistant.

Status: The breakfast menus were appropriately redesigned. The finding has been cleared.

Finding Number 2014-004
Child Nutrition Cluster: School Breakfast Program CFDA #10.553; National School Lunch Program CFDA #10.555
Special Tests and Provisions - Building Self-Monitoring Review
Immaterial Noncompliance

Criteria: Per Federal regulations 7 CFR, §210.8(a)(1), school districts with more than one building shall conduct an annual self-monitoring review in each building before February 1 of each school year.

Condition: The self-monitoring reviews were not conducted by February 1.

Cause: Management does not have a procedure in place to prompt the reviews.

Effect: Potential building-level noncompliance could go undetected for an extended period.

Context: The School District completed the self-monitoring reviews on February 5 and February 6.

Questioned Costs: None.

Recommendation: A policy should be in place that reminds staff to conduct the self-monitoring review prior to February 1.

Management's Response and Planned Corrective Actions: The School District has implemented a self-imposed policy to have the self-monitoring review completed by December 31 of each year to ensure this requirement is met timely.

Responsible Party for Corrective Action: Rick Holt, Superintendent, and Carol Havrilla, Executive Assistant.

Status: The self-monitoring reviews were completed in December 2014. The finding has been cleared.