

Johannesburg-Lewiston Area Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016



CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	5
STATEMENT OF ACTIVITIES.....	6
BALANCE SHEET - GOVERNMENTAL FUNDS.....	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	8
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES.....	9
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS.....	10
NOTES TO FINANCIAL STATEMENTS.....	11
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND.....	30
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS.....	32
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS.....	33
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	34

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, 2016. 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 \$(465,744) (negative net position).

The net pension liability of the School District was \$8,170,436 and \$9,644,889 at June 30, 2015 and 2016, respectively.

The District's total net position increased by \$486,267 in the 2015/16 school year.

At the end of the current fiscal year, the fund balance for the District's General Fund is \$769,848 with an increase of \$34,533 for the fiscal year ended June 30, 2016.

USING THE ANNUAL REPORT

Generally accepted accounting principles ("GAAP") requires the reporting of two types of financial 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2016 and 2015.

TABLE 1 Governmental Activities

	<u>6/30/2016</u>	<u>6/30/2015</u>
Assets		
Current assets	\$ 1,551,110	\$1,506,801
Noncurrent assets – capital	6,938,174	7,342,390
Total assets	<u>8,489,284</u>	<u>8,849,191</u>
Deferred outflows of resources		
Deferred outflow for pension obligation	1,407,407	897,846
Total assets and deferred outflows of resources	<u>\$ 9,896,691</u>	<u>\$ 9,747,037</u>
Liabilities		
Current liabilities	\$ 649,326	\$ 1,587,517
Noncurrent liabilities	36,260	37,849
Net pension liability	9,644,889	8,170,436
Total liabilities	<u>10,330,475</u>	<u>9,795,802</u>
Deferred inflow of resources for pension obligation	31,960	903,245
Net position		
Invested in capital assets, net	6,938,174	6,402,390
Restricted	130,655	123,968
Unrestricted	<u>(7,534,573)</u>	<u>(7,478,369)</u>
Total net position	<u>(465,744)</u>	<u>(952,011)</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 9,896,691</u>	<u>\$ 9,747,037</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2016 and 2015.

TABLE 2 Governmental Activities

	<u>6/30/2016</u>	<u>6/30/2015</u>
Program revenues		
Charges for services	\$ 157,398	\$ 157,353
Operating grants and contributions	1,594,816	1,508,711
Capital grants and contributions	20,866	30,513
General revenues		
Property taxes	5,767,698	5,937,913
State School Aid	705,977	596,686
Other and interest	<u>20,049</u>	<u>8,034</u>
Total revenues	<u>8,266,804</u>	<u>8,239,210</u>
Functions/ program expenses		
Instruction	4,521,937	4,250,495
Supporting services	2,727,428	3,001,900
Food service	332,553	329,903
Athletics	151,929	148,716
Interest and other	<u>46,690</u>	<u>79,094</u>
Total expenses	<u>7,780,537</u>	<u>7,810,108</u>
Change in net position	<u>\$ 486,267</u>	<u>\$ 429,102</u>

As reported in the statement of activities, the cost of all governmental activities for the year was \$7,780,537. While \$5,767,698 in revenue was generated directly from local taxpayers, another \$157,398 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 \$1,615,682 to the District. The District received \$705,977 in state education funding and \$20,049 in other miscellaneous sources, inclusive of investment earnings. Net position for the year ending June 30, 2016 increased by \$486,267.

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 2015/16 the District amended the budget of this major governmental fund 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 \$34,795. The District has evaluated expenditures in all operational areas in order to make budgetary cuts where necessary. General Fund expenditures in total increased by \$75,927 from 2014/15 to 2015/16.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's assets have accumulated \$12,146,771 of depreciation. Our capitalized assets include our buildings, land, equipment and transportation fleet. This year saw a \$404,216 decrease in Net Capital Assets. A categorized listing of the assets is below.

TABLE 3 Governmental Activities

	<u>6/30/2016</u>	<u>6/30/2015</u>
Land	\$ 6,253	\$ 6,253
Land improvements	814,868	814,868
Buildings and improvements	14,942,476	14,942,476
Buses and vehicles	977,882	953,107
Furniture and equipment	<u>2,343,466</u>	<u>2,333,282</u>
Total capital assets	19,084,945	19,049,986
Accumulated depreciation	<u>(12,146,771)</u>	<u>(11,707,596)</u>
Total capital assets, net	<u><u>\$ 6,938,174</u></u>	<u><u>\$ 7,342,390</u></u>

Long Term Debt

The District made the final debt payments for the 2004 Refunding Bond and the 2012 Bus Bond in the year ending June 30, 2016. The District's liability for compensated absences decreased by \$1,589 to a total of \$36,260. Total long-term debt decreased by \$941,589 in the year ended June 30, 2016.

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:

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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, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

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, 2016, 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.

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 30, 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 non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements 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 5, 2016 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 5, 2016

Johannesburg-Lewiston Area Schools

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,247,133
Due from other governments	299,529
Accounts receivable	3,168
Inventory	<u>1,281</u>
Total current assets	1,551,111
Non-current assets	
Capital assets, net of accumulated depreciation	<u>6,938,174</u>
Total assets	8,489,285
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow for pension obligation	<u>1,407,407</u>
Total assets and deferred outflows of resources	<u><u>\$ 9,896,692</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 139,773
Salaries payable and related liabilities	496,571
Unearned revenues	<u>12,982</u>
Total current liabilities	649,326
Non-current portion of long-term liabilities	36,260
Net pension liability	<u>9,644,889</u>
Total liabilities	<u>10,330,475</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow for pension obligation	<u>31,960</u>
NET POSITION	
Invested in capital assets, net of related debt	6,938,174
Restricted for	
Food service	46,688
Debt service	83,968
Unrestricted (deficit)	<u>(7,534,573)</u>
Total net position	<u>(465,743)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 9,896,692</u></u>

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

Johannesburg-Lewiston Area Schools

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

Functions/Program	Expenses	Program Revenues			Net
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	(Expense)/ Revenue and Changes in Net Position
					Governmental Activities
Governmental activities					
Instruction	\$ 4,521,936	\$ -	\$ 287,363	\$ -	\$ (4,234,573)
Supporting services	2,727,428	34,119	1,035,378	-	(1,657,931)
Food service	332,553	79,544	272,075	-	19,066
Athletics	151,929	43,735	-	20,866	(87,328)
Other	18,070	-	-	-	(18,070)
Interest on long-term debt	28,620	-	-	-	(28,620)
Total governmental activities	<u>\$ 7,780,536</u>	<u>\$ 157,398</u>	<u>\$ 1,594,816</u>	<u>\$ 20,866</u>	<u>(6,007,456)</u>
General revenues					
Property taxes					
Levied for general purposes					4,803,876
Levied for debt service					963,822
State school aid - unrestricted					705,977
Investment and other					<u>20,049</u>
Total general general purpose revenues					<u>6,493,724</u>
Change in net position					486,268
Net position, beginning of year					<u>(952,011)</u>
Net position, end of year					<u>\$ (465,743)</u>

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

Johannesburg-Lewiston Area Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,113,502	\$ 133,631	\$ 1,247,133
Due from other governments	299,529	-	299,529
Accounts receivable	3,168	-	3,168
Inventory	-	1,281	1,281
Due from other funds	31	3,077	3,108
	<u>\$ 1,416,230</u>	<u>\$ 137,989</u>	<u>\$ 1,554,219</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 139,773	\$ -	\$ 139,773
Salaries payable and related liabilities	496,571	-	496,571
Due to other funds	3,108	-	3,108
Unearned revenues	6,930	6,052	12,982
	<u>646,382</u>	<u>6,052</u>	<u>652,434</u>
FUND BALANCES			
Nonspendable for inventory	-	1,281	1,281
Restricted			
Food service	-	46,688	46,688
Debt service	-	83,968	83,968
Committed			
Subsequent year's expenditures	55,285	-	55,285
Unassigned	714,563	-	714,563
	<u>769,848</u>	<u>131,937</u>	<u>901,785</u>
Total fund balances	<u>769,848</u>	<u>131,937</u>	<u>901,785</u>
Total liabilities and fund balances	<u>\$ 1,416,230</u>	<u>\$ 137,989</u>	

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 \$19,084,945 and the accumulated depreciation is \$12,146,771.

6,938,174

Deferred outflow of resources for net pension obligation

1,407,407

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:

Compensated absences payable (36,260)
Net pension liability (9,644,889)

Deferred inflow of resources for net pension obligation

(31,960)

Total net assets - governmental activities

\$ (465,743)

Johannesburg-Lewiston Area Schools

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

Year ended June 30, 2016

	General Fund	Non-Major Governmental Funds	Total
Revenues			
Property taxes	\$ 4,803,876	\$ 963,823	\$ 5,767,699
State sources	1,509,968	14,263	1,524,231
Federal sources	289,976	257,813	547,789
Interest earnings	3,639	313	3,952
Other	349,860	79,545	429,405
	<u>6,957,319</u>	<u>1,315,757</u>	<u>8,273,076</u>
Total revenues			
Expenditures			
Current			
Instruction	4,159,049	-	4,159,049
Supporting services	2,489,885	-	2,489,885
Food service	-	332,553	332,553
Athletics	151,929	-	151,929
Other	13,543	-	13,543
Debt service			
Principal	-	940,000	940,000
Interest	-	34,345	34,345
Other	-	4,527	4,527
Capital outlay	108,118	2,350	110,468
	<u>6,922,524</u>	<u>1,313,775</u>	<u>8,236,299</u>
Total expenditures			
EXCESS OF REVENUES OVER EXPENDITURES	<u>34,795</u>	<u>1,982</u>	<u>36,777</u>
Other financing sources (uses)			
Transfers in	-	262	262
Transfers out	(262)	-	(262)
	<u>(262)</u>	<u>-</u>	<u>(262)</u>
Total other financing sources (uses)			
	<u>(262)</u>	<u>262</u>	<u>-</u>
REVENUE AND OTHER SOURCES OVER EXPENDITURES AND OTHER FINANCING SOURCES	<u>34,533</u>	<u>2,244</u>	<u>36,777</u>
Fund balance, beginning of year	<u>735,315</u>	<u>129,693</u>	<u>865,008</u>
Fund balance, end of year	<u>\$ 769,848</u>	<u>\$ 131,937</u>	<u>\$ 901,785</u>

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

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, 2016

Total Net Change in Fund Balance - Governmental Funds \$ 36,777

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	\$ 97,668	
Depreciation expense	<u>(495,613)</u>	(397,945)

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 disposal of capital assets	(6,271)
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Change in deferred outflows of resources for pension obligation.	509,561
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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	\$ 940,000	
Net pension liability	<u>(1,474,453)</u>	(534,453)

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 \$1,589.

1,589

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.

5,725

Change in deferred inflows of resources for pension obligation.	<u>871,285</u>
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Changes in Net Position of Governmental Activities	<u><u>\$ 486,268</u></u>
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Johannesburg-Lewiston Area Schools

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS

June 30, 2016

	<u>Student Activity Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 153,579</u>
LIABILITIES	
Due to student groups	<u>\$ 153,579</u>

Johannesburg-Lewiston Area Schools

NOTES TO 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, 2016.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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 ("MPERS") and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

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 she 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. She 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.

NOTES TO FINANCIAL STATEMENTS - Continued

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2016, the School District was out of compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Supporting services			
Transportation	\$ 626,721	\$ 626,823	\$ 102
Other	112,735	113,731	996

NOTE C - CASH AND CASH EQUIVALENTS

At June 30, 2016, the School District's cash and cash equivalents include the following:

	<u>Cash and Equivalents</u>
Cash on hand	\$ 215
Bank deposits	<u>1,400,496</u>
	<u><u>\$ 1,400,711</u></u>

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, 2016, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$1,400,496 and the bank balance was \$1,427,490. As of June 30, 2016, \$813,898 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.

NOTES TO FINANCIAL STATEMENTS - Continued

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value in the School District of \$263.9 million and \$6 per \$1,000 of commercial personal property value in the School District of \$1.4 million was levied for general operating purposes. For debt service purposes, \$2.32 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value in the School District of \$407.7 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, 2016 are as follows:

Due from State of Michigan State Aid	\$ 273,489
Due from Federal grants	<u>26,040</u>
	<u>\$ 299,529</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
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	953,107	87,484	(62,709)	977,882
Furniture and equipment	<u>2,333,282</u>	<u>10,184</u>	<u>-</u>	<u>2,343,466</u>
Total capital assets being depreciated	19,043,733	97,668	(62,709)	19,078,692
Less accumulated depreciation	<u>(11,707,596)</u>	<u>(495,613)</u>	<u>56,438</u>	<u>(12,146,771)</u>
Total capital assets, net	<u>\$ 7,342,390</u>	<u>\$ (397,945)</u>	<u>\$ (6,271)</u>	<u>\$ 6,938,174</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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

Instruction	\$ 298,893
Support services	<u>196,720</u>
Total depreciation expense	<u><u>\$ 495,613</u></u>

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.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 31	\$ 3,108
Non-Major Governmental Funds		
Food Service Fund	<u>3,077</u>	<u>-</u>
	<u><u>\$ 3,108</u></u>	<u><u>\$ 3,108</u></u>

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
General Fund	\$ -	\$ 262
Other Governmental Funds		
Food Service Fund	<u>262</u>	<u>-</u>
	<u>\$ 262</u>	<u>\$ 262</u>

NOTE G - LONG-TERM LIABILITIES

Changes in long-term liabilities during the year ended June 30, 2016 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
2004 Refunding Bond	\$ 785,000	\$ -	\$ (785,000)	\$ -	\$ -
2012 Bus Bond	155,000	-	(155,000)	-	-
Accumulated leave liability	<u>37,849</u>	<u>-</u>	<u>(1,589)</u>	<u>36,260</u>	<u>-</u>
Total long-term debt	<u>\$ 977,849</u>	<u>\$ -</u>	<u>\$ (941,589)</u>	<u>\$ 36,260</u>	<u>\$ -</u>

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

At June 30, 2016, the School District's long-term liabilities consisted of the following:

Accumulated leave liability	<u>\$ 36,260</u>
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Interest expense for the year ended June 30, 2016 was \$28,620 and interest paid for the year ended June 30, 2016 was \$34,345.

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, 2016, 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 from 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 ("MPERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit ("DB") pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPERS who became a member of MPERS 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.

Funding Policy

Defined Contribution Plan

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

Contributions and Funded Status

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2015 will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2015:

<u>Pension Contribution Rates</u>		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0-4.0%	22.52-23.07%
Member Investment Plan	3.0-7.0%	22.52-23.07%
Pension Plus	3.0-6.4%	21.99%
Defined Contribution	0.0%	17.72-18.76%

Required contributions to the pension plan from the School District were \$761,770 for the year ended September 30, 2015.

The School District's contributions to the MPSERS Defined Contribution Plan were \$1,845, for the year ended June 30, 2016, 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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

At June 30, 2016, the School District reported a liability of \$9,644,889 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2015, the School District's proportion was 0.03948773%, which was an increase of 0.00239773% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$935,254. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 31,947
Changes of assumptions	237,478	-
Net difference between projected and actual earnings on pension plan investments	49,229	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	446,111	13
School District contributions subsequent to the measurement date	<u>674,589</u>	<u>-</u>
Total	<u>\$ 1,407,407</u>	<u>\$ 31,960</u>

From the above table, \$674,589 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 pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2017	\$ 147,119
2018	147,119
2019	134,242
2020	272,378

Actuarial Assumptions

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

Additional information as of the latest actual valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members

Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158 for non-university employers.
- Recognition period for assets is 5 years.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

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

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

Discount Rate

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

NOTES TO FINANCIAL STATEMENTS - Continued

Sensitivity of the School District's Proportionate Share 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% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (Non-Hybrid/Hybrid) (7.0% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (8.0% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (9.0% / 8.0%)
\$ 12,434,734	\$ 9,644,889	\$ 7,292,935

Michigan Public School Employees' Retirement System ("MPERS") Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR"). The 2015 MPERS CAFR is available at: www.michigan.gov/mpers-cafr.

Payables to the Michigan Public School Employees' Retirement System ("MPERS")

The School District reported \$152,140 and \$332 payable to the plan at June 30, 2016 for legally required defined benefit and defined contribution plan contributions, respectively.

Required Supplemental Information - 10-Year Trend Information

Schedule of School District's Proportionate Share of Net Pension Liability	9/30/2015	9/30/2014
School District's proportion of collective net pension liability	0.03948773 %	0.03709000 %
School District's proportionate share of net pension liability	\$ 9,644,889	\$ 8,170,436
School District's covered-employee payroll	3,254,852	3,158,497
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	296.32343 %	258.68114 %
Plan fiduciary net position as a percentage of total pension liability	63.17 %	66.20 %

NOTES TO FINANCIAL STATEMENTS - Continued

Schedule of School District's Contributions

	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required employer contributions	\$ 761,770	\$ 576,087
School District contributions made to the Plan	<u>761,770</u>	<u>576,087</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>-</u>
School District's covered-employee payroll	\$ 3,318,601	\$ 3,252,935
Contributions as a percentage of covered-employee payroll	22.95 %	17.71 %

Change of benefit terms: There were no changes of benefit terms in 2015.

Change of assumptions: There were no changes of benefit assumptions in 2015.

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 have a contract through June 30, 2018.

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, 2015 through June 30, 2017.

NOTES TO FINANCIAL STATEMENTS - Continued

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, 2016. Future minimum rentals to be paid for operating leases are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 20,952
2018	<u>15,714</u>
	<u>\$ 36,666</u>

NOTE L - SUBSEQUENT EVENTS

The School District received voter approval for a sinking fund millage to begin July 1, 2016 to provide 2.3 mills for building repairs and upgrades.

REQUIRED SUPPLEMENTARY INFORMATION

Johannesburg-Lewiston Area Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Local	\$ 5,041,330	\$ 4,968,448	\$ 4,966,093	\$ (2,355)
State	1,294,547	1,514,660	1,512,753	(1,907)
Federal	288,289	289,911	289,976	65
Other	200,000	188,499	188,497	(2)
Total revenues	6,824,166	6,961,518	6,957,319	(4,199)
Expenditures				
Instruction				
Basic programs	3,320,537	3,393,201	3,389,890	(3,311)
Added needs	769,330	787,943	786,361	(1,582)
Supporting services				
Student services	225,622	218,754	217,825	(929)
General administration	320,826	301,534	295,961	(5,573)
School administration	749,553	739,067	738,284	(783)
Buildings and grounds	668,382	613,586	601,720	(11,866)
Transportation	677,274	626,721	626,823	102
Other	119,227	112,735	113,731	996
Athletics	150,639	152,413	151,929	(484)
Other financing uses	2,690	262	262	-
Total expenditures	7,004,080	6,946,216	6,922,786	(23,430)
REVENUES OVER (UNDER) EXPENDITURES	(179,914)	15,302	34,533	19,231
Fund balance, beginning of year	735,315	735,315	735,315	-
Fund balance, end of year	\$ 555,401	\$ 750,617	\$ 769,848	\$ 19,231

**COMBINING FINANCIAL STATEMENTS
OF NON-MAJOR GOVERNMENTAL FUNDS**

Johannesburg-Lewiston Area Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2016

	Special Revenue <u>Fund</u>	<u>Debt Service</u> 2004 Refunding <u>Bonds</u>	<u>Debt Service</u> 2012 Bus Bond <u>Bond</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 49,663	\$ 68,911	\$ 15,057	\$ 133,631
Inventory	1,281	-	-	1,281
Due from other funds	<u>3,077</u>	<u>-</u>	<u>-</u>	<u>3,077</u>
 Total assets	 <u>\$ 54,021</u>	 <u>\$ 68,911</u>	 <u>\$ 15,057</u>	 <u>\$ 137,989</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Unearned revenues	<u>\$ 6,052</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,052</u>
FUND BALANCES				
Nonspendable	1,281	-	-	1,281
Restricted				
Food service	46,688	-	-	46,688
Debt service	<u>-</u>	<u>68,911</u>	<u>15,057</u>	<u>83,968</u>
 Total fund balances	 <u>47,969</u>	 <u>68,911</u>	 <u>15,057</u>	 <u>131,937</u>
 Total liabilities and fund balances	 <u>\$ 54,021</u>	 <u>\$ 68,911</u>	 <u>\$ 15,057</u>	 <u>\$ 137,989</u>

Johannesburg-Lewiston Area Schools

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

Year ended June 30, 2016

	Special Revenue Fund	Debt Service 2004 Refunding Bonds	Debt Service 2012 Bus Bond	Total
Revenues				
Property taxes	\$ -	\$ 805,911	\$ 157,912	\$ 963,823
State sources	14,263	-	-	14,263
Federal sources	257,813	-	-	257,813
Interest earnings	30	239	44	313
Other	79,545	-	-	79,545
Total revenues	351,651	806,150	157,956	1,315,757
Expenditures				
Food service	332,553	-	-	332,553
Debt service				
Principal	-	785,000	155,000	940,000
Interest	-	31,400	2,945	34,345
Other	-	3,930	597	4,527
Capital outlay	2,350	-	-	2,350
Total expenditures	334,903	820,330	158,542	1,313,775
REVENUES OVER (UNDER) EXPENDITURES	16,748	(14,180)	(586)	1,982
Other financing sources				
Transfers in	262	-	-	262
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	17,010	(14,180)	(586)	2,244
Fund balance, beginning of year	30,959	83,091	15,643	129,693
Fund balance, end of year	\$ 47,969	\$ 68,911	\$ 15,057	\$ 131,937



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**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, 2016, 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 5, 2016.

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.

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 below to be a material weakness:

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

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

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

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

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

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.

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*.

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 5, 2016