

PELLSTON PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
JUNE 30, 2016



Baird, Cotter & Bishop, P.C.
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS
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PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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July 29, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Pellston Public Schools
Pellston, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pellston Public Schools, Pellston, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to 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 Pellston Public Schools, Pellston, Michigan as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages iv through xi and 35 through 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pellston Public Schools' basic financial statements. The combining and individual fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2016, on our consideration of Pellston Public Schools' 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 Pellston Public Schools' internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

This section of Pellston Public Schools' (the "District") annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follows this section.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of the following three components: the government-wide financial statements, fund financial statements, and the notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Financial Highlights Section

Government-Wide

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$9,445,456 creating a deficit net position amount. Of this amount net capital assets net of related debt was a negative \$2,910,617.
- The government's total net deficit decreased by \$699,636.

Fund Level

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,122,785, an increase of \$168,473 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$853,884.

Overview of the Financial Statements

Government-Wide Financial Statements

The government-wide statements provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The district-wide financial statements are compiled using full accrual basis of accounting and more closely represent financial statements presented by business and industry. The Statement of Net Position includes all of the District's assets and liabilities. All of the year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

Over time, increases and decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

To assess the overall health of the District requires consideration of additional non-financial factors, such as changes in the District’s property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District’s activities are all shown in one category titled “Governmental Activities”. These activities, including regular and special education, transportation, administration, food services, athletic activities, and community services, are primarily financed with state and federal aids and property taxes.

Fund Financial Statements

The fund financial statements provide more detailed information about the District’s funds, focusing on its most significant or “major” funds, rather than the District as a whole. Funds that do not meet the threshold to be classified as major funds are called “non-major” funds. Detailed financial information for non-major funds can be found in the combining and individual fund statements section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes.

The District maintains the following kinds of funds:

Governmental Funds – The District’s basic services are included in governmental funds, which generally focus on 1) how cash and other financial assets that can be readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is a trustee, or fiduciary, for assets that belong to other organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District’s fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-wide and fund financial statements. The notes to the financial statements can be found on pages 9-34 of this report.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Summary of Net Position

The following schedule summarizes the net position at fiscal year ended June 30.

	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	\$ 1,697,251	\$ 1,437,602
Capital Assets, Net of Accumulated Depreciation	3,149,072	3,514,468
Total Assets	4,846,323	4,952,070
Deferred Outflows of Resources	891,293	903,557
Liabilities		
Current Liabilities	1,565,445	1,450,490
Long-Term Liabilities	12,747,625	13,705,827
Total Liabilities	14,313,070	15,156,317
Deferred Inflow of Resources	870,002	844,402
Net Position		
Net Investment in Capital Assets (Deficit)	(2,910,617)	(3,472,621)
Restricted for Specific Purposes	84,737	118,750
Unrestricted (Deficit)	(6,619,576)	(6,791,221)
Total Net Position (Deficit)	\$ (9,445,456)	\$ (10,145,092)

Analysis of Financial Position

During the fiscal year ended June 30, 2016, the District's net position increased by \$699,636. A few of the more significant factors affecting net position during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2016, \$413,757 was recorded for depreciation expense.

2. Pension Expense

GASB 68 now requires the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net pension liability increase or decreases in any given year. For the year ended June 30, 2016, the District reported a decrease in net position related to GASB 68, which indicates that the District's proportionate share of the net pension liability has increased.

3. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2016, \$48,361 of expenditures for equipment and building improvements were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is a decrease to capital assets in the amount of \$365,396 for the fiscal year ended June 30, 2016.

Change in Net Position

The following schedule summarizes the results of operations, on a district-wide basis, for the fiscal year ended June 30.

	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues		
Charges for Services	\$ 103,795	\$ 129,514
Operating Grants and Contributions	1,600,666	1,978,369
General Revenues		
Property Taxes	3,983,231	3,844,943
Investment Earnings	2,213	1,238
State Sources	1,226,975	1,494,966
Other	44,125	32,192
Total Revenues	<u>6,961,005</u>	<u>7,481,222</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

	2016	2015
Expenses		
Instruction	3,544,548	3,345,925
Supporting Services	1,649,979	1,680,324
Athletic Activities	120,661	145,621
Food Service Activities	250,680	258,799
Community Services	502	714
Interest on Long-Term Debt	281,242	319,479
Unallocated Depreciation	413,757	405,331
	6,261,369	6,156,193
Change in Net Position	699,636	1,325,029
<u>Net Position (Deficit) - Beginning of Year</u>	<u>(10,145,092)</u>	<u>(11,470,121)</u>
<u>Net Position (Deficit) - End of Year</u>	<u>\$ (9,445,456)</u>	<u>\$ (10,145,092)</u>

Financial Analysis of the District's Funds

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

	2016	2015	Increase (Decrease)
Major Funds			
General Fund	\$ 922,935	\$ 785,499	\$ 137,436
2008 Refunding Debt	117,457	82,055	35,402
Nonmajor Funds			
Food Service	75,134	50,893	24,241
2002 Debt Retirement	0	29,440	(29,440)
2012 School Technology and Equipment	7,259	6,425	834
2010 QZAB Bonds	0	0	0
2011 QZAB Bonds	0	0	0
	\$ 1,122,785	\$ 954,312	\$ 168,473
Total Governmental Funds	<u>\$ 1,122,785</u>	<u>\$ 954,312</u>	<u>\$ 168,473</u>

In 2015-2016, the General Fund balance increased primarily due to staff and other cost reductions and additional Federal Revenues.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

The 2008 Refunding Fund increased its fund balance due to the transfer of the residual balance of the 2002 Debit Retirement Fund.

The Food Service Fund increased its fund balance due to decreased costs of staff, benefits and food purchases.

The 2002 Debt Retirement Fund was closed after the final debt payment and the residual balance transferred to the 2008 Debt Retirement Fund.

The 2012 School Technology and Equipment increased its fund balance due to debt service payments being slightly lower than the tax millage levied.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2015-2016 fiscal year, the District amended the general fund budget throughout the fiscal year. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES AND OTHER SOURCES</u>	<u>\$ 5,761,867</u>	<u>\$ 5,749,272</u>	<u>\$ 5,754,809</u>
<u>EXPENDITURES AND OTHER USES</u>			
Instruction	\$ 3,715,165	\$ 3,679,852	\$ 3,675,382
Supporting Services	1,937,995	1,866,351	1,862,977
Community Services	0	502	502
Facilities Acquisition	7,514	0	0
Transfers and Other Transactions	84,800	78,512	78,512
Total Expenditures and Other Uses	<u>\$ 5,745,474</u>	<u>\$ 5,625,217</u>	<u>\$ 5,617,373</u>

The differences between the original budgeted amounts, final budgeted amounts and the actual amounts is minimal.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2016, amounted to \$3,149,072 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, vehicles and equipment.

Pellston Public Schools
Capital Assets (Net of Depreciation, When Applicable)

	<u>2016</u>	<u>2015</u>
Land and Improvements	\$ 442,000	\$ 443,750
Buildings and Improvements	2,085,912	2,345,678
Vehicles	408,631	476,028
Equipment	212,529	249,012
	<hr/>	<hr/>
Total Capital Assets	\$ 3,149,072	\$ 3,514,468
	<hr/>	<hr/>

Additions to capital assets included:

- Two copiers purchased in the amount of \$20,496.
- Oven purchased in the amount of \$6,770.
- Welding room improvements purchased in the amount of \$21,095.

Additional information on the District's capital assets can be found in the notes to this report.

Long-Term Debt. At year-end, the District had total bonded debt, installment contracts, net pension liability, and accrued compensation outstanding of \$13,698,625, net of bond discounts and premiums.

Additional information on the District's long-term debt can be found in the notes to this report.

Factors Bearing on the District's Future

We considered many factors when setting the District's 2016-2017 fiscal year budget.

- The District is anticipating an enrollment State Aid Membership of 535 students this fall, a decrease of 21 students from the 2015-2016 membership. Overall enrollment numbers for the District continue to steadily decline, thus impacting the overall district budget. Despite declining enrollment the District will continue to focus on providing high quality educational programs and opportunities for its students. We will continue to make the assumption that our school will continue to qualify for Isolated District funding.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2016

- The general fund budget for 2016-2017 was developed using the following assumptions: The State foundation grant will increase by \$120 per pupil.
- The District will continue to host two pre-school programs in 2016-2017 utilizing Great Start Readiness Funds (GSRP). Funding from this grant will continue to allow the District to provide high-quality learning programs for young children both within and outside of district boundaries. The District has observed students from other school districts both within and outside of the ISD attending this high-quality program with families then choosing our district as a School of Choice as the child moves to Kindergarten. Furthermore, local data indicates that students who attend this program are better prepared for rigor in the classroom when they enter kindergarten.
- In the area of employee health insurance, the Board approved the hard cap established for school districts as \$6,142 for a single subscriber, \$12,845 for a two person, and \$16,751 for full family. The balance of the premium and any incurred HSA costs is being paid through employee payroll deduction.
- The District has projected revenues to be approximately 5.5 million dollars. The District continues to closely monitor class size and works towards having an appropriate alignment of professional staff and student enrollment be balanced.
- For the 2016-2017 fiscal year, the Board has continued to authorize the administrative team of Superintendent, Mrs. Monique Dean, Mr. Enos Bacon III continuing his fifth year, and fourth year Elementary Principal, Mrs. Tamara Pichla. The Board is pleased with the renewal of these contracts and the administrative consistency they provide to the District as we move forward.
- In an ongoing effort to provide students with vocational opportunities at the high school level, during the 2016-2017 year the District, in cooperation with CharEm ISD, Alanson Public Schools and Harbor Springs Public Schools will offer a new Aviation & Aeronautics Technology Program. This will join our current Vocational Education Programs of Business Management, Construction Trades, Health Occupations and Welding.

Request for Information

The financial report is designed to a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Pellston Public Schools, Superintendent of Schools, 172 N. Park Street, Pellston, Michigan 49769-0016.

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PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2016

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 634,262
Investments	617,189
Accounts Receivable	15,966
Due from Other Governments	404,778
Inventories	25,056
	<hr/>
Total Current Assets	1,697,251

NON CURRENT ASSETS

Capital Assets	15,431,447
Less Accumulated Depreciation	<hr/> (12,282,375)
	<hr/>
Total Non Current Assets	3,149,072
	<hr/>
Total Assets	4,846,323

DEFERRED OUTFLOWS OF RESOURCES

Subsequent Pension Contributions	583,512
Changes of Assumptions in Pension Plan	188,011
Net Difference Between the Projected and Actual Pension Investment Earnings	38,975
Deferred Charge on Refunding	80,795
	<hr/>
Total Deferred Outflows of Resources	891,293

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	63,813
Accrued Expenses	148,266
Accrued Interest	39,979
Salaries Payable	277,198
Unearned Revenue	85,189
Current Portion of Non Current Liabilities	951,000
	<hr/>
Total Current Liabilities	1,565,445

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

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2016

<u>NON CURRENT LIABILITIES</u>	
Bonds Payable - Net	6,059,689
Compensated Absences	3,096
Net Pension Liability	7,635,840
Less Current Portion of Non Current Liabilities	<u>(951,000)</u>
Total Non Current Liabilities	<u>12,747,625</u>
Total Liabilities	<u>14,313,070</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Differences Between Expected and Actual Experience	25,292
Changes in Proportion and Differences Between District Pension Contributions and Their Proportionate Share of Contributions	636,127
Section 147c Revenue Related to District Pension Contributions Subsequent to the Measurement Date	<u>208,583</u>
Total Deferred Inflows of Resources	<u>870,002</u>
<u>NET POSITION</u>	
Net Investment in Capital Assets (Deficit)	(2,910,617)
Restricted for Debt Service	84,737
Unrestricted (Deficit)	<u>(6,619,576)</u>
TOTAL NET POSITION - (DEFICIT)	<u>\$ (9,445,456)</u>

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

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENDITURES</u>	<u>PROGRAM REVENUES</u>			<u>GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS</u>	<u>CAPITAL GRANTS</u>	
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 3,544,548	\$ 4,599	\$ 1,106,162	\$ 0	\$ (2,433,787)
Supporting Services	1,649,979	21,199	227,037	0	(1,401,743)
Athletic Activities	120,661	29,673	1,477	0	(89,511)
Food Service Activities	250,680	48,324	230,916	0	28,560
Community Services	502	0	502	0	0
Interest on Long-Term Debt	281,242	0	34,572	0	(246,670)
Unallocated Depreciation	413,757	0	0	0	(413,757)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 6,261,369	\$ 103,795	\$ 1,600,666	\$ 0	(4,556,908)
 <u>GENERAL REVENUES</u>					
Property Taxes - Levied for General Purposes					2,888,752
Property Taxes - Levied for Debt Service					1,094,479
Investment Earnings					2,213
State Sources					1,226,975
Other					44,125
Total General Revenues					5,256,544
Change in Net Position					699,636
<u>NET POSITION</u> - Beginning of Year - (Deficit)					(10,145,092)
<u>NET POSITION</u> - End of Year - (Deficit)					\$ (9,445,456)

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

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2016

	2008 REFUNDING DEBT GENERAL FUND	2008 REFUNDING DEBT RETIREMENT FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 459,690	\$ 116,347	\$ 58,225	\$ 634,262
Investments	617,189	0	0	617,189
Accounts Receivable	15,600	0	366	15,966
Due from Other Funds	0	1,110	21,752	22,862
Due from Other Governments	398,771	0	6,007	404,778
Inventory	21,148	0	3,908	25,056
TOTAL ASSETS	\$ 1,512,398	\$ 117,457	\$ 90,258	\$ 1,720,113
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 62,013	\$ 0	\$ 1,800	\$ 63,813
Due to Other Funds	22,862	0	0	22,862
Accrued Expenditures	147,846	0	420	148,266
Salaries Payable	276,553	0	645	277,198
Unearned Revenue	80,189	0	5,000	85,189
Total Liabilities	589,463	0	7,865	597,328
<u>FUND BALANCE</u>				
Nonspendable:				
Inventory	21,148	0	3,908	25,056
Restricted:				
Debt Service	0	117,457	7,259	124,716
Food Service	0	0	71,226	71,226
Committed:				
Facility Improvements	40,000	0	0	40,000
Assigned:				
Subsequent Years Budget Shortfall	7,903	0	0	7,903
Unassigned	853,884	0	0	853,884
Total Fund Balances	922,935	117,457	82,393	1,122,785
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,512,398	\$ 117,457	\$ 90,258	\$ 1,720,113

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

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION

JUNE 30, 2016

Total Governmental Fund Balances	\$ 1,122,785
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	
The cost of the capital assets is	\$ 15,431,447
Accumulated depreciation is	<u>(12,282,375)</u> 3,149,072
Bond discounts and issuance costs for bonds issued are expenditures at the modified accrual fund level, but are capitalized and written off over the life of bonds payable at the district-wide full accrual level.	
Deferred (Gain) Loss on Refunding	80,795
Bond Discount (Premium)	(35,689)
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Bonds Payable	(6,024,000)
Compensated Absences	(3,096)
Some liabilities, including net pension obligations, are not due and payable and payable in the current period and, therefore, are not reported in the funds.	
Net Pension Liability	(7,635,840)
Deferred outflows and (inflows) of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Subsequent Pension Contributions	583,512
Changes of Assumptions in Pension Plan	188,011
Changes in Proportion and Differences Between Districts Pension Contribution and Their Proportionate Share of Contributions	(636,127)
Differences Between Expected and Actual Experience	(25,292)
Net Difference Between the Projected and Actual Pension Investment Earnings	38,975
Section 147c Revenue Related to District Pension Contributions Subsequent to the Measurement Date	(208,583)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid.	<u>(39,979)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (9,445,456)</u>

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

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

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

YEAR ENDED JUNE 30, 2016

	2008 REFUNDING DEBT RETIREMENT FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$3,001,735	\$ 780,643	\$ 4,151,026
State Sources	2,020,585	0	2,028,061
Federal Sources	429,517	0	687,529
Other Transactions	302,972	0	302,972
 Total Revenues	 5,754,809	 780,643	 7,169,588
<u>EXPENDITURES</u>			
Instruction	3,675,382	0	3,675,382
Supporting Services	1,741,398	0	1,741,398
Athletic Activities	121,579	0	121,579
Food Service Activities	0	0	260,857
Community Services	502	0	502
Facilities Acquisition	0	0	0
Capital Outlay	0	0	0
Debt Service			
Principal	0	560,000	921,000
Interest and Fees	0	212,413	280,397
 Total Expenditures	 5,538,861	 772,413	 7,001,115
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 215,948	 8,230	 (55,705) 168,473
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	27,172	105,684
Transfers Out	(78,512)	0	(105,684)
 Total Other Financing Sources (Uses)	 (78,512)	 27,172	 51,340 0
 Net Change in Fund Balance	 137,436	 35,402	 (4,365) 168,473
 <u>FUND BALANCE</u> - Beginning of Year	 785,499	 82,055	 86,758 954,312
 <u>FUND BALANCE</u> - End of Year	 \$ 922,935	 \$ 117,457	 \$ 82,393 \$ 1,122,785

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

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances Total Governmental Funds \$ 168,473

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the Statement of Activities these costs are allocated over their estimated useful lives as depreciation. Additionally, the gain or loss on sale or disposal of capital assets is recorded in the Statement of Activities:

Depreciation Expense	(413,757)
Capital Outlay	48,361

Accrued and accreted interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	46,200
Accrued Interest Payable - End of Year	(39,979)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Repayment of Bond Principal	921,000
Amortization of Deferred Charges	(7,066)

Employees Early Retirement and Accumulated Sick Pay are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accumulated Sick Pay - Beginning of Year	1,572
Accumulated Sick Pay - End of Year	(3,096)

Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense

Changes in Net Pension Liability	2,326
Changes in Subsequent Pension Contributions	56,238
Net Changes of Assumptions in Pension Plan	(93,821)
Net Changes in Proportion and Differences Between Districts Pension Contribution and Their Proportionate Share of Contributions	(636,317)
Differences Between Expected and Actual Experience	(25,292)
Changes in Net Difference Between the Projected and Actual Pension Investment Earnings	883,377
Section 147c Revenue Related to District Pension Contributions Subsequent to the Measurement Date	(208,583)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 699,636
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The notes to the financial statements are an integral part of this statement.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2016

	<u>AGENCY FUNDS</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 14,600
Investments	<u>94,318</u>
Total Assets	108,918
<u>LIABILITIES</u>	
Due to Groups and Organizations	<u>108,918</u>
<u>NET POSITION</u>	<u><u>\$ 0</u></u>

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

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The School District (the "District") is located in Emmet and Cheboygan Counties with its administrative offices located in Pellston, Michigan. The District operates under an elected 7-member board of education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The School District does not have any business-type activities or component units.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *2008 Refunding Debt Retirement Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

Other Non-Major Funds:

The *Special Revenue (School Service) Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service activities in a special revenue fund.

The *Debt Retirement Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

Additionally, the District reports the following fund type:

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following fiduciary fund:

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

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

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

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

- a) In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

- c) Prior to June 30, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the school district, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted on June 29, 2015, or as amended by the School Board of Education throughout the year.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

The School's deposits and investments are held separately by several of the School District's funds.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

2. *Inventory and Prepaid Items*

Inventories are valued at cost. Inventory in the General Fund consists of land being held for future use by the Building Trades Program. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

3. *Capital Assets*

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

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

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

<u>Assets</u>	<u>Years</u>
Building and Improvements	20-50
Land Improvements	20
Equipment	5-20
Vehicles	7-10

4. *Compensated Absences*

District policy permits certain employees to accumulate earned but unused sick pay benefits which are paid when the employee separates from service with the District. A liability is recorded in the statement of net position for such amounts. No liability is recorded for accumulated vacation since hours earned do not vest.

5. *Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has four items that qualify for reporting in this category. The fourth is the deferred charge on refunding reported in the government-wide *Statement of Net Position*. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or funding debt. The other three are related to the pension plan for its employees. Details can be found in footnote 2.E.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three item that qualifies for reporting in this category, which is related to the pension plan for its employees. Details can be found in footnote 2.E.

7. *Pension*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement 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.

8. *Net Position Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

9. *Fund Balance Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. *Use of Estimates*

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

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2016 the foundation allowance was based on pupil membership counts taken in October 2015 and February 2015. For fiscal year ended June 30, 2016, the per pupil foundation allowance was \$7,391 for Pellston Public Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

2. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1, and due July 1. The levy becomes delinquent as of February 14 for all taxpayers. After these dates, unpaid taxes are subject to penalties and interest.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-Homestead	18.0000
General Fund - Non-Homestead Commercial PPT	6.0000
Debt Service Fund - Homestead and Non-Homestead	3.6480

NOTE 2 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of June 30, 2016, the District’s bank balance was \$718,211 and \$344,605 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. Of the \$344,605 of uninsured funds, \$326,238 was in the governmental funds and \$18,367 was in the fiduciary funds. Although the District’s investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

Foreign Currency Risk. The District is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

Custodial Credit Risk –Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered, or securities held by the District or the District’s agent in the District’s name. Although the District’s investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty’s trust department or its agent in the District’s name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District’s name. At year-end all of the District’s investments were uncategorized as to risk.

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2016, the fair value of the District’s investments is the same as the value of the pool shares.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Balance sheet classifications:

	Petty Cash	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 800	\$ 633,462	\$ 0	\$ 14,600	\$ 648,862
Investments	0	0	617,189	94,318	711,507
	\$ 800	\$ 633,462	\$ 617,189	\$ 108,918	\$ 1,360,369

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor are as follows:

	General	Nonmajor and Other Funds	Total
Receivables			
Accounts	\$ 15,600	\$ 366	\$ 15,966
Due from Other Governments	398,771	6,007	404,778
Total Receivables	\$ 414,371	\$ 6,373	\$ 420,744

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

C. Capital Assets

Capital assets activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital Assets not Being Depreciated:				
Land	\$ 435,000	\$ 0	\$ 0	\$ 435,000
Capital Assets Being Depreciated				
Land Improvements	75,000	0	0	75,000
Buildings and Improvements	12,661,423	21,095	0	12,682,518
Vehicles	801,339	0	109,212	692,127
Equipment	1,519,536	27,266	0	1,546,802
Subtotal	15,057,298	48,361	109,212	14,996,447

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	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Less Accumulated Depreciation for:				
Land Improvements	(66,250)	(1,750)	0	(68,000)
Buildings and Improvements	(10,315,745)	(280,861)	0	(10,596,606)
Vehicles	(325,311)	(67,397)	109,212	(283,496)
Equipment	(1,270,524)	(63,749)	0	(1,334,273)
Total Accumulated Depreciation	(11,977,830)	(413,757)	109,212	(12,282,375)
Total Capital Assets Being Depreciated, Net	3,079,468	(365,396)	0	2,714,072
Capital Assets, Net	\$ 3,514,468	\$ (365,396)	\$ 0	\$ 3,149,072

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities	
Unallocated	\$ 413,757
Total Depreciation Expense - Governmental Activities	\$ 413,757

D. Defined Benefit Plan and Post-Retirement Benefits

Plan Description – The Michigan Public School Employees’ Retirement System (System or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board’s authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

The System’s separately issued financial statements are available at www.michigan.gov/mpsers-cafr.

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Benefit Provisions- Pension

Introduction

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

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

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. 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 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Prior to pension reform of 2010 there were two plans commonly referred to as Basic and Member Investment Plan (MIP). Basic plan member's contributions range from 0% to 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later, including Pension Plus plan members, contribute at various graduated permanently fixed contribution rates from 3.0% to 7.0%

Pension Reform 2010

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

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

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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 December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement

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

Annual Amount – Total credited service as of the transition date times 1.5% of final average compensation.

Pension Plus

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

Option 1: Credited service after the transition date times 1.5% times final average compensation.

Option 2: Credited service after the transition date (until total service reaches 30 years) times 1.5% times final average compensation, plus credited service after the transition date and over 30 years times 1.25% times final average compensation.

Option 3: Credited service after the transition date times 1.25% times final average compensation.

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

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

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

Contributions

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

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Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree other post-employment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

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

Pension Contribution Rates

<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%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$706,340. These amounts include contributions funded from state revenue Section 147c restricted to fund MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

Pension Liabilities

At June 30, 2016, the District reported a liability of \$7,635,840 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .03126236% and .03468000%.

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MPERS (Plan) Net Pension Liability – As of September 30, 2015 and September 30, 2014

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	41,887,015,147	43,134,384,072
Net Pension Liability	<u>\$ 24,425,026,755</u>	<u>\$ 22,026,503,110</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.17%	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	292.61%	250.11%

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

For the year ended June 30, 2016, the District recognized total pension expense of \$474,209. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 0	\$ 25,292
Changes of assumptions	188,011	0
Net difference between projected and actual earnings on pension plan investments	38,975	0
Changes in proportion and differences between District contributions and proportionate share of contributions	0	636,127
District section 147c revenue related to pension contributions subsequent to the measurement date	0	208,583
District contributions subsequent to the measurement date	583,512	0
Total	<u>\$ 810,498</u>	<u>\$ 870,002</u>

\$583,512 reported as deferred outflows of resources and \$208,583 reported as deferred inflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a net reduction of the net pension liability in the year ended June 30, 2017. Other amounts

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

Year Ended June 30,	Amount
2017	\$ (149,756)
2018	(149,756)
2019	(159,960)
2020	25,039
	\$ (434,433)

F. Actuarial Valuations and Assumptions of the Pension Plan

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return	
-MIP and Basic Plans (Non-Hybrid):	8.00%
-Pension Plus Plan (Hybrid):	7.00%
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 Combine 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.

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Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 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.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report.

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:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Pools	28.00%	5.90%
Alternative Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate & Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short-Term Investment Pools	2.00%	0.00%
	<u>100%</u>	

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

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Discount Rate

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

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability, calculated using the discount rate of 8.0 percent (7.0% for the Pension Plus plan), as well as what the 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%
\$ 9,844,555	\$ 7,635,840	\$ 5,773,803

G. 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 2015 Comprehensive Annual Financial Report.

H. Payables to the Pension Plan

As of June 30, 2016, the District is current on all required pension plan payments. As of June 30, 2016, the District reported payables in the amount of \$127,035 to the pension plan. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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I. Benefit Provisions – Other Post-Employment

Introduction

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

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Retiree Healthcare Reform of 2012

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

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

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015; from 2.20% - 2.71% of covered payroll for the period from March 10, 2015 to

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September 30, 2015; and from 6.40% - 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District's contributions to MPERS for post-employment healthcare contributions for the years ended June 30, 2016 and 2015 were approximately \$148,410 and \$67,166.

J. Risk Management

Pellston Public Schools are exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees.

The District participates in a distinct pool within educational institutions within the State of Michigan for self-insuring workers' disability compensation, property and casualty, health claims, as well as liability insurance. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

K. Long-Term Liabilities

A summary of long-term debt and transactions related thereto is as follows for the year ended June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
2002 School Building and Site Construction Bonds, due through May 2016 in semi-annual installments of interest and annual principal payments of \$240,000 with an interest rate of 4.375%.	\$ 240,000	\$ 0	\$ 240,000	\$ 0	\$ 0
2010 Energy Conservation Improvement QZAB Bond due through May 2020 in semi-annual installments of interest and annual principal payments of \$71,000 and interest rate of 6.0%.	355,000	0	71,000	284,000	71,000

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
2011 School Improvement QZAB bond due through November 2024 in annual installments of \$60,000 - \$65,000 beginning in 2020 and interest paid annually with rates ranging from 5.8% to 6.375%.	315,000	0	0	315,000	0
2008 Refunding Bonds, due through May 2022 in semi-annual installments of interest and annual principal payments varying from \$740,000 to \$850,000 with interest rates ranging from 3.85% to 4.2%.	5,335,000	0	560,000	4,775,000	740,000
2012 School Technology and Equipment Bonds, due through May 2020 in semi-annual installments of interest and annual principal payments varying from \$140,000 - \$180,000 bearing interest rates ranging from 2.00% to 2.25%.	700,000	0	50,000	650,000	140,000
Compensated Absences	1,572	3,096	1,572	3,096	unknown
Net Pension Liability	7,638,166	661,927	664,253	7,635,840	unknown
Total Long-Term Debt	<u>\$ 14,584,738</u>	<u>\$ 665,023</u>	<u>\$ 1,586,825</u>	<u>\$ 13,662,936</u>	<u>\$ 951,000</u>

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Annual debt service requirements to maturity for the above obligations except for compensated absences and net pension liability.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2017	\$ 951,000	\$ 239,876	\$ 1,190,876
2018	991,000	204,326	1,195,326
2019	1,026,000	167,606	1,193,606
2020	1,061,000	129,724	1,190,724
2021	890,000	87,274	977,274
2022-2025	1,105,000	68,121	1,173,121
	<u>\$ 6,024,000</u>	<u>\$ 896,927</u>	<u>\$ 6,920,927</u>

Compensated absences and the net pension liability will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

L. Interfund Receivables and Payables

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 0	\$ 22,862
2008 Refunding Debt Retirement Fund	1,110	0
School Service Fund - Food Service	21,752	0
	<u>\$ 22,862</u>	<u>\$ 22,862</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2016 are expected to be repaid within one year.

M. Interfund Transfers

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 0	\$ 78,512
Debt Retirement Fund - 2008 Refunding	27,172	0
Debt Retirement Fund - 2012 School Technology and Equipment	0	27,172
Debt Retirement Fund - 2010 QZAB Bonds	74,740	0
Debt Retirement Fund - 2011 QZAB Bonds	3,772	0
	<u>\$ 105,684</u>	<u>\$ 105,684</u>

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Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

N. Related Party Transactions

The District paid for repair and maintenance services to a business owned by the superintendent's relative totaling \$30,931 for the year. In the opinion of management, such transactions were on substantially the same terms as those prevailing at the time of comparable transactions with other persons and did not present any other unfavorable features to the District.

O. Other Information

1. Commitments and Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

P. GASB 72 – Fair Market Value Disclosure

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

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

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

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

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

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

NOTE 3. UPCOMING ACCOUNTING PRONOUNCEMENTS

Governmental Accounting Standards Board (GASB) Statement No. 77 – Tax Abatement Disclosures

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 fiscal year-end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future. The District is still evaluating how, if at all, it will be affected by this new pronouncement.

Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74,

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This statement is effective for fiscal years beginning after June 15, 2017. However, early implementation is encouraged. The District is evaluating the effects this statement will have on the District's net position.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2016

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
Local Sources	\$ 2,917,078	\$ 2,985,915	\$ 3,001,735
State Sources	2,190,197	2,014,335	2,020,585
Federal Sources	301,738	429,517	429,517
Other Transactions	352,854	319,505	302,972
Total Revenues	5,761,867	5,749,272	5,754,809
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	2,821,308	2,797,955	2,795,760
Added Needs	893,857	881,897	879,622
Supporting Services			
Pupil	174,532	185,289	184,767
Instructional Staff	39,159	55,714	55,714
General Administration	266,065	251,307	251,183
School Administration	364,295	360,692	360,512
Business	83,870	86,522	86,522
Operating and Maintenance	486,410	489,847	488,601
Pupil Transportation	290,821	235,898	234,639
Support Services Central	82,820	79,460	79,460
Other Support Services-Athletic Activities	150,023	121,622	121,579
Community Service	0	502	502
Facilities Acquisition	7,514	0	0
Total Expenditures	5,660,674	5,546,705	5,538,861
Excess (Deficiency) of Revenues Over (Under) Expenditures	101,193	202,567	215,948
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In	0	0	0
Transfers Out	(84,800)	(78,512)	(78,512)
Total Other Financing Sources (Uses)	(84,800)	(78,512)	(78,512)
Net Change in Fund Balance	16,393	124,055	137,436
<u>FUND BALANCE</u> - Beginning of Year	751,450	785,499	785,499
<u>FUND BALANCE</u> - End of Year	\$ 767,843	\$ 909,554	\$ 922,935

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)
JUNE 30, 2016

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)									0.03126236%	0.03468%
District's proportionate share of net pension liability									\$ 7,635,840	\$ 7,638,166
District's covered-employee payroll									2,611,091	2,946,069
District's proportionate share of net pension liability as a percentage of its covered-employee payroll									292.44%	259.27%
Plan fiduciary net position as a percentage of total pension liability									63.17%	66.20%

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)
JUNE 30, 2016

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions								\$ 706,340	\$ 602,078	
Contributions in relation to statutorily required contributions *								706,340	602,078	
Contribution deficiency (excess)								\$ 0	\$ 0	
Covered-Employee Payroll								\$ 2,551,205	\$ 2,659,133	
Contributions as a percentage of covered-employee payroll								27.69%	22.64%	

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

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2016

A. Changes of Benefit Terms:

There were no changes of benefit terms in 2016.

B. Changes of Assumptions:

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. There were no changes of assumptions in 2016.

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2016

	SPECIAL REVENUE	DEBT SERVICE FUNDS				TOTAL NONMAJOR GOVERNMENTAL FUNDS
	FUND	2012 SCHOOL TECHNOLOGY AND		2010 QZAB BONDS	2011 QZAB BONDS	
	FOOD SERVICE FUND	2002 DEBT RETIREMENT	EQUIPMENT			
<u>ASSETS</u>						
Cash	\$ 50,966	\$ 0	\$ 7,259	\$ 0	\$ 0	\$ 58,225
Accounts Receivable	366	0	0	0	0	366
Due from Other Funds	21,752	0	0	0	0	21,752
Due from Other Governments	6,007	0	0	0	0	6,007
Inventory	3,908	0	0	0	0	3,908
TOTAL ASSETS	\$ 82,999	\$ 0	\$ 7,259	\$ 0	\$ 0	\$ 90,258
<u>LIABILITIES AND FUND BALANCE</u>						
<u>LIABILITIES</u>						
Accounts Payable	\$ 1,800	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,800
Accrued Expenditures	420	0	0	0	0	420
Salaries Payable	645	0	0	0	0	645
Unearned Revenue	5,000	0	0	0	0	5,000
Total Liabilities	7,865	0	0	0	0	7,865
<u>FUND BALANCE</u>						
Nonspendable:						
Inventory	3,908	0	0	0	0	3,908
Restricted:						
Debt Service	0	0	7,259	0	0	7,259
Food Service	71,226	0	0	0	0	71,226
Total Fund Balance	75,134	0	7,259	0	0	82,393
TOTAL LIABILITIES AND FUND BALANCE	\$ 82,999	\$ 0	\$ 7,259	\$ 0	\$ 0	\$ 90,258

PELLSTON PUBLIC SCHOOLS

PELLSTON, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2016

	SPECIAL		DEBT SERVICE FUNDS			TOTAL NONMAJOR GOVERNMENTAL FUNDS	
	REVENUE FUND	FOOD SERVICE FUND	2012 DEBT RETIREMENT	2012 SCHOOL TECHNOLOGY AND EQUIPMENT	2010 QZAB BONDS		2011 QZAB BONDS
<u>REVENUES</u>							
Local Sources	\$	54,182	\$ 248,982	\$ 65,484	\$ 0	\$ 0	\$ 368,648
State Sources		7,476	0	0	0	0	7,476
Federal Sources		223,440	0	0	18,660	15,912	258,012
Total Revenues		285,098	248,982	65,484	18,660	15,912	634,136
<u>EXPENDITURES</u>							
Food Service Activities							
Salaries		68,199	0	0	0	0	68,199
Employees Benefits		42,299	0	0	0	0	42,299
Purchased Services		9,399	0	0	0	0	9,399
Supplies, Materials and Other		128,733	0	0	0	0	128,733
Capital Outlay		12,227	0	0	0	0	12,227
Debt Service							
Principal		0	240,000	50,000	71,000	0	361,000
Interest and Fees		0	11,250	14,650	22,400	19,684	67,984
Total Expenditures		260,857	251,250	64,650	93,400	19,684	689,841
Excess of Revenues Over (Under) Expenditures		24,241	(2,268)	834	(74,740)	(3,772)	(55,705)
<u>OTHER FINANCING SOURCES (USES)</u>							
Transfers In/ (Out)		0	(27,172)	0	74,740	3,772	51,340
Net Change in Fund Balance		24,241	(29,440)	834	0	0	(4,365)
<u>FUND BALANCE</u> - Beginning of Year		50,893	29,440	6,425	0	0	86,758
<u>FUND BALANCE</u> - End of Year	\$	75,134	\$ 0	\$ 7,259	\$ 0	\$ 0	\$ 82,393

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND

BALANCE SHEET
JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR JUNE 30, 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 459,690	\$ 615,380
Investments	617,189	16,281
Accounts Receivable	15,600	13,469
Due from Other Funds	0	78
Due from Other Governments	398,771	643,793
Inventory	21,148	21,148
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 1,512,398</u>	<u>\$ 1,310,149</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 62,013	\$ 46,569
Due to Other Funds	22,862	44,197
Unearned Revenue	80,189	25,865
Accrued Expenditures	147,846	133,908
Salaries Payable	276,553	274,111
	<hr/>	<hr/>
Total Liabilities	589,463	524,650
 <u>FUND BALANCE</u>		
Nonspendable:		
Inventory	21,148	21,148
Committed:		
Facility Improvements	40,000	0
Assigned:		
Subsequent Years Budget Shortfall	7,903	0
Unassigned	853,884	764,351
	<hr/>	<hr/>
Total Fund Balance	922,935	785,499
	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,512,398</u>	<u>\$ 1,310,149</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016	2015
<u>REVENUES</u>		
Local Sources	\$ 3,001,735	\$ 2,967,030
State Sources	2,020,585	2,378,339
Federal Sources	429,517	414,317
Other Transactions	302,972	377,988
	5,754,809	6,137,674
 <u>EXPENDITURES</u>		
Instruction		
Basic Programs		
Elementary	1,147,339	1,063,078
Middle School	569,267	658,129
High School	870,197	780,925
Pre-School	190,082	314,120
Summer School	18,875	16,396
Added Needs		
Special Education	322,076	299,096
Compensatory Education	384,560	371,602
Career and Technical Education	172,986	209,415
Supporting Services		
Pupil		
Guidance Services	67,285	99,508
Social Work Services	74,326	37,308
Other Pupil Services	43,156	57,983
Instructional Staff		
Improvement of Instruction	25,490	45,217
Technology Assisted Instruction	17,498	28,614
Supervision and Direction of Instructional Staff	12,726	7,713
General Administration		
Board of Education	28,455	27,623
Executive Administration	222,728	226,374
School Administration		
Office of the Principal	360,040	355,208
Other School Administration	472	753

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2016</u>	<u>2015</u>
Business		
Fiscal Services	65,263	63,927
Other Business Services	21,259	16,058
Operation and Maintenance of Plant		
Operating Building Services	488,601	464,166
Security Services	0	4,290
Pupil Transportation Services	234,639	265,755
Support Services Central		
Staff/Personnel Services	5,300	2,433
Information Management Services	74,160	73,207
Other Support Services		
Athletic Activities	121,579	149,822
Community Services		
Community Activities	502	782
Facilities Acquisition		
Building Improvement Services	0	17,348
Total Expenditures	<u>5,538,861</u>	<u>5,656,850</u>
Excess of Revenues Over (Under) Expenditures	<u>215,948</u>	<u>480,824</u>
<u>OTHER FINANCING SOURCES (USES)</u>		
Transfers Out	<u>(78,512)</u>	<u>(152,128)</u>
Total Other Financing Sources (Uses)	<u>(78,512)</u>	<u>(152,128)</u>
Net Change in Fund Balance	137,436	328,696
<u>FUND BALANCE</u> - Beginning of Year	<u>785,499</u>	<u>456,803</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 922,935</u>	<u>\$ 785,499</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON , MICHIGAN

GENERAL FUND
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2016</u>	<u>2015</u>
<u>LOCAL SOURCES</u>		
Property Taxes	\$ 2,888,752	\$ 2,845,392
Charges for Services	21,199	18,689
Earnings on Investments and Deposits	1,557	606
Other Local Revenue	90,227	102,343
	<hr/>	<hr/>
Total Local Sources	3,001,735	2,967,030
<u>STATE SOURCES</u>		
State Aid	1,718,389	1,923,608
Other State Revenue	302,196	454,731
	<hr/>	<hr/>
Total State Sources	2,020,585	2,378,339
<u>FEDERAL SOURCES</u>		
Title I	270,748	253,454
Title II - Part A	27,473	35,610
Title IVB - 21st Century	0	14,491
Title VII - Indian Education	20,539	26,640
Temporary Assistance for Needy Families	25,733	23,335
Early Learning Enhancement	84,736	56,011
Other	288	4,776
	<hr/>	<hr/>
Total Federal Sources	429,517	414,317
<u>OTHER TRANSACTIONS</u>		
Char-Em ISD	301,780	363,836
Other	1,192	14,152
	<hr/>	<hr/>
Total Other Transactions	302,972	377,988
	<hr/>	<hr/>
TOTAL REVENUES	\$ 5,754,809	\$ 6,137,674

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2016</u>	<u>2015</u>
<u>INSTRUCTION</u>		
<u>Basic Programs</u>		
<u>Elementary</u>		
Salaries	\$ 660,520	\$ 625,258
Employee Benefits	475,023	403,943
Purchased Services	4,926	23,445
Supplies, Materials and Other	6,870	10,432
Total Elementary	<u>1,147,339</u>	<u>1,063,078</u>
<u>Middle School</u>		
Salaries	308,743	382,915
Employee Benefits	242,995	266,085
Purchased Services	16,035	4,480
Supplies, Materials and Other	1,494	4,649
Total Middle School	<u>569,267</u>	<u>658,129</u>
<u>High School</u>		
Salaries	424,154	413,122
Employee Benefits	318,274	280,238
Purchased Services	39,295	23,538
Supplies, Materials and Other	10,334	15,257
Payments to Other School Districts	78,140	48,770
Total High School	<u>870,197</u>	<u>780,925</u>
<u>Pre-School</u>		
Salaries	103,094	136,366
Employee Benefits	57,781	85,979
Purchased Services	7,186	16,780
Supplies, Materials and Other	22,021	52,258
Capital Outlay	0	22,737
Total Pre-School	<u>190,082</u>	<u>314,120</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016	2015
<u>Summer School</u>		
Salaries	9,659	3,525
Employee Benefits	3,266	1,169
Purchased Services	5,950	10,595
Supplies, Materials and Other	0	1,107
Total Summer School	18,875	16,396
<u>Added Needs</u>		
<u>Special Education</u>		
Salaries	169,376	155,738
Employee Benefits	139,006	120,855
Purchased Services	12,429	16,541
Supplies, Materials and Other	1,265	5,962
Total Special Education	322,076	299,096
<u>Compensatory Education</u>		
Salaries	191,299	193,846
Employee Benefits	121,291	128,547
Purchased Services	63,028	28,614
Supplies, Materials and Other	8,942	20,595
Total Compensatory Education	384,560	371,602
<u>Career and Technical Education</u>		
Salaries	56,396	72,809
Employee Benefits	44,797	58,030
Purchased Services	15,121	11,878
Supplies, Materials and Other	27,299	49,698
Capital Outlay	27,402	17,000
Payments to Other School Districts	1,971	0
Total Career and Technical Education	172,986	209,415

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016	2015
<u>SUPPORTING SERVICES</u>		
<u>Pupil</u>		
<u>Guidance Services</u>		
Salaries	42,000	56,560
Employee Benefits	25,178	42,717
Purchased Services	107	231
Total Guidance Services	67,285	99,508
 <u>Social Work Services</u>		
Salaries	46,092	21,538
Employee Benefits	28,234	15,770
Total Social Work Services	74,326	37,308
 <u>Other Pupil Services</u>		
Salaries	15,824	26,671
Employee Benefits	11,091	17,018
Purchased Services	16,241	14,294
Total Other Pupil Services	43,156	57,983
 <u>Instructional Staff</u>		
<u>Improvement of Instruction</u>		
Salaries	0	6,739
Employee Benefits	0	2,174
Purchased Services	20,964	30,973
Supplies, Materials and Other	40	2,033
Payments to Other School Districts	4,486	3,298
Total Improvement of Instruction	25,490	45,217

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2016</u>	<u>2015</u>
<u>Technology Assisted Instruction</u>		
Supplies, Materials and Other	17,498	28,614
Total Technology Assisted Instruction	<u>17,498</u>	<u>28,614</u>
<u>Supervision and Direction of Instructional Staff</u>		
Salaries	9,040	6,470
Employee Benefits	3,686	1,243
Total Supervision and Direction of Instructional Staff	<u>12,726</u>	<u>7,713</u>
<u>General Administration</u>		
<u>Board of Education</u>		
Salaries	3,150	4,290
Employee Benefits	241	328
Purchased Services	22,761	22,259
Supplies, Materials and Other	2,303	746
Total Board of Education	<u>28,455</u>	<u>27,623</u>
<u>Executive Administration</u>		
Salaries	127,070	130,470
Employee Benefits	83,599	81,612
Purchased Services	5,203	6,929
Supplies, Materials and Other	6,856	7,363
Total Executive Administration	<u>222,728</u>	<u>226,374</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	2016	2015
<u>School Administration</u>		
<u>Office of the Principal</u>		
Salaries	200,205	199,534
Employee Benefits	140,908	134,353
Purchased Services	17,925	18,937
Supplies, Materials and Other	1,002	2,384
Total Office of the Principal	360,040	355,208
 <u>Other School Administration</u>		
Supplies, Materials and Other	472	753
Total Other School Administration	472	753
 <u>Business</u>		
<u>Fiscal Services</u>		
Purchased Services	65,155	63,877
Supplies, Materials and Other	108	50
Total Fiscal Services	65,263	63,927
 <u>Other Business Services</u>		
Purchased Services	3,775	3,775
Supplies, Materials and Other	17,484	12,283
Total Other Business Services	21,259	16,058
 <u>Operation and Maintenance</u>		
<u>Operating Building Services</u>		
Salaries	2,943	0
Employee Benefits	1,423	0
Purchased Services	274,396	283,417
Supplies, Materials and Other	183,017	175,102
Capital Outlay	26,822	5,647
Total Operating Building Services	488,601	464,166

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2016</u>	<u>2015</u>
<u>Security Services</u>		
Supplies, Materials and Other	0	4,290
Total Security Services	<u>0</u>	<u>4,290</u>
<u>Pupil Transportation Services</u>		
Salaries	116,419	119,756
Employee Benefits	51,270	64,063
Purchased Services	22,916	23,178
Supplies, Materials and Other	44,034	58,758
Total Pupil Transportation Services	<u>234,639</u>	<u>265,755</u>
<u>Support Services-Central</u>		
<u>Staff/Personnel Services</u>		
Purchased Services	5,235	2,370
Supplies, Materials and Other	65	63
Total Staff/Personnel Services	<u>5,300</u>	<u>2,433</u>
<u>Information Management Services</u>		
Purchased Services	66,782	66,744
Supplies, Materials and Other	7,378	6,463
Total Information Management Services	<u>74,160</u>	<u>73,207</u>
<u>Other Support Services</u>		
<u>Athletic Activities</u>		
Salaries	12,076	26,008
Employee Benefits	11,920	17,352
Purchased Services	83,569	80,778
Supplies, Materials and Other	13,348	23,433
Capital Outlay	666	2,251
Total Athletic Activities	<u>121,579</u>	<u>149,822</u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

GENERAL FUND
ANALYSIS OF EXPENDITURES AND OTHER FINANCING USES

YEAR ENDED JUNE 30, 2016

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2016</u>	<u>2015</u>
<u>COMMUNITY SERVICES</u>		
<u>Community Activities</u>		
Salaries	0	594
Employee Benefits	0	188
Supplies, Materials and Other	502	0
Total Community Recreation	<u>502</u>	<u>782</u>
<u>FACILITIES ACQUISITION</u>		
<u>Building Improvement Services</u>		
Capital Outlay	0	17,348
Total Building Improvement Services	<u>0</u>	<u>17,348</u>
Total Expenditures	<u>5,538,861</u>	<u>5,656,850</u>
<u>OTHER FINANCING USES</u>		
<u>Operating Transfers Out</u>		
2011 QZAB Bonds Debt Service Fund	3,772	3,857
2010 QZAB Bonds Debt Service Fund	74,740	75,324
Energy Bonds Debt Service Fund	0	72,947
Total Other Financing Uses	<u>78,512</u>	<u>152,128</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 5,617,373</u>	<u>\$ 5,808,978</u>

PELLSTON PUBLIC SCHOOLS

PELLSTON, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE

YEAR ENDED JUNE 30, 2016

	<u>BALANCE</u>		<u>RECEIPTS</u>		<u>DISBURSEMENTS</u>		<u>BALANCE</u>
	6/30/15		(Including Transfers)				6/30/16
Cadwell Scholarship	\$ 16,159	\$	0	\$	1,000	\$	15,159
Hayes Scholarship	3,001		0		900		2,101
Johnson Scholarship	4,000		0		0		4,000
Sports Boosters Scholarship	18,516		16,386		17,796		17,106
Athletic General	189		0		0		189
Band Boosters	907		6,086		5,475		1,518
Beverage Consortium	3,690		336		3,738		288
Christmas/Needy	157		1,422		1,516		63
Elem. Social Fund	75		80		0		155
Elem. Teachers Pop	126		138		0		264
Elementary Principal	224		243		233		234
Interest and Miscellaneous	74		198		131		141
Middle School Principal	258		243		331		170
Middle School/High School Social Fund	308		60		57		311
Office Concessions	636		0		15		621
Popcorn Poppers - Elementary	233		120		75		278
Safety Sam	559		0		0		559
Science/Trout	178		142		131		189
Sports Boosters	1,946		7,500		4,185		5,261
Support Staff Fund	131		0		0		131
Woodshop	923		945		1,919		(51)
Art	2,113		3,247		2,208		3,152
Athletic Fundraising	4,377		1,203		457		5,123
Class of 2012	394		0		0		394
Class of 2013	1,180		0		0		1,180
Class of 2014	300		0		0		300
Class of 2015	386		1		0		387
Class of 2016	244		960		1,001		203
Class of 2017	2,298		2,727		4,538		487
Class of 2018	144		2,401		1,007		1,538
Elementary Drama	1,904		3,750		3,291		2,363
Elementary School Cash	610		29		576		63
Class of 2019	982		46		65		963
Class of 2020	82		0		0		82
First Grade	559		3,333		2,602		1,290
Fourth Grade	435		1,323		1,428		330
Fifth Grade	0		235		182		53
High School Drama	299		0		0		299

PELLSTON PUBLIC SCHOOLS

PELLSTON, MICHIGAN

AGENCY FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE

YEAR ENDED JUNE 30, 2016

	<u>BALANCE</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u>
	6/30/15	(Including Transfers)		6/30/16
High School Student Council	684	968	1,210	442
Kindergarten	1,496	693	684	1,505
Math Department	952	37	0	989
Middle School Student Council	1,371	2,538	3,713	196
National Honors Society	905	1,533	1,480	958
Preschool	503	120	0	623
Robotics	3,256	8,903	10,995	1,164
Second Grade	2,352	955	905	2,402
Ski Club	388	8,678	8,235	831
START	702	1,103	796	1,009
Student Flow	2,707	1,376	1,444	2,639
Third Grade	1,008	1,563	2,187	384
Yearbook	1,894	2,448	2,337	2,005
Youth Enrichment	612	170	225	557
John McLarty Family Scholarship	9,000	0	500	8,500
Class of 2021	519	47	26	540
Class of 2022	83	4,907	4,366	624
Class of 2023	0	179	179	0
Football	1,229	2,560	1,891	1,898
Baseball	259	6,278	5,865	672
Volleyball	2,989	14,287	15,518	1,758
Softball	3,153	6,905	7,658	2,400
Girls Basketball	5,327	1,265	4,773	1,819
Track	1,428	2,759	1,063	3,124
Boys Basketball	13,295	12,136	20,446	4,985
	<u>\$ 124,709</u>	<u>\$ 135,562</u>	<u>\$ 151,353</u>	<u>\$ 108,918</u>

Represented by

Assets

Cash and Cash Equivalents	\$ 65,661	\$ 14,600
Investments	<u>59,126</u>	<u>94,318</u>
Total Assets	<u>\$ 124,787</u>	<u>\$ 108,918</u>

Liabilities

Due to Groups and Organizations	\$ 124,709	\$ 108,918
Due to Other Funds	<u>78</u>	<u>0</u>
Total Liabilities	<u>\$ 124,787</u>	<u>\$ 108,918</u>

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PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2016

<u>TITLE OF ISSUE</u>	2002 School Building and Site Bond		
<u>DATE OF ISSUE</u>	February 2, 2002		
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year		
<u>AMOUNT OF ISSUE</u>			\$ 2,600,000
<u>AMOUNT REDEEMED</u>			
Redeemed Prior to Current Year		\$ 2,360,000	
Redeemed During Current Year		240,000	2,600,000
<u>BALANCE OUTSTANDING</u> - June 30, 2016			<u><u>\$ 0</u></u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2016

<u>TITLE OF ISSUE</u>	2008 General Obligation Refundable Bonds		
<u>DATE OF ISSUE</u>	September 29, 2008		
<u>INTEREST PAYABLE</u>	May 1, and November 1 of each year		
<u>AMOUNT OF ISSUE</u>		\$	7,940,000
<u>AMOUNT REDEEMED</u>			
Redeemed Prior to Current Year	\$		2,605,000
Redeemed During Current Year		560,000	3,165,000
			3,165,000
<u>BALANCE OUTSTANDING - June 30, 2016</u>		\$	4,775,000

<u>DUE DATES</u>	<u>INTEREST</u>	<u>REQUIREMENTS</u>		
	<u>RATES</u>	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2016	3.8500%	\$ 95,051	\$ 95,051	\$ 0
May 1, 2017	3.8500%	835,051	95,051	740,000
November 1, 2017	3.8500%	80,806	80,806	0
May 1, 2018	3.8500%	840,806	80,806	760,000
November 1, 2018	3.8500%	66,176	66,176	0
May 1, 2019	3.8500%	851,176	66,176	785,000
November 1, 2019	4.0000%	51,065	51,065	0
May 1, 2020	4.0000%	861,065	51,065	810,000
November 1, 2020	4.1000%	34,865	34,865	0
May 1, 2021	4.1000%	864,865	34,865	830,000
November 1, 2021	4.2000%	17,850	17,850	0
May 1, 2022	4.2000%	867,850	17,850	850,000
		\$ 5,466,626	\$ 691,626	\$ 4,775,000

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2016

<u>TITLE OF ISSUE</u>	2010 School Improvement Bond	
<u>DATE OF ISSUE</u>	December 29, 2010	
<u>INTEREST PAYABLE</u>	May 1, and November 1 of each year	
<u>AMOUNT OF ISSUE</u>		\$ 710,000
<u>AMOUNT REDEEMED</u>		
Redeemed Prior to Current Year	\$ 355,000	
Redeemed During Current Year	71,000	426,000
<u>BALANCE OUTSTANDING - June 30, 2016</u>		<u><u>\$ 284,000</u></u>

<u>DUE DATES</u>	<u>INTEREST</u>	<u>REQUIREMENTS</u>		
	<u>RATES</u>	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2016	6.0000%	\$ 8,520	\$ 8,520	\$ 0
May 1, 2017	6.0000%	79,520	8,520	71,000
November 1, 2017	6.0000%	6,390	6,390	0
May 1, 2018	6.0000%	77,390	6,390	71,000
November 1, 2018	6.0000%	4,260	4,260	0
May 1, 2019	6.0000%	75,260	4,260	71,000
November 1, 2019	6.0000%	2,130	2,130	0
May 1, 2020	6.0000%	73,130	2,130	71,000
		<u><u>\$ 326,600</u></u>	<u><u>\$ 42,600</u></u>	<u><u>\$ 284,000</u></u>

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN
SCHEDULE OF BONDS PAYABLE
JUNE 30, 2016

<u>TITLE OF ISSUE</u>	2011 School Improvement Bond		
<u>DATE OF ISSUE</u>	March 3, 2011		
<u>INTEREST PAYABLE</u>	May 1, and November 1 of each year		
<u>AMOUNT OF ISSUE</u>	\$		315,000
<u>AMOUNT REDEEMED</u>			
Redeemed Prior to Current Year	\$	0	0
Redeemed During Current Year		0	0
<u>BALANCE OUTSTANDING - June 30, 2016</u>	\$		<u>315,000</u>

<u>DUE DATES</u>	<u>INTEREST</u>	<u>REQUIREMENTS</u>		
	<u>RATES</u>	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2016		\$ 9,642	\$ 9,642	\$ 0
May 1, 2017		9,642	9,642	0
November 1, 2017		9,642	9,642	0
May 1, 2018		9,642	9,642	0
November 1, 2018		9,642	9,642	0
May 1, 2019		9,642	9,642	0
November 1, 2019		9,642	9,642	0
May 1, 2020		9,642	9,642	0
November 1, 2020	5.8000%	69,642	9,642	60,000
May 1, 2021	5.8000%	7,902	7,902	0
November 1, 2021	6.0000%	67,902	7,902	60,000
May 1, 2022	6.0000%	6,101	6,101	0
November 1, 2022	6.2000%	71,102	6,102	65,000
May 1, 2023	6.2000%	4,086	4,086	0
November 1, 2023	6.2000%	69,087	4,087	65,000
May 1, 2024	6.2000%	2,071	2,071	0
November 1, 2024	6.3750%	67,072	2,072	65,000
		\$ 442,101	\$ 127,101	\$ 315,000

PELLSTON PUBLIC SCHOOLS
PELLSTON, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2016

<u>TITLE OF ISSUE</u>	2012 School Technology and Equipment Bonds		
<u>DATE OF ISSUE</u>	November 6, 2012		
<u>INTEREST PAYABLE</u>	May 1, and November 1 of each year		
<u>AMOUNT OF ISSUE</u>	\$	770,000	
<u>AMOUNT REDEEMED</u>			
Redeemed Prior to Current Year	\$	70,000	0
Redeemed During Current Year		50,000	120,000
<u>BALANCE OUTSTANDING - June 30, 2016</u>	\$	650,000	

<u>DUE DATES</u>	<u>INTEREST</u>	<u>REQUIREMENTS</u>		
	<u>RATES</u>	<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2016	2.0000%	\$ 6,725	\$ 6,725	\$ 0
May 1, 2017	2.0000%	146,725	6,725	140,000
November 1, 2017	2.0000%	5,325	5,325	0
May 1, 2018	2.0000%	165,325	5,325	160,000
November 1, 2018	2.0000%	3,725	3,725	0
May 1, 2019	2.0000%	173,725	3,725	170,000
November 1, 2019	2.2500%	2,025	2,025	0
May 1, 2020	2.2500%	182,025	2,025	180,000
		\$ 685,600	\$ 35,600	\$ 650,000

