

DELTA-SCHOOLCRAFT INTERMEDIATE
SCHOOL DISTRICT

FINANCIAL STATEMENTS

June 30, 2016

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements	
District Wide Financial Statements	
Statement of Net Position.....	15
Statement of Activities.....	16
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds.....	19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	20
Statement of Fiduciary Net Position.....	21
Notes to Financial Statements.....	22
Required Supplemental Information	
Budgetary Comparison Schedule - General Fund.....	43
Budgetary Comparison Schedule - Special Education Fund.....	44
Budgetary Comparison Schedule - Career Technical Fund.....	45
Schedule of Proportionate Share of Net Pension Liability.....	46
Schedule of Contributions.....	47
Notes to Required Supplemental Information.....	48
Other Supplemental Information	
Combining Balance Sheet - Nonmajor Governmental Funds.....	49
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance - Nonmajor Governmental Funds.....	50
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Clear Lake Fund.....	51
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Major Maintenance Fund.....	52
Agency Funds:	
Statement of Changes in Assets and Liabilities.....	53
Schedule of Taxable Valuations, Tax Rates and Tax Levies.....	54
Single Audit	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	55
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	57
Schedule of Expenditures of Federal Awards.....	59
Schedule of Federal Financial Awards Notes.....	61
Schedule of Findings and Questioned Costs.....	62



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal

OFFICES IN MICHIGAN AND WISCONSIN

Brandy M. Olson, CPA
Gary E. Maynard, CPA, PFS
Kathleen A. Ciantar, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Delta-Schoolcraft Intermediate School District
Escanaba, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Delta-Schoolcraft Intermediate School District, 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 the Delta-Schoolcraft Intermediate School District, 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, the budgetary comparison information, the schedule of proportionate share of net pension liability, the schedule of contributions and the notes to required supplemental information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Anderson, Tackman & Company P.C.

Certified Public Accountants

October 19, 2016

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

Delta-Schoolcraft Intermediate School District Management's Discussion and Analysis is intended to assist the reader in focusing on significant financial issues to provide an overview of the District's financial activities, identify changes in the District's financial position and its ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ended June 30, 2016.

Generally accepted accounting principles (GAAP) according to GASB 34, requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand the Delta-Schoolcraft Intermediate School District's financial condition as a whole. The financial report includes the following:

Financial Section

Management's Discussion and Analysis

(MD&A)

(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Required Supplemental Information

(Other than MD&A expanded)

BASIC FINANCIAL STATEMENTS

District-wide Financial Statements

The District-wide statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District-wide statements: the Statement of the Net Position and the Statement of Activities. These two statements report the School District's *net position* – the difference between assets and liabilities, as reported in the Statement of Net Position – to measure the School District's financial health, or *financial position*. Over time, *increases and decreases* in the School District's net position – as reported in the Statement of Activities – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

consider many other factors, such as the quality of education provided and the safety of the schools to assess the *overall health* of the School District.

The Statement of Net Position combines and consolidates governmental fund's current financial resources (short-term available resources) with capital assets and long-term obligations, regardless of whether they are currently available or not.

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

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund statements focus on the District's major funds rather than fund types. The fund statements are reported using the modified accrual method of accounting. Under this basis of accounting, revenues are recorded when received except where they are measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period those goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as assets. Debt payments are recorded as expenditures in the current year and future debt obligations are not recorded.

Funds include the General Fund, Special Education Fund, Career Technical Fund, School Service Fund (Clear Lake Outdoor Education Center), Capital Projects Fund, and Fiduciary Fund. The General Fund, Special Education Fund, and Career Technical Fund are considered major funds of the District. Major Funds are used primarily to account for the requirements of the District. Revenues are derived from property taxes, state and federal grants, and other intergovernmental revenues. The School Service Fund is comprised of the Clear Lake Outdoor Education Activities. The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or improvements of major capital facilities. The Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>ASSETS</u>		
Current Assets	\$ 6,187,206	\$ 6,361,344
Capital Assets, Net Book Value	1,598,451	1,648,365
TOTAL ASSETS	\$ 7,785,657	\$ 8,009,709
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
	\$ 1,377,289	\$ 1,219,721
<u>LIABILITIES</u>		
Current Liabilities	\$ 2,089,941	\$ 1,919,125
Long-term Liabilities	13,499,706	12,416,086
TOTAL LIABILITIES	\$ 15,589,647	\$ 14,335,211
<u>DEFERRED INFLOWS OF RESOURCES</u>		
	\$ 233,321	\$ 1,319,517
<u>NET POSITION</u>		
Net Investment in Capital Assets	\$ 1,598,451	\$ 1,648,365
Restricted	2,217,520	2,565,188
Unrestricted	(10,475,993)	(10,638,851)
TOTAL NET POSITION	\$ (6,660,022)	\$ (6,425,298)

The School District's net position totaled (\$6,660,022) for 2016 and (\$6,425,298) for 2015. Of this amount, (\$10,475,993) was unrestricted for 2016 and (\$10,638,851) for 2015. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for the day-to-day operations. Total net position can be separated into three components: Net Investment in Capital Assets, restricted debt, restricted net position for capital projects or for debt service, and unrestricted net position.

Net capital assets are a combination of funds invested in capital assets less accumulated depreciation and related debt. At June 30, 2016, the original cost of capital assets is \$4,867,977.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

The accumulated depreciation is the accumulation of depreciation of expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less any estimated salvage value expensed over the estimated life of the assets. Total accumulated depreciation is \$3,269,526.

Restricted net assets for capital project funds are by their nature restricted for use by laws or regulations enacted by the State of Michigan. There were no restricted net assets for capital projects at June 30, 2016.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

The results of the operations for the School District as a whole are reported in the Statement of Activities. A summary of the District-wide results of operations for the years ended June 30, 2016 and June 30, 2015 follows:

	June 30, 2016	June 30, 2015
Program Revenue:		
Charges for services	\$ 686,119	\$ 741,813
Operating grants and contributions	6,234,784	5,556,348
TOTAL PROGRAM REVENUE	\$ 6,920,903	\$ 6,298,161
General Revenue:		
Property taxes levied for general operation	\$ 3,889,834	\$ 3,780,465
State Aid - unrestricted	648,093	645,760
Other - state and local	33,560	58,778
TOTAL GENERAL REVENUE	\$ 4,571,487	\$ 4,485,003
TOTAL REVENUE	\$ 11,492,390	\$ 10,783,164
Expenses:		
Instruction	\$ 3,001,131	\$ 2,980,335
Supporting Services	7,493,610	6,827,711
Community Services	80,326	123,343
Transfers or payments to other governmental units or not for profit entities	1,040,849	837,325
Unallocated depreciation	111,198	112,241
TOTAL EXPENSE	\$ 11,727,114	\$ 10,880,955
Increase (decrease) in net position	(234,724)	(97,791)
Net position, July 1 as previously stated	(6,425,298)	5,723,483
Prior period adjustment	-	(12,050,990)
Net position, July 1 as restated	(6,425,298)	(6,327,507)
Net position, June 30	<u>\$ (6,660,022)</u>	<u>\$ (6,425,298)</u>

The overall financial position of the School District fluctuates with the State of Michigan's economic health. The downturn in the State's economic health continues to have a negative impact on the financial condition of the funds that comprise Delta-Schoolcraft Intermediate School District.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

Fund Equity directly correlates to the fiscal health of a school district. The Governmental Accounting Standards Board issued Statement 54 (GASB 54) which required reporting fund balances in five categories for fiscal year ending June 30, 2011. The Delta-Schoolcraft Board of Education formally adopted a fund balance policy addressing GASB 54 on June 9, 2011 and again on June 14, 2012. One category of fund equity is nonspendable fund balance, which includes copy paper inventory in the General Fund and consists of property lots held for construction in the Career Technical fund. Other nonspendable items are prepaid expenses and deposits. Restricted fund balance represents grant or legislatively restricted fund balance. The Board of Education officially commits fund balance by adopting a resolution with the specified purpose. An amount equal to the future retirement payouts to departing employees is formally committed in all major funds. Assigned fund balance is for a specific purpose and the authority to assign has been delegated to the Business Manager. The final category, unassigned fund balance, applies only to the General Fund.

The General Fund had a decrease in fund balance of \$31,787 for fiscal year 2015-16 and an increase of \$108,767 in fiscal year 2014-15. The decrease was a result of offering a \$55,450 discount in our General Education fee to provide financial relief to our local districts. As of the date of this report, we are anticipating a decrease in fund balance for the 2016-17 school year. Some aspects include a continued discount in our General Education fee to our local districts and flat state aid operating funding and property tax revenue.

The General Fund equity balance will provide available resources to meet financial goals until June 2020. As of June 30, 2016 a total amount of \$118,478 representing paper inventory and prepaid items is classified as nonspendable and \$92,005 of fund equity was committed to meet accumulated unpaid terminal leave benefits. The balance of \$815,372 is classified as unassigned fund equity at the end of the year.

The Special Education fund had a decrease in fund balance of \$308,375 which was primarily a result of over \$400,000 in additional personnel costs due to additional staff and automatic step increases. Projections for the fiscal year 2016-2017 indicate expenditures will continue to be greater than revenues. We have adjusted staffing levels and made other operational changes to mitigate the size of the deficits and continue to work towards our goal of a balanced budget.

The total nonspendable fund balance at the end of the year was \$43,500 representing prepaid items and the committed fund balance reserve at the end of the fiscal year was \$373,327, which is designated for future terminal leave benefits. The balance of \$1,008,956 fund equity at the end of the year was restricted for special education purposes.

The Career Technical Education fund had a decrease in fund balance of \$35,894 for 2015-16 and a decrease of \$71,040 in fiscal year 2014-15. The deficit was reduced primarily due to adjustments in staffing levels.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

One of the major funding sources for the Career-Technical Education Fund is a reimbursement from the State of Michigan for the added cost of instruction. To receive the added cost funds there is a requirement to maintain local expenditures from year to year. Each year the added cost requirement is reviewed as part of the five year plan addressing staffing levels and capital outlay purchases.

The Career Technical Education department closed the Escanaba building trades program after the 2009-2010 school year. Part of the building trade's class curriculum was where students assisted in building houses which were then sold. We continue to maintain several lots as inventory which we plan to build on in the future when the housing market improves. These lots represent \$99,280 of nonspendable fund equity at the end of the year.

Current projections for the Career Technical fund indicate assets necessary for the day-to-day operations are available through June 2020. Fund equity of \$99,280 is classified as nonspendable which reflects the property held for the building trades program. Fund equity of \$105,270 at the end of the current fiscal year is committed to meet accumulated unpaid benefits and \$936,549 is restricted for Career Technical Education programs.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, usually before the State of Michigan enacts its' budget or most grants are awarded. Therefore, it is expected that there will be significant changes between the initial budget and subsequent budgets, as actual grant awards are known. The most significant funds budgeted are the General Fund, Special Education Fund, and Career-Technical Education Fund. The budgets are amended approximately three times during the year. Budgets do not include grant revenues and expenditures until the award letter is received, because a major portion of the district's funding is generated by these grant awards, budget amendments are necessary to include these funds.

General Fund

In the General Fund operations, the actual revenue was \$2,049,543. This is above the original budget amount of \$913,108 and below the final budget of \$2,779,084, a variance of \$729,541. The actual expenditures of the General Fund operations were \$2,071,480 (excluding \$9,850 of fund modifications) this is above the original budget of \$1,057,960 and below the final budget of \$2,850,027, a difference of \$778,547. These variances are due to timing differences in when grant funds begin and end. Many of the grants received have performance periods that do not correspond to our fiscal year. It is the District's practice to budget the full state and federal grant award in the current fiscal year and then carry over both the revenue and expenditures to the subsequent period budget. The actual net expenditures exceeded revenues (excluding fund modifications) by \$21,937.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

Special Education Fund

In the Special Education Fund operations, the actual revenue was \$6,584,004. This is above the original budget of \$4,089,515 and below the final budget of \$6,589,973, a variance of \$5,969. The actual expenditures of the Special Education fund were \$6,889,809 (excluding fund modifications of \$2,570). This is above the original budget of \$4,507,004 and below the final budget of \$7,015,119, a difference of \$125,310. Budget variances are due to the full state and federal grant awards being budgeted in the current fiscal year and carrying over both the revenue and expenditures to the subsequent period budget. The actual net expenditures exceeded revenues (excluding fund modifications) by \$305,805.

Career Technical Education Fund

In the Career Technical Education Fund operations, the actual revenue was \$2,724,954. This is above the original budget of \$2,389,177 and above the final budget of \$2,652,076, a variance of \$72,878. The actual expenditures of the Career Technical Fund operations were \$2,747,018 (excluding fund modifications of \$13,830). This is above the original budget of \$2,615,294 and below final budget of \$2,793,914 yielding a variance of \$46,896. The actual net expenditures exceeded revenues (excluding fund modifications) by \$22,064.

GOVERNMENTAL FUND EXPENDITURES

Below is a summary of the governmental fund expenditures and their percentages as they relate to total governmental funds:

	<u>2015-2016</u>		<u>2014-2015</u>	
	<u>Total</u>		<u>Total</u>	
	<u>Expenditures</u>	<u>Percent</u>	<u>Expenditures</u>	<u>Percent</u>
General Fund	\$ 2,071,480	18%	\$ 1,698,779	16%
Special Education Fund	6,889,809	58%	6,421,665	59%
Career-Technical Fund	2,747,018	23%	2,609,145	24%
Other Funds (Includes Debt)	125,333	1%	141,239	1%
 TOTAL EXPENDITURES	 \$ 11,833,640	 100%	 \$ 10,870,828	 100%

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

GOVERNMENTAL FUND REVENUES

Below is a summary of the governmental fund revenues and their percentages as they relate to total governmental sources:

	2015-2016		2014-2015	
	Total Revenues	Percent	Total Revenues	Percent
Federal/State/Local Restricted	\$ 6,234,784	54%	\$ 5,556,348	52%
Property Taxes	3,889,834	34%	3,780,465	35%
Inter-district Charges for Services	686,119	6%	741,813	7%
State of Michigan-Unrestricted	648,093	6%	645,760	6%
Other Federal/State/Local	33,560	0%	58,778	1%
TOTAL REVENUES	\$ 11,492,390	100%	\$ 10,783,164	100%

Operating Grants Federal, State, and Local

The district's primary operating sources are federal IDEA funds for Special Education, competitively awarded federal grants for the General Education Fund, and formula-based State Aid added cost funding for Career Technical Education.

Other restricted state funds are included in this category. These restricted grant funds are to be used specifically in accordance with program budget goals and objectives. We act as a fiscal agent for a portion of these funds allocating the resources to other governmental units. If unexpended, these funds must be returned to the State of Michigan or funding source. Local operating funds are contributions by local area business foundations and private sector companies for specific purposes.

Property Taxes

The District levied 2.3851 mills of property taxes on all property located within the District. General Fund's levy was .1346 mills, Special Education's levy was 1.3502 mills, and Career Technical Education's levy was .9003 mills. The levy is assessed on the taxable value of both homestead and non-homestead property. The State of Michigan's tax commission establishes an inflation factor each year that taxable value is allowed to increase by. These levies are subject to Headlee rollback provisions if the taxable value increases more than the inflation rate. Over the years the District has had their millage rate gradually "rolled back" from 2.65 mills to the current 2.3851 mills. The original levy consisted of .15 mills for General Education, 1.5 mills for Special Education and 1 mill for Career Technical Education. Only the constituent voters of the District, by electoral vote, can restore the original allocated 2.65 mills. The 2015-2016 taxable value for the property located within the district as revised and reported by the county treasurers as of August 22, 2016 was \$1,573,830,159.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

This would generate \$211,838 for the General Fund, \$2,124,985 for the Special Education fund, and \$1,416,919 for Career Technical Education for a District-Wide total of \$3,753,742.

Charges for Services

These are funds received from local educational agencies located within the intermediate school district boundaries and outskirts. The primary responsibility of an intermediate school district is to provide services for all districts within its boundaries more economically than each could provide individually.

Special Education charged five districts for speech services this year amounting to \$153,547.

General Education received from local districts amounts for technology, professional learning, management and student information systems, business manager services and payroll services. The service charges totaled \$156,325 for the fiscal year 2015-2016.

Career Technical Education charges \$575 per student to attend classes at the Career Technical Center. In 2015-2016 \$285,413 was generated from tuition for 496 students. CTE also charged a local district for instructional services in the amount of \$37,525.

Restricted State Aid

In the Special Education Fund the major state aid sections are based upon the current year allowable special education costs at 28.6138% plus transportation costs at 70.4165%. A deduction is then made from this amount for membership funding which is a blended count of students from two school years, with the remaining balance identified in a separate categorical. The State revenues are guaranteed at the 1996-1997 levels of funding for Special Education due to the Durant funding court settlement. In Career Technical Education the major state aid is a section called "Added Cost", which is derived from a ratio of per student hour to program costs.

The District's state aid increased \$361,715 from the previous year. This was mainly attributed to increases in Great Start Readiness Program and Career Technical Education funding. Most of the state aid grants run from October to September so unspent restricted funds are brought forward to the next school year. A five-year history follows:

2015-16	\$ 3,728,493
2014-15	3,366,778
2013-14	2,978,805
2012-13	2,507,456
2011-12	2,572,675

Unrestricted State Aid

The District receives State Aid based on formula calculations for items approved by the legislature under the State School Aid Act, frequently referred to as categorical funds or sections. Each section of the State School Aid Act has criteria for award. In the General Fund, the major

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

award to the District is unrestricted state aid, generated from Section 81 of the School Aid Act. These funds are called General Fund operating dollars and due to the unrestricted nature may be used by the District for any legal spending purpose.

Enrollment

The District's 2015-2016 blended enrollment count totaled 104.31 students, an increase of 10.91 students from the previous year. The District's enrollment is generated from students attending the Learning Center program operated within the Special Education Fund. The District's enrollment has remained stable with significant shifts in the disability of the student population. An increase in preschool children with severe disabilities that are the result of surviving major medical events have become a growing portion of the student membership. Another population increase is in the area of adolescent and young adult students with severe disabilities moving into our area and living in group homes or foster care homes. Several of the foster care homes in our area are the last placements for students before residential placements are necessary. The State of Michigan reimburses for special education membership as part of the 28.6138% of cost plus 70.4165% of the cost of transportation reimbursement via two state aid sections, so minor changes in enrollment are not relevant to funding but have a significant impact on staffing needs.

Capital Assets

At the end of fiscal year 2016, the School District had \$4,867,977 invested in capital assets classified as: buildings, land and improvements, vehicles and furniture, fixtures, and equipment. Of this amount, \$3,269,526 is depreciated yielding a net book value of \$1,598,451.

Outstanding Debt at Year End

Details of the long-term debt outstanding at June 30, 2016 are as follows:

Accumulated unpaid benefits consist of the accrued liability for vacation, contract termination and sick pay. The Delta-Schoolcraft Intermediate School District Board of Education formally committed fund balance equal to the projected terminal leave as follows:

General Fund	\$ 92,005
Special Education Fund	373,327
Career Technical Education Fund	105,270
TOTAL	<u>\$ 570,602</u>

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2016

This report is designed to give an overview of the financial conditions of the Delta-Schoolcraft Intermediate School District. If you should desire additional detailed financial information it can be obtained by contacting either of the following persons:

Doug Leisenring, Superintendent
Beau Miller, Business Manager
Delta-Schoolcraft Intermediate School District
2525 Third Avenue South, Escanaba, Michigan 49829
Fax (906)786-9318 Office Phone (906)786-9300 extension 103
Email – bmiller@dsisd.net

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Equivalents	\$ 3,976,690
Due From Other Governmental Units	1,608,612
Accounts Receivable	340,646
Inventories	114,969
Prepaid Items	146,289
TOTAL CURRENT ASSETS	<u>6,187,206</u>
Non-Current Assets:	
Capital Assets - net	<u>1,598,451</u>
TOTAL ASSETS	<u><u>\$ 7,785,657</u></u>
DEFERRED OUTFLOWS OF RESOURCES:	
Related to pensions	<u><u>\$ 1,377,289</u></u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 353,008
Accrued Salaries	815,845
Other Accrued Liabilities	7,137
Unearned Revenues	856,891
Current Maturities of Long-Term Debt	57,060
TOTAL CURRENT LIABILITIES	<u>2,089,941</u>
Noncurrent Liabilities:	
Net Pension Liability	12,986,164
Compensated Absences Payable	570,602
Less Current Maturities Reported Above	<u>(57,060)</u>
TOTAL NONCURRENT LIABILITIES	<u>13,499,706</u>
TOTAL LIABILITIES	<u><u>\$ 15,589,647</u></u>
DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	<u><u>\$ 233,321</u></u>
NET POSITION:	
Net Investment in Capital Assets	\$ 1,598,451
Restricted	2,217,520
Unrestricted	<u>(10,475,993)</u>
TOTAL NET POSITION	<u><u>\$ (6,660,022)</u></u>

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

		Program Revenues		Net (Expense)
				Revenue and
				Changes in
				Net Position -
				Governmental
	Expenses	Charges for	Operating	Activities
		Services	Grants and	
			Contributions	
FUNCTIONS/PROGRAMS:				
Instruction	\$ 3,001,131	\$ 322,938	\$ 1,312,798	\$ (1,365,395)
Supporting Services	7,493,610	358,381	3,826,750	(3,308,479)
Community Services	80,326	4,800	76,374	848
Intergovernmental Charges	329,208	-	329,208	-
Agency Activities	15,387	-	-	(15,387)
Payments to Other Schools	696,254	-	689,654	(6,600)
Unallocated Depreciation	111,198	-	-	(111,198)
Total Governmental Activities	<u>\$ 11,727,114</u>	<u>\$ 686,119</u>	<u>\$ 6,234,784</u>	<u>(4,806,211)</u>
General Revenues:				
Property Taxes				3,889,834
State Aid - Unrestricted				648,093
Other - State and Local				33,560
Total General Revenues				<u>4,571,487</u>
CHANGE IN NET POSITION				(234,724)
Net Position, Beginning of Year				<u>(6,425,298)</u>
NET POSITION, END OF YEAR				<u>\$ (6,660,022)</u>

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2016

	General Fund	Special Education Fund	Career Technical Education	Other Nonmajor Governmental Funds	Total
ASSETS:					
Cash and Equivalents	\$ 706,449	\$ 1,552,024	\$ 1,134,972	\$ 583,245	\$ 3,976,690
Accounts Receivable	145,163	141,290	34,894	19,299	340,646
Due From Other Funds	303,043	-	-	-	303,043
Due From Other Governmental Units	509,490	891,729	207,393	-	1,608,612
Inventory	15,689	-	99,280	-	114,969
Prepaid Items	102,789	43,500	-	-	146,289
TOTAL ASSETS	\$ 1,782,623	\$ 2,628,543	\$ 1,476,539	\$ 602,544	\$ 6,490,249
LIABILITIES:					
Accounts Payable	\$ 215,558	\$ 71,497	\$ 51,004	\$ 14,949	\$ 353,008
Accrued Salaries	82,632	535,136	198,077	-	815,845
Other Accrued Liabilities	621	-	6,516	-	7,137
Unearned Revenue	457,957	364,064	10,350	24,520	856,891
Due to Other Funds	-	232,063	69,493	1,487	303,043
TOTAL LIABILITIES	756,768	1,202,760	335,440	40,956	2,335,924
FUND BALANCES:					
Nonspendable	118,478	43,500	99,280	-	261,258
Restricted	-	1,008,956	936,549	272,015	2,217,520
Committed	92,005	373,327	105,270	289,573	860,175
Unassigned	815,372	-	-	-	815,372
TOTAL FUND BALANCES	1,025,855	1,425,783	1,141,099	561,588	4,154,325
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,782,623	\$ 2,628,543	\$ 1,476,539	\$ 602,544	\$ 6,490,249

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

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

For the year ended June 30, 2016

Total fund balances - governmental funds	\$ 4,154,325
--	--------------

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets is \$4,867,977, and the accumulated depreciation is \$3,269,526.

1,598,451

Deferred outflows of resources related to pensions

1,377,289

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the specific governmental funds. Long-term liabilities at year-end consist of the following:

Net pension liability

\$ 12,986,164

Compensated absences

570,602

(13,556,766)

Deferred inflows of resources related to pensions

(233,321)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES

\$ (6,660,022)

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

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

For the year ended June 30, 2016

	General Fund	Special Education Fund	Career Technical Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Local Sources	\$ 282,060	\$ 2,607,242	\$ 1,481,605	\$ 121,389	\$ 4,492,296
State Sources	1,369,950	1,727,660	630,883	-	3,728,493
Federal Sources	218,144	1,937,928	289,529	-	2,445,601
Interdistrict Sources and Other	179,389	311,174	322,937	12,500	826,000
TOTAL REVENUES	2,049,543	6,584,004	2,724,954	133,889	11,492,390
EXPENDITURES:					
Instruction	-	1,671,209	1,421,770	-	3,092,979
Supporting Services	1,511,204	4,998,259	983,220	100,320	7,593,003
Community Services	49,113	27,761	4,922	-	81,796
Intergovernmental Charges	302,731	26,477	-	-	329,208
Agency Activities	-	-	15,387	-	15,387
Payment to Other Public Schools	208,432	166,103	321,719	-	696,254
Capital Outlay	-	-	-	25,013	25,013
TOTAL EXPENDITURES	2,071,480	6,889,809	2,747,018	125,333	11,833,640
EXCESS REVENUES (EXPENDITURES)	(21,937)	(305,805)	(22,064)	8,556	(341,250)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	-	-	26,250	26,250
Operating Transfers Out	(9,850)	(2,570)	(13,830)	-	(26,250)
TOTAL OTHER FINANCING SOURCES (USES)	(9,850)	(2,570)	(13,830)	26,250	-
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	(31,787)	(308,375)	(35,894)	34,806	(341,250)
Fund Balance, Beginning of Year	1,057,642	1,734,158	1,176,993	526,782	4,495,575
FUND BALANCE, END OF YEAR	\$ 1,025,855	\$ 1,425,783	\$ 1,141,099	\$ 561,588	\$ 4,154,325

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

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

For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds	\$ (341,250)
--	--------------

The change in fund balances reported for governmental activities in the statement of activities is different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense (\$111,198) exceeds capital outlays (\$61,284) for the period.	(49,914)
---	----------

In the statement of activities expenses for compensated absences and special termination benefits for early retirement are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount paid out during the year.	(37,045)
--	----------

Change in the beginning and ending balances of deferred outflows and the deferred inflows of resources related to pensions.	1,243,764
---	-----------

Change in the beginning and ending balance of the proportionate share of net pension liability.	<u>(1,050,279)</u>
---	--------------------

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (234,724)</u>
---	---------------------

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	<u>Agency Funds</u>
ASSETS:	
Cash and Equivalents	<u>\$ 42,182</u>
LIABILITIES:	
Due to Student Groups	<u>\$ 42,182</u>

See accompanying notes to financial statements.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Delta - Schoolcraft Intermediate School District (The District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant policies:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant items in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using the full accrual method of accounting for all of the District's activities.
- Fund financial statements that focus on the major funds of the District.

The District has also implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

Reporting Entity

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

District-wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when each is received by the government. When both restricted and unrestricted revenues are available for use, the District's policy is to use restricted or unrestricted resources based upon specific identified expenditures in their budget plan.

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

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise its' assets, liabilities, fund balances, revenues and expenditures. Government resources are allocated and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. An emphasis is placed on major funds in the governmental category. The General Fund is always considered a major fund and the remaining funds of the District are considered major if they meet the following criteria:

- a) Total assets, liabilities, revenues or expenditures of the individual governmental fund is at least ten percent of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues or expenditures of the individual governmental fund is at least five percent of the corresponding total of all governmental funds combined.

The District reports the General Fund, the Special Education Fund and the Career Technical Education Fund as major based on that criteria.

Governmental Funds

General Fund - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the activities of specific school service revenue sources.

Capital Project Funds - Capital project funds are used to account for financial resources to be used specifically for the acquisition, construction, or major repair of major capital facilities or other capital assets, including equipment.

Debt Retirement Funds - Debt retirement funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the school district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Private Purpose Trust Funds and Agency Funds.

- a. Private-Purpose Trust Funds - Private-Purpose trust funds are used to account for the receipts and expenditures of assets held under a trust agreement. The Private-Purpose trust fund maintained by the District is the Scholarship Fund, which during the current fiscal year had no activity.
- b. Agency Funds - Agency funds are used to account for assets held by the District as trustee or agent for individuals, private organizations and other governmental units.

Measurement Focus and Basis of Accounting - The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus.

The government-wide financial statements use the economic resources measurement focus.

- a. Accrual Basis - Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.
- b. Modified Accrual Basis - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when the resource is both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized when the related fund liability is incurred with certain exceptions, such as interest of general long-term debt, which is recognized when due.

Investments - Investments are recorded at fair market value.

Inventories - Inventories are valued at the lower of cost or market (first-in, first-out). Inventory costs accumulated for the Career Technical Trades Program house are accounted for as expenditures when consumed (when the house is sold) rather than when purchased. Other inventories are considered immaterial and are accounted for using the purchase method in both the District-wide and Fund financial statements.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20 - 50 years
Vehicles	5 years
Furniture, fixtures and equipment	5 – 20 years

In the fund financial statements, capital assets are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items and inventories as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the District's superintendent. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

For purposes of fund balance classification, expenditures are to be spent from Restricted Fund Balances first (when appropriate), followed in order by Assigned Fund Balance, Committed Fund Balance and lastly, Unassigned Fund Balance. When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) amounts are available, it is the policy of the District to consider restricted amounts first.

Net Position Classifications – In the District-wide financial statements, equity is classified as net position and displayed in three components:

Net Investment in Capital Assets: This classification consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted: This classification consists of net position with constraints on their use that are externally imposed (by creditors, grantors, contributors, or laws and regulations of other governments) or by law through constitutional provisions or enabling legislation.

Unrestricted: This classification consists of all other net position that does not meet the definition of either of the other two net position classifications.

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B – CASH AND EQUIVALENTS

The composition of cash and equivalents as reported in the Statement of Net Position and the Statement of Fiduciary Net Position is presented below:

Financial statement presentation:	
Cash and Equivalents - Governmental Funds	\$ 3,976,690
Cash and Equivalents - Trust & Agency	<u>42,182</u>
 TOTAL	 <u><u>\$ 4,018,872</u></u>
 Composition of balances:	
Deposits:	
Checking Accounts	\$ (172,660)
Savings Accounts	1,972,528
MILAF	<u>2,219,004</u>
 TOTAL	 <u><u>\$ 4,018,872</u></u>

Cash and cash equivalents consist primarily of short-term investments with an original maturity of three months or less including checking and savings account deposits, and the School District's share of investment pools, which are made up of U.S. Government obligations, U.S. Government Agency obligations, certificates of deposit, banker's acceptances, commercial paper and repurchase agreements.

Cash and cash equivalents are stated at cost which approximates fair value. The investment pools are valued using the amortized cost method which values securities at their cost on the date of purchase and recording a constant amortization or accretion to maturity of any premium or discount.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits will not be covered. The District does not have a custodial credit risk policy. As of June 30, 2016, the bank balance of checking and savings deposits was \$2,310,737, of which \$292,182 was insured and \$2,018,555 was uninsured and uncollateralized.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B – CASH AND EQUIVALENTS (continued)

Credit Risk – State statutes govern the types of investments in which the School District is allowed to invest. The following are allowable investments: U.S. Government obligations and U.S. Agency obligations; certificates of deposit, saving accounts, deposit accounts, or depository receipts of federally insured financial institutions; certain commercial paper, U.S. bankers acceptances; U.S. Government obligations or U.S. Agency obligation repurchase agreements; and mutual funds that invest in the preceding type investments.

The following details the credit quality distribution for the investment pools at June 30, 2016:

<u>Type</u>	<u>Standard & Poor's Rating</u>
Michigan Liquid Asset Fund Plus-Cash Management Series	AAA m
Michigan Liquid Asset Fund Plus-Max Series	AAA m

Concentration of Credit Risk – The District's concentration of credit risk policy allows investments in U.S. Treasury securities and other securities completely guaranteed by the Treasury as to payment of principal and interest of up to 100% of such securities. Investments in other types of authorized securities may be made with the provision that no more than 50% of the total current investment portfolio consist of one type of security.

Interest Rate Risk – The District's interest rate risk policy authorizes deposits and investments with maturities not to exceed two years. The District's cash and cash equivalents are all held in saving accounts, money market accounts, certificates of deposit, and short-term highly liquid investment pools, which limits its exposure to such risk.

Foreign Currency Risk - The District has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the District are in accordance with statutory authority.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE C – CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Land (not being depreciated)	\$ 2	\$ 24,000	\$ -	\$ 24,002
Buildings	2,813,272	-	-	2,813,272
Buildings & Site Improvements	206,997	-	-	206,997
Vehicles & Trailers	197,092	-	-	197,092
Furniture, Fixtures & Equipment	1,589,330	37,284	-	1,626,614
Depreciable Assets	4,806,691	37,284	-	4,843,975
Total Assets	4,806,693	61,284	-	4,867,977
Accumulated Depreciation	(3,158,328)	(111,198)	-	(3,269,526)
Net Total	\$ 1,648,365	\$ (49,914)	\$ -	\$ 1,598,451

Depreciation expense of \$111,198 for the current year is listed in the Statement of Activities as unallocated.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE D - ACCRUED FRINGE BENEFITS

The following details agreements regarding accumulated unpaid benefits.

Benefit	Group	Eligibility	Rate	Discount		Maximum Benefit
				%	Basis	
<u>Vacation</u>	Admin	N/A	Daily	N/A	N/A	35 Days
	Exc. Secretary	N/A	Daily	N/A	N/A	10 Days
	Superintendent	N/A	Daily	N/A	N/A	35 Days
<u>Sick Pay</u>	Admin	10 Years	Daily	35-55%	Yrs of Srvc	155 Days
	Exc. Secretary	15 Years	Daily	35-50%	Yrs of Srvc	140 Days
	Professionals	15 Years	Daily	30-45%	Yrs of Srvc	150 Days
	Superintendent	5 Years	Daily	50%	N/A	N/A
	Support	10 Years	\$10-\$25/Day	N/A	N/A	100 Days
	Teamsters	100 Sick Days	\$25 per Day	N/A	N/A	\$2,500
<u>Contract Term.</u>	Admin	10 Years	15% Contract	N/A	N/A	N/A
	Superintendent	Retirement	15% Contract	N/A	N/A	N/A
	Support	10 Years	20% Contract	N/A	N/A	\$5,500
	Teamsters	20 Years	20% Contract	N/A	N/A	\$5,000

NOTE E – UNEARNED REVENUE

Unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Unearned revenue includes unexpended funds received or receivable from state, federal and local projects and grants. Unearned revenue at June 30, 2016 consisted of \$457,957 in the General Fund; \$364,064 in the Special Education Fund; \$10,350 in the Career Technical Education Fund and \$24,520 in the Clear Lake Fund.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F – LONG-TERM DEBT - OTHER THAN NET PENSION LIABILITY

Long-term debt activity for the year ended June 30, 2016 is summarized as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2016</u>	<u>Amount Due Within One Year</u>
Accumulated Benefits	<u>\$ 533,557</u>	<u>\$ 83,514</u>	<u>\$ 46,469</u>	<u>\$ 570,602</u>	<u>\$ 57,060</u>
TOTAL	<u><u>\$ 533,557</u></u>	<u><u>\$ 83,514</u></u>	<u><u>\$ 46,469</u></u>	<u><u>\$ 570,602</u></u>	<u><u>\$ 57,060</u></u>

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

Accumulated unpaid benefits consist of the accrued liability for vacation, sick leave and contract termination payments. The following summarizes the liability by fund:

General Fund	\$ 92,005
Special Education Fund	373,327
Career Technical Fund	<u>105,270</u>
	<u><u>\$ 570,602</u></u>

The debt service requirement for accumulated unpaid benefits is dependent upon the employee's future use of this pay, thus future payments are unknown at June 30, 2016.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE G – FUND BALANCE CLASSIFICATIONS

As of June 30, 2016, the following fund balance classifications were recorded:

	<u>Purpose</u>	<u>Amount</u>
Nonspendable:		
General Fund	Inventory & prepaids	\$ 118,478
Special Education	Prepaid items	43,500
Career Technical	Inventory	99,280
Restricted (by enabling legislation):		
Special Education	Special education	1,008,955
Career Technical	Career technical education	936,549
Clear Lake Fund	Clear Lake programs	272,015
Committed:		
General Fund	Accumulated unpaid benefits	92,005
Special Education	Accumulated unpaid benefits	373,328
Career Technical	Accumulated unpaid benefits	105,270
Major Maintenance	Major maintenance projects	289,573

NOTE H – PROPERTY TAXES

The School District's property tax is levied on July 1 and December 1, and is based on taxable valuation of property as of the preceding December 31.

Taxes are collected and remitted to the School District by the tax collecting units within the District and generally become delinquent seventy-five days after the levy date. Unpaid real property taxes as of February 28 are turned over to the County Treasurers for collection. Both counties maintain tax revolving funds which permit them to pay the School District 100% of the delinquent real taxes within approximately two to three months after the delivery of the delinquent tax bills.

NOTE I – INTERFUND ACTIVITY

During the year the District had interfund activity that was for operational purposes. The General Fund transferred \$6,250 to the Clear Lake Fund and \$3,600 to the Major Maintenance Fund. The Career Technical Fund and the Special Education Fund transferred \$13,830 and \$2,570 to the Major Maintenance Fund, respectively. For the government-wide financial statements this interfund activity has been eliminated.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE I – INTERFUND ACTIVITY (continued)

As of June 30, 2016, the Special Education Fund, Career Technical Fund and Clear Lake Fund owed \$232,063, \$69,493 and \$1,487, respectively, to the General Fund. These balances have been eliminated on the government-wide financial statements.

NOTE J – RETIREMENT PLAN

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 financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

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

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

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J – RETIREMENT PLAN (continued)

Contributions and Funded Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of 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		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0 %	22.52 - 23.07 %
Member Investment Plan	3.0 - 7.0	22.52 - 23.07
Pension Plus	3.0 - 6.4	21.99
Defined Contribution	0.0	17.72 - 18.76

Required contributions to the pension plan from Delta-Schoolcraft ISD were \$1,025,669 for the year ended September 30, 2015.

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

At June 30, 2016, Delta-Schoolcraft ISD reported a liability of \$12,986,164 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. Delta-Schoolcraft ISD's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J – RETIREMENT PLAN (continued)

At September 30, 2015, Delta-Schoolcraft ISD's proportion was .05317 percent, which was a decrease of .00102 percent from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, Delta-Schoolcraft ISD recognized pension expense of \$1,046,444. At June 30, 2016, Delta-Schoolcraft ISD reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 43,014
Changes of assumptions	319,747	-
Net difference between projected and actual earnings on pension plan investments	66,284	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	188	190,307
Employer contributions subsequent to the measurement date	991,070	-
Total	\$ 1,377,289	\$ 233,321

\$991,070 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflows) and Deferred Outflows of Resources by Year (to be Recognized in Future Pension Expenses)

Plan Year Ended September 30	Amount
2016	(14,724)
2017	(14,724)
2018	(32,061)
2019	214,407

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J – RETIREMENT PLAN (continued)

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and 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:

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J – RETIREMENT PLAN (continued)

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158*
- Recognition period for assets in years is 5.0000*
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).*

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J – RETIREMENT PLAN (continued)

Long-Term Expected Return on Plan Assets

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:

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

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

Discount Rate

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

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J – RETIREMENT PLAN (continued)

Sensitivity of Delta-Schoolcraft ISD's proportionate share of the net pension liability to changes in the discount rate

The following presents Delta-Schoolcraft ISD's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what Delta-Schoolcraft ISD'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 higher:

Current Single Discount Rate		
1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 16,742,494	\$ 12,986,164	\$ 9,819,424

*The Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 MPERS CAFR:

([www.michigan.gov/documents/orsschools/MPERS CAFR 2015 Final 510211 7.pdf](http://www.michigan.gov/documents/orsschools/MPERS_CAFR_2015_Final_510211_7.pdf))

Pension Payable

Pension payable consisted of \$9,411 in the General Fund; \$86,316 in the Special Education Fund and \$33,018 in the Career Technical Education Fund. This is a result of legally required contributions to the pension plan arising out of employee contract balances owed but unpaid as of June 30, 2016. These contributions are due to the pension plan within 7 business days after the pay period end date.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE K - BUDGETS AND BUDGETARY ACCOUNTING

Budgets and Budgetary Accounting – The School District prepares annual budgets for its governmental funds on the modified accrual basis as required by state law. The general statute governing the School District's budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. The following procedures are followed in establishing budgetary data reflected in the financial statement:

1. In February or March, the Superintendent submits to the School Board proposed operating budgets for the fiscal year commencing the following July 1. Proposed budgets include projected expenditures and the means of financing them.
2. A formal public hearing is held on the proposed budgets for public comment.
3. The General Fund operating budget must be submitted to local districts not later than May 1, of each year. Not later than June 1, of each year, the board of each constituent district shall adopt a board resolution expressing support or disapproval of the budget and submit any specific objection or proposed changes which the School District would consider at its June meeting.
4. At the June School Board meeting, the budgets for the ensuing year are legally enacted through adoption by the Board.
5. Formal budget amendments may be made only by the approval of a majority of the School Board.

NOTE L – RISK MANAGEMENT

The School District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty risks and workers' disability compensation.

The pools are considered public entity risk pools. The School 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 assessments to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of specified amounts for each occurrence with the overall maximum coverage being unlimited. The School District has not been informed of any special assessments being required. The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

The District had no outstanding claims that exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE M – OTHER COMMITMENTS AND CONTINGENCIES

The District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any disallowed claims would not have a material effect on any of the financial statements of the District as of June 30, 2016.

REQUIRED SUPPLEMENTAL INFORMATION

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Local Sources	\$ 264,366	\$ 290,715	\$ 282,060	\$ (8,655)
State Sources	519,362	1,734,365	1,369,950	(364,415)
Federal Sources	-	528,959	218,144	(310,815)
Interdistrict Sources and Other	129,380	225,045	179,389	(45,656)
TOTAL REVENUES	913,108	2,779,084	2,049,543	(729,541)
Supporting Services:				
Truancy/Absenteeism	-	20,000	9,646	10,354
Social Work Services	-	43,294	25,381	17,913
Other Pupil Services	-	13,095	13,389	(294)
Improvement of Instruction	24,500	542,979	225,924	317,055
Computer-Assisted Instruction	-	9,500	9,500	-
Supervision and Direction	220,605	474,329	352,735	121,594
Other Instructional Staff Services	64,505	80,295	67,367	12,928
Board of Education	27,000	33,450	31,550	1,900
Executive Administration	286,800	308,155	302,795	5,360
Fiscal Services	141,450	164,692	164,363	329
Internal Services	14,500	45,080	15,894	29,186
Other Business Services	3,000	5,400	3,870	1,530
Operation & Maintenance	52,450	54,445	51,163	3,282
Pupil Transportation Services	-	888	400	488
Planning, Research & Development	-	2,375	2,375	-
Communication Services	-	14,286	8,218	6,068
Staff Services	2,200	2,200	1,620	580
Information Management Services	205,350	218,890	216,604	2,286
Pupil Accounting	9,000	9,000	8,410	590
Total Support Services	1,051,360	2,042,353	1,511,204	531,149
Other Community Services	-	78,772	49,113	29,659
Intergovernmental Charges:				
Other Public Schools	6,600	357,296	208,432	148,864
Other Governmental Units & Non-Profits	-	371,606	302,731	68,875
Total Intergovernmental Charges	6,600	728,902	511,163	217,739
TOTAL EXPENDITURES	1,057,960	2,850,027	2,071,480	778,547
EXCESS REVENUES (EXPENDITURES)	(144,852)	(70,943)	(21,937)	49,006
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	-	-	-	-
Operating Transfers Out	(9,850)	(9,850)	(9,850)	-
NET CHANGE IN FUND BALANCES	(154,702)	(80,793)	(31,787)	49,006
Fund Balances, Beginning of Year	834,683	1,057,642	1,057,642	-
FUND BALANCES, END OF YEAR	\$ 679,981	\$ 976,849	\$ 1,025,855	\$ 49,006

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
SPECIAL EDUCATION FUND**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Local Sources	\$ 2,515,500	\$ 2,514,054	\$ 2,607,242	\$ 93,188
State Sources	1,459,015	1,727,661	1,727,660	(1)
Federal Sources	25,000	2,005,941	1,937,928	(68,013)
Interdistrict Sources and Other	90,000	342,317	311,174	(31,143)
TOTAL REVENUES	4,089,515	6,589,973	6,584,004	(5,969)
EXPENDITURES:				
Instruction - Special Education	1,201,212	1,671,362	1,671,209	153
Supporting Services:				
Guidance Services	12,000	55,754	50,826	4,928
Health Services	642,392	660,850	670,929	(10,079)
Psychological Services	110,961	810,401	774,903	35,498
Speech and Audiology	618,866	865,791	852,423	13,368
Social Work Services	93,325	580,174	578,652	1,522
Visual Aide Services	-	35,000	36,302	(1,302)
Teacher Consultant	-	22,535	2,653	19,882
Other Pupil Support Services	-	92,400	88,446	3,954
Improvement of Instruction	22,650	237,167	227,696	9,471
Supervision of Instruction	667,466	741,653	736,552	5,101
Board of Education	7,500	8,600	8,527	73
Internal Services	39,250	39,250	33,332	5,918
Other Business Services	2,000	26,000	24,996	1,004
Operating Building Services	202,720	195,140	188,446	6,694
Pupil Transportation	555,000	517,000	533,096	(16,096)
Planning, Research & Development	-	44,700	43,044	1,656
Staff/Personnel Services	-	-	-	-
Information Management Services	137,185	150,585	147,436	3,149
Total Support Services	3,111,315	5,083,000	4,998,259	84,741
Other Community Services	-	44,280	27,761	16,519
Intergovernmental Charges:				
Payments to Other School Districts	168,000	190,000	166,103	23,897
Payments to Other Government Units	26,477	26,477	26,477	-
Total Intergovernmental Charges	194,477	216,477	192,580	23,897
TOTAL EXPENDITURES	4,507,004	7,015,119	6,889,809	125,310
EXCESS REVENUES(EXPENDITURES)	(417,489)	(425,146)	(305,805)	119,341
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	(2,570)	(2,570)	(2,570)	-
NET CHANGE IN FUND BALANCES	(420,059)	(427,716)	(308,375)	119,341
Fund Balances, Beginning of Year	1,736,392	1,734,158	1,734,158	-
FUND BALANCES, END OF YEAR	\$ 1,316,333	\$ 1,306,442	\$ 1,425,783	\$ 119,341

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

**BUDGETARY COMPARISON SCHEDULE
CAREER TECHNICAL FUND**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Local Sources	\$ 1,434,500	\$ 1,425,300	\$ 1,481,605	\$ 56,305
State Sources	358,860	630,959	630,883	(76)
Federal Sources	289,529	289,529	289,529	-
Interdistrict Sources and Other	306,288	306,288	322,937	16,649
TOTAL REVENUES	2,389,177	2,652,076	2,724,954	72,878
EXPENDITURES:				
Instruction:	1,348,384	1,433,962	1,421,770	12,192
Support Services:				
Guidance Services	239,861	248,206	255,128	(6,922)
Other Pupil Support Services	78,275	37,685	36,407	1,278
Improvement of Instruction	2,000	12,491	10,491	2,000
Supervision of Instructional Staff	251,345	269,055	266,737	2,318
Board of Education	4,000	4,000	3,380	620
Office of the Principal	63,480	68,790	64,858	3,932
Internal Services	26,000	26,000	22,609	3,391
Other Business Services	6,250	22,250	21,501	749
Operating Building Services	214,880	222,330	200,885	21,445
Pupil Transportation Services	-	5,000	1,587	3,413
Planning Research & Development	6,500	12,500	9,752	2,748
Communication Services	-	-	-	-
Information Management Services	83,455	89,025	89,885	(860)
Total Support Services	976,046	1,017,332	983,220	34,112
Agency Activities	16,000	16,000	15,387	613
Other Community Services	-	4,900	4,922	(22)
Payments to Other Public Schools	274,864	321,720	321,719	1
TOTAL EXPENDITURES	2,615,294	2,793,914	2,747,018	46,896
EXCESS REVENUES (EXPENDITURES)	(226,117)	(141,838)	(22,064)	119,774
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	(13,830)	(13,830)	(13,830)	-
NET CHANGE IN FUND BALANCES	(239,947)	(155,668)	(35,894)	119,774
Fund Balances, Beginning of Year	1,119,459	1,176,993	1,176,993	-
FUND BALANCES, END OF YEAR	\$ 879,512	\$ 1,021,325	\$ 1,141,099	\$ 119,774

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Michigan Public School Employees Retirement Plan

Last 2 Fiscal Years (Amounts determined as of 9/30 of each year)

	<u>2015</u>	<u>2014</u>
A. Proportion of net pension liability (%)	0.05317%	0.05419%
B. Proportionate share of net pension liability	\$ 12,986,164	\$ 11,935,885
C. Covered-employee payroll	\$ 4,399,210	\$ 4,576,813
D. Proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	33.87613%	38.34498%
E. Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

Last 2 Employer Fiscal Years (Amounts determined as of 6/30 of each year)

	<u>2016</u>	<u>2015</u>
A. Statutorily required contributions	\$ 1,025,669	\$ 968,585
B. Contributions in relation to statutorily required contributions*	1,025,669	968,585
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
D. Covered-employee payroll	\$ 4,738,089	\$ 4,400,536
E. Contributions as a percentage of covered-employee payroll	21.65%	22.01%

*Contributions in relation to statutorily required contributions are the contributions an employer actually made to the System, as distinct from the statutorily required contributions.

DELTA - SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

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

Changes of assumptions: There were no changes of benefit assumptions in 2016.

OTHER SUPPLEMENTAL INFORMATION

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2016

	Clear Lake Fund	Major Maintenance Fund	Total
ASSETS:			
Cash and Equivalents	\$ 293,672	\$ 289,573	\$ 583,245
Accounts Receivable	19,299	-	19,299
 TOTAL ASSETS	 \$ 312,971	 \$ 289,573	 \$ 602,544
LIABILITIES:			
Accounts Payable	\$ 14,949	\$ -	\$ 14,949
Unearned Revenue	24,520	-	24,520
Due to Other Funds	1,487	-	1,487
 TOTAL LIABILITIES	 40,956	 -	 40,956
FUND BALANCES:			
Restricted	272,015	-	272,015
Committed	-	289,573	289,573
 TOTAL FUND BALANCES	 272,015	 289,573	 561,588
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 312,971	 \$ 289,573	 \$ 602,544

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2016

	Clear Lake Fund	Major Maintenance Fund	Total
REVENUES:			
Local Sources	\$ 120,642	\$ 747	\$ 121,389
Interdistrict Sources and Other	12,500	-	12,500
TOTAL REVENUES	133,142	747	133,889
EXPENDITURES:			
Supporting Services	100,320	-	100,320
Capital Outlay	-	25,013	25,013
TOTAL EXPENDITURES	100,320	25,013	125,333
EXCESS REVENUES (EXPENDITURES)	32,822	(24,266)	8,556
OTHER FINANCING SOURCES (USES)			
Operating Transfers In	6,250	20,000	26,250
NET CHANGE IN FUND BALANCES	39,072	(4,266)	34,806
Fund Balance, Beginning of Year	232,943	293,839	526,782
FUND BALANCE, END OF YEAR	\$ 272,015	\$ 289,573	\$ 561,588

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CLEAR LAKE FUND**

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Local Sources	\$ 102,750	\$ 118,040	\$ 120,642	\$ 2,602
Interdistrict Sources & Other	12,500	12,500	12,500	-
TOTAL REVENUES	115,250	130,540	133,142	2,602
EXPENDITURES:				
Supporting Services:				
Other Instructional Staff Services	83,500	95,210	82,349	12,861
Board of Education	150	150	130	20
Internal Services	2,550	2,550	1,627	923
Other Business Services	150	150	133	17
Operating Building Services	16,100	16,100	10,672	5,428
Pupil Transportation Services	-	3,110	2,687	423
Staff Services	1,000	1,000	258	742
Information Management Services	-	250	45	205
Pupil Activities	1,500	1,500	1,560	(60)
Other Community Services	-	5,000	859	4,141
TOTAL EXPENDITURES	104,950	125,020	100,320	24,700
EXCESS REVENUES (EXPENDITURES)	10,300	5,520	32,822	27,302
OTHER FINANCING SOURCES:				
Operating Transfers in	6,250	6,250	6,250	-
NET CHANGE IN FUND BALANCES	16,550	11,770	39,072	27,302
Fund Balances, Beginning of Year	198,592	232,943	232,943	-
FUND BALANCES, END OF YEAR	\$ 215,142	\$ 244,713	\$ 272,015	\$ 27,302

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR MAINTENANCE FUND

For the year ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Local Sources	\$ 100	\$ 100	\$ 747	\$ 647
TOTAL REVENUES	100	100	747	647
EXPENDITURES:				
Capital Outlay	-	26,000	25,013	987
TOTAL EXPENDITURES	-	26,000	25,013	987
EXCESS REVENUES (EXPENDITURES)	100	(25,900)	(24,266)	1,634
OTHER FINANCING SOURCES:				
Operating Transfers in	20,000	20,000	20,000	-
NET CHANGE IN FUND BALANCES	20,100	(5,900)	(4,266)	1,634
Fund Balances, beginning of year	293,764	293,839	293,839	-
FUND BALANCES, END OF YEAR	<u>\$ 313,864</u>	<u>\$ 287,939</u>	<u>\$ 289,573</u>	<u>\$ 1,634</u>

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS

For the year ended June 30, 2016

	<u>Balances</u> <u>6/30/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>6/30/2016</u>
ASSETS:				
Cash	<u>\$ 28,336</u>	<u>\$ 69,676</u>	<u>\$ 55,830</u>	<u>\$ 42,182</u>
LIABILITIES:				
Due to Student Groups				
Vocational Student Organizations	\$ 22,181	\$ 64,399	\$ 50,441	\$ 36,139
Learning Center	<u> 6,155</u>	<u> 5,277</u>	<u> 5,389</u>	<u> 6,043</u>
TOTAL LIABILITIES	<u>\$ 28,336</u>	<u>\$ 69,676</u>	<u>\$ 55,830</u>	<u>\$ 42,182</u>

See accompanying notes to financial statements.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

**SCHEDULE OF TAXABLE VALUATIONS
TAX RATES AND TAX LEVIES**

For the year ended June 30, 2016

	State Taxable Valuation	Tax Rate Per \$1,000 Valuation	Levy
Baldwin Township	\$ 32,313,487	2.3851	\$ 77,071
Bark River Township	38,865,574	2.3851	92,698
Bay de Noc Township	28,466,804	2.3851	67,896
Brampton Township	26,416,437	2.3851	63,006
Cornell Township	21,822,758	2.3851	52,049
Ensign Township	28,929,537	2.3851	69,000
Escanaba Township	108,887,253	2.3851	259,707
Fairbanks Township	20,611,715	2.3851	49,161
Ford River Township	63,002,529	2.3851	150,267
Garden Township	62,059,586	2.3851	148,018
Maple Ridge Township	26,745,672	2.3851	63,791
Masonville Township	64,272,293	2.3851	153,296
Nahma Township	33,858,613	2.3851	80,756
Wells Township	229,824,398	2.3851	548,154
Escanaba City	304,265,828	2.3851	725,704
Gladstone City	104,990,439	2.3851	250,413
Ewing Township	9,234,138	2.3851	22,024
Turin Township	5,360,966	2.3851	12,786
Wells Township-Marquette Co	2,186,778	2.3851	5,216
Harris Township	34,084,885	2.3851	81,296
Doyle Township	41,456,691	2.3851	98,878
Germfask Township	12,963,291	2.3851	30,919
Hiawatha Township	65,230,434	2.3851	155,581
Inwood Township	41,258,183	2.3851	98,405
Manistique Township	36,973,274	2.3851	88,185
Mueller Township	38,406,732	2.3851	91,604
Thompson Township	50,294,966	2.3851	119,959
Manistique City	41,046,898	2.3851	97,901
TOTALS	\$ 1,573,830,159		\$ 3,753,742

The levy is allocated as follows:

General Fund	0.1346	\$ 211,838
Special Education Fund	1.3502	2,124,985
Career Tech Fund	0.9003	1,416,919
TOTALS	2.3851	\$ 3,753,742

See accompanying notes to financial statements.

SINGLE AUDIT



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal

Brandy M. Olson, CPA
Gary E. Maynard, CPA, PFS
Kathleen A. Ciantar, CPA

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

To the Board of Education
Delta-Schoolcraft Intermediate School District
Escanaba, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Delta-Schoolcraft Intermediate School District, 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, and have issued our report thereon dated October 19, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Anderson, Tackman & Company P.C.

Certified Public Accountants

October 19, 2016



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal

Brandy M. Olson, CPA
Gary E. Maynard, CPA, PFS
Kathleen A. Ciantar, CPA

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

To the Board of Education
Delta-Schoolcraft Intermediate School District
Escanaba, Michigan

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and

performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Anderson, Tackman & Company P.C.

Certified Public Accountants

October 19, 2016

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

Federal Grantor/Pass-Through/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Approved Award Amount	Prior Years Expenditures	Accrued (Deferred) Revenue July 1, 2015	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2016	Current Year Cash Transferred to Subrecipients
<u>U.S. DEPARTMENT EDUCATION</u>										
Passed Through State Dept. of Education:										
Federal Assistance for the Education of Handicapped										
Persons - Title VI-B:										
Flowthrough IDEA	84.027A	140450 1314	\$ 1,615,291	\$ 187,756	\$ 48,572	\$ 48,572	\$ -	\$ -	\$ -	\$ -
Flowthrough IDEA	84.027A	150450 1415	1,633,862	1,528,882	370,125	461,732	104,427	104,427	12,820	-
Flowthrough IDEA	84.027A	160450 1516	1,644,454	-	-	1,120,052	1,583,620	1,583,620	463,568	-
Special Ed EOSD	84.027A	150480 EOSD	45,000	45,000	-	-	-	-	-	-
Special Ed EOSD	84.027A	160480 EOSD	45,000	-	-	45,000	45,000	45,000	-	-
Special Ed Transition	84.027A	150490 TC	50,000	50,000	-	-	-	-	-	-
Special Ed Transition	84.027A	160490 TC	50,000	-	-	50,000	50,000	50,000	-	-
			5,083,627	1,811,638	418,697	1,725,356	1,783,047	1,783,047	476,388	-
Preschool Incentive	84.173A	150460 1415	63,419	63,419	21,235	21,235	-	-	-	-
Preschool Incentive	84.173A	160460 1516	63,488	-	-	43,543	63,488	63,488	19,945	-
			126,907	63,419	21,235	64,778	63,488	63,488	19,945	-
Total Special Education Cluster (IDEA)			5,210,534	1,875,057	439,932	1,790,134	1,846,535	1,846,535	496,333	-
Education of Handicapped Act, Part C:										
Infant and Toddler - Formula Grant (Early On)	84.181A	151340 1415	74,315	74,315	18,873	18,873	-	-	-	-
Infant and Toddler - Formula Grant (Early On)	84.181A	161340 1516	72,999	-	-	68,169	72,999	72,999	4,830	-
			147,314	74,315	18,873	87,042	72,999	72,999	4,830	-
Carl D. Perkins V.E.A.										
Basic Grants to States	84.048	153520 15122	275,733	275,733	78,373	78,373	-	-	-	-
Basic Grants to States	84.048	163520 16122	289,529	-	-	193,901	289,529	289,529	95,628	159,864
			565,262	275,733	78,373	272,274	289,529	289,529	95,628	159,864
Title I Regional Assistance Grant	84.010	141570 1314	65,000	7,616	-	-	-	-	-	-
Title I Regional Assistance Grant	84.010	151570 1415	103,062	39,043	10,182	20,336	10,154	10,154	-	-
Title I Regional Assistance Grant	84.010	161570 1516	140,314	-	-	22,942	32,194	32,194	9,252	-
			308,376	46,659	10,182	43,278	42,348	42,348	9,252	-
TOTAL STATE PASS-THROUGH			6,231,486	2,271,764	547,360	2,192,728	2,251,411	2,251,411	606,043	159,864

See Notes to Schedule of Expenditures of Federal Awards

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2016

Federal Grantor/Pass-Through/Program Title	Federal CFDA Number	Agency or Pass-Through Number	Approved Award Amount	Prior Years Expenditures	Accrued (Deferred) Revenue July 1, 2015	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue June 30, 2016	Current Year Cash Transferred to Subrecipients
Passed Through Marquette-Alger Regional Educational Services Agency: McKinney-Vento Homeless Assistance C/O	84.196A	152320-1415	750	750	-	-	-	-	-	-
TOTAL PASS-THROUGH MARQUETTE-ALGER REGIONAL EDUCATIONAL SERVICES AGENCY			750	750	-	-	-	-	-	-
Passed Through Dickinson-Iron Intermediate School District: Mathematics and Science Partnerships	84.366B	MSPF2014	51,046	8,794	-	-	-	-	-	-
TOTAL PASS-THROUGH DICKINSON-IRON INTERMEDIATE SCHOOL DISTRICT			51,046	8,794	-	-	-	-	-	-
Passed Through Eastern UP Intermediate School District: UP SMILE	84.366B	MSP2016	107,909	-	-	18,244	49,922	49,922	31,678	-
TOTAL PASS-THROUGH EASTERN UP INTERMEDIATE SCHOOL DISTRICT			107,909	-	-	18,244	49,922	49,922	31,678	-
Passed Through Teachers College: STEM Early College Expansion Partnership (SECEP)	84.411B	511138	118,790	66,671	43,542	76,774	33,232	33,232	-	-
STEM Early College Expansion Partnership (SECEP)	84.411B	511138	132,372	CXEDF	-	-	92,642	92,642	92,642	-
TOTAL PASS-THROUGH TEACHERS COLLEGE			251,162	66,671	43,542	76,774	125,874	125,874	92,642	-
TOTAL U.S. DEPARTMENT OF EDUCATION			6,642,353	2,347,979	590,902	2,287,746	2,427,207	2,427,207	730,363	159,864
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>										
Passed Through State Department of Community Health: Medicaid Cluster:										
Medical Assistance Program: Outreach	93.778	unknown	24,282	24,282	-	-	-	-	-	-
Medical Assistance Program: Outreach	93.778	unknown	18,394	-	-	18,394	18,394	18,394	-	10,575
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			42,676	24,282	-	18,394	18,394	18,394	-	10,575
TOTAL FEDERAL AWARDS			\$ 6,685,029	\$ 2,372,261	\$ 590,902	\$ 2,306,140	\$ 2,445,601	\$ 2,445,601	\$ 730,363	\$ 170,439

See Notes to Schedule of Expenditures of Federal Awards

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FEDERAL FINANCIAL AWARDS NOTES

For the year ended June 30, 2016

NOTE A – OVERSIGHT AGENCY

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's federal financial awards.

NOTE B – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Delta-Schoolcraft Intermediate School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Delta-Schoolcraft Intermediate School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Delta-Schoolcraft Intermediate School District.

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Delta-Schoolcraft Intermediate School District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – FEDERAL GRANT RECEIPTS

All federal grant receipts of the School District are included in the scope of this report.

NOTE E – FORM R7120/GRANT AUDITOR REPORT RECONCILIATION

The amounts reported on the R7120 Grant Auditor Report, reconciles with the Schedule of Expenditures of Federal Awards.

NOTE F – EXPENDITURE AGREEMENT

The expenditures in the Schedule of Expenditures of Federal Awards are in agreement with the amounts reported in the financial statements and the financial reports for the School District.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the School District.
2. No material weaknesses or significant deficiencies were disclosed during the audit of the financial statements that are required to be reported in the *Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
3. There were no instances of noncompliance to the financial statements of the School District.
4. There were no material weaknesses or significant deficiencies disclosed during the audit of the major federal award programs to be reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance*.
5. The auditor's report on compliance for the major federal award programs for the School District expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with the Uniform Guidance.
7. The programs tested as a major program was as follows:
 - Special Education Cluster – IDEA, EOSD, Transition and UP Autism,
CFDA #84.027A
 - Special Education Cluster – Preschool Incentive, CFDA #84.173A
8. The threshold for distinguishing type A and B programs was \$750,000.
9. The School District qualifies as a low-risk auditee.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

B. FINANCIAL STATEMENT AUDIT FINDINGS

None.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD
PROGRAMS**

None.

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2016

D. RESOLUTION OF PRIOR YEAR FINDINGS

There were no prior year findings.



ANDERSON, TACKMAN & COMPANY, PLC

Certified Public Accountants

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal

Brandy M. Olson, CPA
Gary E. Maynard, CPA, PFS
Kathleen A. Ciantar, CPA

October 19, 2016

Board of Education
Delta-Schoolcraft Intermediate School District
Escanaba, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Delta-Schoolcraft Intermediate School District (the District) for the year ended June 30, 2016, and have issued our report thereon dated October 19, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 15, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2016. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of fixed assets is based on experience with similar assets and the estimate of the net pension obligation is based on information provided by the Michigan Public Schools Employee Retirement System (MPERS). We evaluated the key factors and assumptions used to develop the estimate of the useful lives of fixed assets and the assumptions and calculations used by MPERS in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 19, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Management's Discussion and Analysis, the budgetary comparison schedules for the General Fund, the Special Education Fund and the Career Technical Fund, and the pension disclosures which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplemental information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Comments and Recommendations

In planning and performing our audit of the financial statements of the District for the year ended June 30, 2016, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and recommendations regarding these matters. This letter does not affect our report dated October 19, 2016.

Restriction on Use

This information is intended solely for the use of the Board of Education, the management of the District and appropriate state and federal grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company P.C.

Certified Public Accountants

DELTA-SCHOOLCRAFT INTERMEDIATE SCHOOL DISTRICT

COMMENTS AND RECOMMENDATIONS

June 30, 2016

COST ALLOCATION

During our audit we noted that some employee wages are allocated between different funds based on the time spent on each function. The percentages used to allocate these costs are based on information that has not been recently updated. We recommend that these percentages be reviewed to determine if they are still accurate. Also noted during our audit is that the cost allocation has been updated but will not be applied until the 2016-2017 fiscal year.