

Alma Public Schools
Alma, Michigan

Financial Statements

June 30, 2016

Table of Contents

<u>Section</u>		<u>Page</u>
1	Members of the Board of Education and Administration	1 - 1
2	Independent Auditors' Report	2 - 1
3	Management's Discussion and Analysis	3 - 1
4	Basic Financial Statements	
	District-wide Financial Statements	
	Statement of Net Position	4 - 1
	Statement of Activities	4 - 3
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 - 4
	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4 - 6
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 7
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 9
	Internal Service Fund	
	Statement of Net Position	4 - 10
	Statement of Revenues, Expenses and Changes in Fund Net Position	4 - 11
	Statement of Cash Flows	4 - 12
	Fiduciary Funds	
	Statement of Fiduciary Net Position	4 - 13
	Statement of Changes in Fiduciary Net Position	4 - 14
	Notes to the Financial Statements	4 - 15

5 **Required Supplementary Information**

Budgetary Comparison Schedule – General Fund	5 - 1
Schedule of the School District's Proportionate Share of the Net Pension Liability	5 - 3
Schedule of the School District's Contributions	5 - 4

6 **Other Supplementary Information**

Nonmajor Governmental Funds	
Combining Balance Sheet	6 - 1
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	6 - 2
General Fund	
Comparative Balance Sheet	6 - 3
Schedule of Outstanding Bonded Indebtedness	6 - 4

Alma Public Schools
Members of the Board of Education and Administration
June 30, 2016

Members of the Board of Education

Art McClintic, President

Mark Smoker, Vice President

Kathy Grace, Treasurer

David Justin, Secretary

Justin Barnaby, Trustee

Kendra Overla, Trustee

Mike Bishop, Trustee

Administration

Sonia Lark, Superintendent

Mark Jacobs, Director of Finance

Independent Auditors' Report

Management and the Board of Education
Alma Public Schools

Report on the Financial Statement

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB Statements No. 72, 76, 79, and 82, *Fair Value Measurement and Application*, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, *Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, respectively. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, and schedule of the school district's contributions, as identified 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 Alma Public Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and, other than the prior year information, was derived from and relates 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, other than the prior year information, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Alma Public Schools' basic financial statements as of and for the year ended June 30, 2015, which are not presented with the accompanying basic financial statements. In our report dated October 19, 2015, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Alma Public Schools' basic financial statements as a whole. The 2015 information in the comparative supplementary schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 2015 information in the comparative supplementary schedule is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016 on our consideration of Alma Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alma Public Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, Michigan
September 23, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Alma Public School District
Management's Discussion and Analysis
June 30, 2016

This section of the Alma Public School District annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Alma Public School District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund – the General Fund with all other funds presented in one column as non-major funds. The remaining statements, the internal service fund, accounts for the activities of the district's partially self-insured health plan and the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for General Fund
Proportionate Share of the Net Pension Liability
School District's Contributions

Other Supplementary Information

Reporting the School District as a Whole – Government-wide Financial Statements

The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information about the School District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net position includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Alma Public School District
Management's Discussion and Analysis
June 30, 2016

These two statements report the School District's net position and how it has changed. Net position – the difference between assets, deferred outflows of resources and liabilities and deferred inflows of resources, as reported in the statement of net position – is one way to measure the School District's financial health, or position. Over time, increases or decreases in the School District's net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is 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 consider many other non-financial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the School District.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (the Food Service Fund for example) or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides.

Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Alma Public School District
Management's Discussion and Analysis
June 30, 2016

The School District as a Whole

Net Position

The district's combined net position is reflected in Table 1. The change in total net position is discussed in conjunction with Table 2.

TABLE 1

	2016	2015
Assets and Deferred Outflows of Resources		
Current and other assets	\$ 7,352,000	\$ 6,369,000
Property and equipment	36,261,000	37,457,000
Deferred outflows of resources – pension	3,906,000	3,161,000
Deferred outflows of resources – debt	900,000	951,000
Total assets and deferred outflows of resources	48,419,000	47,938,000
Liabilities and Deferred Inflows of Resources		
Current liabilities	7,462,000	6,594,000
Long-term liabilities	24,403,000	26,111,000
Net pension liability	31,082,000	27,471,000
Deferred inflows of resources - pension	900,000	3,037,000
Total liabilities and deferred inflows of resources	63,847,000	63,213,000
Net Position		
Net investment in capital assets	12,055,000	11,627,000
Restricted	53,000	82,000
Unrestricted (deficit)	<u>(27,537,000)</u>	<u>(26,984,000)</u>
Total net position	<u>(\$15,429,000)</u>	<u>(\$15,275,000)</u>

The School District's net position was a deficit of (\$15,429,000) at June 30, 2016. This deficit is the result of recording our proportionate share of the State's overall unfunded pension liability as required by the Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Had we not recorded the amounts related to the net pension liability, our net position would have actually increased by \$575,000 to \$12,647,000.

Alma Public School District
Management's Discussion and Analysis
June 30, 2016

Net investment in capital assets of \$12,055,000 compares the original cost, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from donors or enabling legislation that limit the School District's ability to use those assets for day-to-day operations. The remaining amount of net position, a (\$27,537,000) deficit, was unrestricted.

The (\$27,537,000) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. Our portion of the unfunded pension liability will be paid off over a number of years similar to a mortgage through elevated plan contributions from district revenues. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2016.

TABLE 2

	2016	2015
Revenue		
Program revenue:		
Charges for services	\$991,000	\$963,000
Operating grants and contributions	5,833,000	6,267,000
Capital grants and contributions	-0-	-0-
General revenue:		
Property taxes	4,240,000	4,261,000
State foundation allowance	13,242,000	13,605,000
Other	14,000	24,000
Total revenue	24,320,000	25,120,000
Functions/Professional Expenses		
Instruction	14,720,000	14,325,000
Support services	7,758,000	7,802,000
Food services	941,000	962,000
Community services	95,000	118,000
Interest on long-term debt	960,000	1,098,000
Total expenses	24,474,000	24,305,000
Change in Net Position	(\$154,000)	\$815,000

Alma Public School District
Management's Discussion and Analysis
June 30, 2016

Revenues for the district's governmental activities decreased (3.2 %) while total expenses increased 0.7 %

The School District experienced a decrease in net position for the year of (\$154,000). This was in contrast to a prior year increase of \$815,000. The significant reason for this change was a decrease in operating grants, a decrease in State Foundation allowance due to declining enrollment, and an increase in instructional expense due to severance payouts to teachers and administrators.

Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$2,198,000, which was an increase of \$285,000 from last year.

In the General Fund, our principal operating fund, the fund balance increased \$232,000 to \$2,078,000. The unassigned portion of the fund balance increased \$261,000 to \$1,887,000, or approximately 9.0% of budgeted expenses.

The General Fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Fund, fund balance, remained unchanged at \$3,000 for the year. This fund balance was maintained by transferring \$25,000 from the General Fund to offset rising food costs and declining participation.

The Debt Service Funds fund balance increased \$52,000 to an amount of \$116,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Fund balances are restricted since they can only be used to pay debt service obligations. Millage rates were set at 7.0 mills for the current year to fund debt service on the 2014 and 2012 Refunding Bonds and the 2010 Qualified School Construction Bonds.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. (A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements).

**Alma Public School District
Management's Discussion and Analysis
June 30, 2016**

Changes to the General Fund original budget were as follows:

Budgeted revenues decreased (\$174,000) which is a (0.8%) decrease compared to the original budget. The net decrease was mostly due to a decrease in expected pupil enrollment.

Budgeted expenditures increased \$176,000 which is a 0.8% increase compared to the original budget. The net increase was due to additional Federal and State grant expenditures approved during the year, employee contract adjustments, and retiring employee severance payouts.

Actual revenues were (\$126,000) less than the final budgeted amounts, which is a (0.6%) decrease over the final budgeted amount. This decrease was mostly from federal and state grants not spent which are carried forward to 2016-17. The overall difference was not significant.

Actual expenditures were (\$452,000) less than the final budgeted amounts, which is a (2.2%) decrease over the final budgeted amount. This decrease was attributable to federal and state grants budgeted but not spent, and an effort to control expenditures during the school year in all departments. The overall difference was not significant.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2016, the School District had \$36,261,000 invested in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of approximately (\$1,196,000), or (3.2%), from last year.

	<u>2016</u>	<u>2015</u>
Assets not being depreciated – Land	\$723,000	\$723,000
Building and building improvements	52,509,000	52,445,000
Furniture and equipment	7,804,000	7,787,000
Buses and other vehicles	<u>1,503,000</u>	<u>1,419,000</u>
 Total capital assets	 62,539,000	 62,374,000
 Less accumulated depreciation	 <u>(26,278,000)</u>	 <u>(24,917,000)</u>
 Net capital assets	 <u><u>\$36,261,000</u></u>	 <u><u>\$37,457,000</u></u>

This year's additions of \$169,000 included a new bus and athletic field improvements. The other additions included equipment, technology, furniture and renovations funded from general revenues.

**Alma Public School District
Management's Discussion and Analysis
June 30, 2016**

Debt

At the end of this year the School District's General Obligation Bonds outstanding decreased (\$1,565,000) due to scheduled principal payments.

	<u>2016</u>	<u>2015</u>
2014 Refunding Bonds	\$7,605,000	\$7,620,000
2010 Qualified School Construction Bonds	7,025,000	7,660,000
2012 Refunding Bonds	<u>8,050,000</u>	<u>8,965,000</u>
	<u>\$22,680,000</u>	<u>\$24,245,000</u>

Other obligations include other bonds and contracts payable as well as accrued compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2017 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year is 90 percent and 10 percent of the October 2016 and February 2016 student counts, respectively. The 2017 budget was adopted in June 2016, based on an estimate of students that will be enrolled in October 2016. Approximately 67 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2017 school year, we anticipate that the fall student count will be slightly higher than the estimates used in creating the 2017 budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues to adjust current year appropriations and to set future years budgets.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Department at 1500 North Pine Avenue, Alma, Michigan 48801.

BASIC FINANCIAL STATEMENTS

Alma Public Schools
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,665,191
Accounts receivable	21,521
Due from other governmental units	3,376,287
Inventory	41,150
Investments	1,132,754
Prepaid items	114,901
Capital assets not being depreciated	723,068
Capital assets - net of accumulated depreciation	<u>35,537,989</u>
 Total assets	 <u>43,612,861</u>
Deferred Outflows of Resources	
Deferred amount relating to net pension liability	3,905,773
Deferred amount on debt refunding	<u>899,932</u>
 Total deferred outflows of resources	 <u>4,805,705</u>
 Total assets and deferred outflows of resources	 <u>48,418,566</u>

See Accompanying Notes to the Financial Statements

Alma Public Schools
Statement of Net Position
June 30, 2016

	Governmental Activities
Liabilities	
Accounts payable	\$ 275,716
State aid anticipation note payable	2,400,000
Due to other governmental units	147,739
Due to agency fund	1,409
Payroll deductions and withholdings	4,220
Accrued expenditures	1,528,252
Incurred but not reported claims (IBNR)	96,000
Accrued salaries payable	1,274,520
Unearned revenue	157,774
Noncurrent liabilities	
Net pension liability	31,082,024
Debt due within one year	1,576,523
Debt due in more than one year	24,403,158
Total liabilities	62,947,335
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	900,009
Total liabilities and deferred inflows of resources	63,847,344
Net Position	
Net investment in capital assets	12,054,782
Restricted for	
Special purposes	53,767
Unrestricted (deficit)	(27,537,327)
Total net position	\$ (15,428,778)

See Accompanying Notes to the Financial Statements

Alma Public Schools
Statement of Activities
For the Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Functions/Programs					
Governmental activities					
Instruction	\$ 14,719,568	\$ 628,039	\$ 4,568,609	\$ -	\$ (9,522,920)
Supporting services	7,757,675	175,221	503,351	-	(7,079,103)
Food services	941,460	159,278	733,566	-	(48,616)
Community services	95,247	28,623	27,034	-	(39,590)
Interest on long-term debt	960,042	-	-	-	(960,042)
	<u>\$ 24,473,992</u>	<u>\$ 991,161</u>	<u>\$ 5,832,560</u>	<u>\$ -</u>	<u>(17,650,271)</u>
General revenues					
Property taxes, levied for general purposes					1,925,969
Property taxes, levied for debt service					2,313,968
State aid - unrestricted					13,241,699
Interest and investment earnings					7,623
Gain on sale of capital assets					2,071
Other					4,657
					<u>17,495,987</u>
Change in net position					(154,284)
Net position - beginning					<u>(15,274,494)</u>
Net position - ending					<u>\$ (15,428,778)</u>

See Accompanying Notes to the Financial Statements

Alma Public Schools
Governmental Funds
Balance Sheet
June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 2,408,649	\$ 122,898	\$ 2,531,547
Accounts receivable	21,521	-	21,521
Due from other funds	968	1,711	2,679
Due from other governmental units	3,376,287	-	3,376,287
Inventory	25,842	15,308	41,150
Investments	1,132,754	-	1,132,754
Prepaid items	111,526	3,375	114,901
	<u>7,077,547</u>	<u>143,292</u>	<u>7,220,839</u>
Total assets	<u>\$ 7,077,547</u>	<u>\$ 143,292</u>	<u>\$ 7,220,839</u>
Liabilities			
Accounts payable	\$ 92,420	\$ 16,847	\$ 109,267
State aid anticipation note payable	2,400,000	-	2,400,000
Due to other funds	228,659	968	229,627
Due to other governmental units	147,739	-	147,739
Payroll deductions and withholdings	4,220	-	4,220
Accrued expenditures	700,129	-	700,129
Accrued salaries payable	1,274,520	-	1,274,520
Unearned revenue	151,446	6,328	157,774
	<u>4,999,133</u>	<u>24,143</u>	<u>5,023,276</u>
Total liabilities	<u>4,999,133</u>	<u>24,143</u>	<u>5,023,276</u>

See Accompanying Notes to the Financial Statements

**Alma Public Schools
Governmental Funds
Balance Sheet
June 30, 2016**

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance			
Non-spendable			
Inventory	\$ 25,842	\$ 15,308	\$ 41,150
Prepaid items	111,526	3,375	114,901
Restricted for			
Debt service	-	116,126	116,126
Special purposes	53,767	-	53,767
Unassigned (deficit)	1,887,279	(15,660)	1,871,619
	<u>2,078,414</u>	<u>119,149</u>	<u>2,197,563</u>
Total fund balance			
	<u>\$ 7,077,547</u>	<u>\$ 143,292</u>	<u>\$ 7,220,839</u>
Total liabilities, deferred inflows of resources and fund balances			

See Accompanying Notes to the Financial Statements

Alma Public Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Total fund balances for governmental funds	\$ 2,197,563
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	723,068
Capital assets - net of accumulated depreciation	35,537,989
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	899,932
Deferred inflows of resources resulting from net pension liability	(900,009)
Deferred outflow of resources from net pension liability	3,905,773
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(614,653)
Compensated absences	(873,474)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Bonds payable	(23,639,505)
School bond loan payable	(1,440,179)
Other loans payable and liabilities	(26,523)
Net pension liability	(31,082,024)
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position	(116,736)
Net position of governmental activities	\$ (15,428,778)

See Accompanying Notes to the Financial Statements

Alma Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 2,249,107	\$ 2,474,433	\$ 4,723,540
State sources	16,338,753	63,569	16,402,322
Federal sources	754,567	986,768	1,741,335
Interdistrict sources	1,455,663	-	1,455,663
 Total revenues	 <u>20,798,090</u>	 <u>3,524,770</u>	 <u>24,322,860</u>
Expenditures			
Current			
Education			
Instruction	12,860,024	-	12,860,024
Supporting services	7,278,571	-	7,278,571
Food services	-	917,529	917,529
Community services	92,838	-	92,838
Capital outlay	284,001	200	284,201
Debt service			
Principal	25,879	1,565,000	1,590,879
Interest and other expenditures	1,308	1,014,809	1,016,117
 Total expenditures	 <u>20,542,621</u>	 <u>3,497,538</u>	 <u>24,040,159</u>
 Excess of revenues over expenditures	 <u>255,469</u>	 <u>27,232</u>	 <u>282,701</u>

See Accompanying Notes to the Financial Statements

Alma Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)			
Proceeds from sale of capital assets	\$ 2,071	\$ -	\$ 2,071
Transfers in	-	25,000	25,000
Transfers out	(25,000)	-	(25,000)
Total other financing sources (uses)	(22,929)	25,000	2,071
Net change in fund balance	232,540	52,232	284,772
Fund balance - beginning	1,845,874	66,917	1,912,791
Fund balance - ending	<u>\$ 2,078,414</u>	<u>\$ 119,149</u>	<u>\$ 2,197,563</u>

See Accompanying Notes to the Financial Statements

Alma Public Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Net change in fund balances - Total governmental funds	\$ 284,772
Total change in net position reported for governmental activities in the statement of activities is different because	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Operating grants	(5,223)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(1,365,246)
Capital outlay	169,363
Expenses are recorded when incurred in the statement of activities.	
Interest	23,729
Compensated absences	48,067
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(3,611,228)
Net change in the deferral of resources related to the net pension liability	3,314,525
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	(433,352)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Repayments of long-term debt	1,590,879
Amortization of premiums	85,603
Amortization of deferred amount on debt refunding	(50,658)
Amortization of bond discount	(2,599)
Internal Service Fund revenues and expenses are included in governmental activities in the statement of activities	(202,916)
Change in net position of governmental activities	\$ (154,284)

See Accompanying Notes to the Financial Statements

Alma Public Schools
Proprietary Fund
Internal Service Fund
Statement of Net Position
June 30, 2016

Assets

Cash and cash equivalents	\$ 133,644
Due from other funds	<u>225,539</u>
 Total assets	 <u>359,183</u>

Liabilities

Current liabilities	
Accounts payable	166,449
Accrued expenditures	213,470
Incurred but not reported claims (IBNR)	<u>96,000</u>
 Total current liabilities	 <u>475,919</u>
 Total unrestricted net position (deficit)	 <u><u>\$ (116,736)</u></u>

Alma Public Schools
Proprietary Fund
Internal Service Fund
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Year Ended June 30, 2016

Operating revenues	
Charges to other funds	\$ 1,586,736
Employee contributions	288,600
Insurance recoveries and rebates	<u>32,406</u>
Total revenues	<u>1,907,742</u>
Operating expenses	
Medical	1,144,486
Prescriptions	454,198
Stop loss insurance	317,112
Management fees	116,407
HSA funding	36,800
Other charges	<u>41,952</u>
Total operating expenses	<u>2,110,955</u>
Operating loss	(203,213)
Nonoperating revenues	
Interest income	<u>297</u>
Net change in net position	(202,916)
Net position - beginning of year	<u>86,180</u>
Net position (deficit) - end of year	<u><u>\$ (116,736)</u></u>

See Accompanying Notes to the Financial Statements

Alma Public Schools
Proprietary Fund
Internal Service Fund
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities

Receipts from other funds	\$ 1,578,488
Employee contributions	288,600
Insurance recoveries and rebates	32,406
Claims paid	(1,603,326)
Stop loss insurance premiums paid	(317,112)
Management fees paid	(116,407)
HSA funding	(36,800)
Other charges	<u>(41,952)</u>
 Net cash used by operating activities	 (216,103)

Cash flows from investing activities

Interest received	<u>297</u>
 Net change in cash and cash equivalents	 (215,806)
 Cash and cash equivalents - beginning of year	 <u>349,450</u>
 Cash and cash equivalents - end of year	 <u><u>\$ 133,644</u></u>

**Reconciliation of operating loss
to net cash used by operating activities**

Operating loss	\$ (203,213)
Items not requiring cash	
Increase in incurred but not reported claims (IBNR)	6,000
Adjustments to reconcile operating loss to net cash used by operating activities - changes in assets and liabilities	
Increase in due from other funds	(8,248)
Decrease in accounts payable	(6,009)
Decrease in accrued expenditures	<u>(4,633)</u>
 Net cash used by operating activities	 <u><u>\$ (216,103)</u></u>

Alma Public Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2016

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 21,885	\$ 250,499
Due from other funds	-	1,409
	<u>21,885</u>	<u>\$ 251,908</u>
Liabilities		
Due to agency fund activities	-	<u>\$ 251,908</u>
Net Position		
Assets held for scholarships and loans	<u>\$ 21,885</u>	

See Accompanying Notes to the Financial Statements

Alma Public Schools
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016

	<u>Private Purpose Trust Funds</u>
Additions	
Interest and investment earnings	\$ 148
Net position - beginning	<u>21,737</u>
Net position - ending	<u><u>\$ 21,885</u></u>

See Accompanying Notes to the Financial Statements

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Alma Public Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

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 financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by

general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocated indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 School District 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.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

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 cash is received by the government.

Proprietary fund and fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses. The only proprietary fund maintained is an Internal Service Fund that is used to account for the financing of risk management services provided to other funds on a cost-reimbursement basis. The Internal Service Fund maintained by the School District is the Self-Insurance Fund, which includes transactions related to the School District's risk management programs for medical claims.

The School District reports the following major governmental fund:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service Fund. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

Debt Service Funds – Debt Service Funds are used to record taxes, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Internal Service Fund – The School District's Proprietary Fund is the Internal Service Fund. The purpose of the fund is to finance services provided to other funds of the School District on a cost-reimbursement basis. The Internal Service Fund maintained by the School District accounts for medical coverage. It is funded through transfers primarily from the General Fund in amounts equal to normal estimated risk management claims.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Trust Funds are funds entrusted to the School District for scholarship awards and loans and the principal and interest of the trust may be spent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities and Net Position or Equity

Cash – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property taxes receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2016, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00
Commercial personal property	6.00
Debt Service Funds	7.00

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

Property taxes are assessed as of December 31 and attach as an enforceable lien on July 1 of the following year. School property taxes are levied on December 1 and July 1 and are due on or before March 1 and October 31, respectively. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Gratiot and remitted to the School District before the fiscal year end.

Investments – Investments are stated at fair value. Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds, the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. 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 assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Site improvements	10-20 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Compensated Absences – Sick days are earned by most employees at the rate of one day per school month (10 days per year). A maximum of 60 sick days may be accumulated by an employee. Retiring employees who meet certain age and years of service requirements are paid for accumulated sick days to a maximum number of days and at a rate determined by their job category.

Employees who are not teachers are awarded vacation days based on years of service, up to a maximum of 20 days. Retiring employees are paid for vacation days up to the maximum number of days accumulated.

The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave and vacation balances. The sick leave liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments, and other employees who are expected to become eligible in the future to receive such payments upon termination, are included. The liability for vacation is calculated based on days earned and the current rate. The amount reported is salary related and includes fringe benefits.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

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

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education, the budget or finance committee, or the Superintendent. The Board of Education has granted the finance committee and Superintendent the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

Contributions were received that are restricted for use by either a particular building or programmatic purpose. At the end of the fiscal year, restricted amounts were as follows:

Building	
Hillcrest Elementary	\$ 6,377
Luce Road Elementary	1,364
Pine Avenue Elementary	571
Donald L. Pavlik Middle School	1,974
High School	509
Program	
After school program	17,918
Athletics	21,529
Other	3,525
	<u>\$ 53,767</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

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 disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board (“The GASB”) has issued Statement No. 72 *Fair Value Measurement and Application*. Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. Statement 72 is effective for the year ending June 30, 2016.

GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement 76 is effective for the year ending June 30, 2016.

GASB No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. Also, it establishes additional disclosure requirements for qualifying external investment pools that make that election and for governments that participate in such external investment pools. Statement 79 is effective for the year ending June 30, 2016.

GASB No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement 82 is effective for the year ending June 30, 2016.

Upcoming Accounting and Reporting Changes

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact that the above GASBs will have on its financial reporting.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the functional level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Pupil transportation services	\$ 651,888	\$ 672,158	\$ 20,270
Athletic activities	496,244	534,040	37,796
Debt - interest and fiscal charges	1,305	1,308	3

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$27,537,327 as of June 30, 2016.

Fund Deficit

The food services fund has deficit unassigned fund balance of \$15,660 which will be eliminated by either the consumption of inventory or future transfers from the general fund.

The internal service fund has deficit unrestricted net position of \$116,736 which will be eliminated in the following two fiscal years when changes to the plan take effect, and rates charged to other funds are adjusted.

Note 3 - Deposits and Investments

The School District's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 2,665,191	\$ 272,384	\$ 2,937,575
Investments	1,132,754	-	1,132,754
	<u>\$ 3,797,945</u>	<u>\$ 272,384</u>	<u>\$ 4,070,329</u>

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 2,937,025
Investments in securities, mutual funds, and similar vehicles	1,132,754
Petty cash and cash on hand	<u>550</u>
Total	<u>\$ 4,070,329</u>

As of year end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
MILAF + MAX Class	<u>\$ 1,132,754</u>	6 months	AAAm	Standard and Poor's

Interest rate risk – The School District has a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Credit risk – State statutes and the School District’s investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers’ acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year end, \$2,350,235 of the School District’s bank balance of \$2,984,947 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the district’s investments were exposed to custodial credit risk.

Note 4 - Fair Value Measurements

School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the following recurring fair value measurements as of June 30, 2016:

Amounts invested in MILAF + Portfolio of \$1,132,754. The MILAF + Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market. (Level 2 inputs)

Note 5 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 723,068	\$ -	\$ -	\$ 723,068
Capital assets being depreciated				
Buildings and additions	46,001,941	28,167	-	46,030,108
Site improvements	6,443,032	40,057	4,162	6,478,927
Equipment and furniture	7,786,765	17,021	-	7,803,786
Buses and other vehicles	1,419,323	84,118	-	1,503,441
Total capital assets being depreciated	61,651,061	169,363	4,162	61,816,262
Less accumulated depreciation for				
Buildings and additions	14,557,894	872,245	-	15,430,139
Site improvements	2,180,984	313,225	4,162	2,490,047
Equipment and furniture	7,022,951	116,130	-	7,139,081
Buses and other vehicles	1,155,360	63,646	-	1,219,006
Total accumulated depreciation	24,917,189	1,365,246	4,162	26,278,273
Net capital assets being depreciated	36,733,872	(1,195,883)	-	35,537,989
Net capital assets	<u>\$ 37,456,940</u>	<u>\$ (1,195,883)</u>	<u>\$ -</u>	<u>\$ 36,261,057</u>

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 1,181,178
Support services	176,690
Food services	<u>7,378</u>
 Total governmental activities	 <u>\$ 1,365,246</u>

Note 6 - Interfund Receivable and Payable and Transfers

Individual interfund receivable and payable balances at year end were:

Due From	Due To		
	General Fund	Non Major Governmental Funds	Total
Non Major Governmental Funds	\$ 1,711	\$ -	\$ 1,711
Internal Service Fund	225,539	-	225,539
Fiduciary Funds	1,409	-	1,409
General Fund	-	968	968
Total	<u>\$ 228,659</u>	<u>\$ 968</u>	<u>\$ 229,627</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers were made during the year between the General Fund and the Food Service Fund totaling \$25,000. These transfers were made to cover the costs of the School's District's programs that were in excess of revenues generated from those activities.

Note 7 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, unearned revenue consisted of student deposits on hand for the purchase of meals in the following fiscal year.

Grant and categorical aid payments received prior to meeting all eligibility requirements	\$ 151,446
Other - student meal deposits	<u>6,328</u>
 Total	 <u>\$ 157,774</u>

Note 8 - State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th. Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	<u>\$ 2,000,000</u>	<u>\$ 2,400,000</u>	<u>\$ 2,000,000</u>	<u>\$ 2,400,000</u>

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Note 9 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 24,245,000	\$ -	\$ 1,565,000	\$ 22,680,000	\$ 1,550,000
School Bond Loan	1,440,179	-	-	1,440,179	-
Compensated absences	921,541	-	48,067	873,474	-
Contracts payable	52,402	-	25,879	26,523	26,523
Premium on bonds	1,073,694	-	85,603	988,091	-
Discount on bonds	(31,185)	-	(2,599)	(28,586)	-
Total	\$ 27,701,631	\$ -	\$ 1,721,950	\$ 25,979,681	\$ 1,576,523

For governmental activities, compensated absences and contracts payable are primarily liquidated by the General Fund.

General obligation bonds payable at year end, consist of the following:

2012 Refunding Bonds due in annual installments of \$30,000 to \$905,000 through May 1, 2026, interest at 2.25% to 5.00%	\$ 8,050,000
2014 Refunding Bonds due in annual installments of \$15,000 to \$960,000 through May 1, 2033, interest at 3.38% to 4.00%	7,605,000
2010 Building and Site Bonds due in annual installments of \$635,000 to \$640,000 through May 1, 2027, interest at 3.40% to 5.25%	<u>7,025,000</u>
Total general obligation bonded debt	<u>\$ 22,680,000</u>

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2017	\$ 1,550,000	\$ 975,976	\$ 2,525,976
2018	1,555,000	908,836	2,463,836
2019	1,560,000	837,636	2,397,636
2020	1,540,000	790,121	2,330,121
2021	1,545,000	717,431	2,262,431
2022-2026	7,725,000	2,479,455	10,204,455
2027-2031	5,375,000	919,626	6,294,626
2032-2033	1,830,000	100,500	1,930,500
Total	\$ 22,680,000	\$ 7,729,581	\$ 30,409,581

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$116,126 to pay this debt. Future debt and interest will be payable from future tax levies.

Contracts payable consist of the following:

2012 bus installment contract due in annual installments of \$26,523 through March 20, 2017, interest rate of 2.49%	<u>\$ 26,523</u>
---	------------------

Future principal and interest requirements for the contracts payable are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2017	\$ 26,523	\$ 660	\$ 27,183

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

State School Bond Loan

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's bond issues. The School District has issued various bonds to renovate School District facilities. The bond elections, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond voted millage of 7 mills. Since the monies generated by the 7 mills are presently not enough to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow a total of \$1,440,179 to meet debt service requirements. Management of the School District anticipates that as bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District did not borrow any additional amounts and had an outstanding balance at year end of \$1,440,179, from the State School Bond Loan Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Compensated Absences

Accrued compensated absences at year end, consist of \$37,334 of vacation hours earned and vested and \$836,140 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Deferred Amount on Refunding

The School District issued bonds in 2014 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$466,529. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2033. The balance at June 30, 2016 is \$462,274.

The School District issued bonds in 2012 to advance refund and retire previously issued bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$589,071. This amount, less accumulated amortization, is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2026. The balance at June 30, 2016 is \$437,658.

The following summarizes the activity of the deferred amount on refunding:

	Beginning Balance	Additions	Reductions	Ending Balance
2012 Refunding Bonds	\$ 487,404	\$ -	\$ 49,746	\$ 437,658
2014 Refunding bonds	463,186	-	912	462,274
Total	<u>\$ 950,590</u>	<u>\$ -</u>	<u>\$ 50,658</u>	<u>\$ 899,932</u>

Note 10 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

In addition to risks described above, the School District is subject to risk of loss as a result of employee injuries (worker's compensation). To minimize such risk of loss, the School District participates in a public entity risk pool through the School Employers Group. The School District's contribution to the pool during the fiscal year net of prior year rebates amounted to \$40,098. The possibility of additional liabilities in excess of current year contributions exists, however, these amounts are indeterminable and believed to be immaterial, and as such no contingent liabilities have been recognized on the School District's financial statements for the year ended June 30, 2016.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the School District must reimburse the Employment Commission for all benefits charged against the School District for the year. The School District had unemployment compensation expense of \$3,353 for the year ended June 30, 2016. No provision has been made for possible future claims.

The School District is partially self-insured for health benefits paid on behalf of 78% of the employees eligible to receive health benefits. Payments are made to the insurance administrator each month based on actual claims and administration fees. The plan provides a stop-loss provision of \$50,000 per employee and \$1,793,745 aggregate. For governmental activities, the liability for health benefits is primarily liquidated by the General Fund.

Change in estimated liabilities for claims for health benefits for the year is as follows:

	2016	2015
Estimated liability at the beginning of the year	\$ 90,000	\$ 125,500
Estimated claims incurred including changes in estimates	1,598,684	1,568,157
Claim payments	<u>(1,592,684)</u>	<u>(1,603,657)</u>
Estimated liability end of year	<u>\$ 96,000</u>	<u>\$ 90,000</u>

Note 11 - Pension Plans and Post-Employment Benefits

Organization

The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), originally created under Public Act 136 of 1945, recodified, and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The 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 for DB plan members are determined by final average compensation and 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.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former 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.

Contributions and Funding 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 plan's 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 the School District were \$2,454,911 for the year ending September 30, 2015.

Net Pension Liability

At June 30, 2016, the School District reported a liability of \$31,082,024 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2015, the School District's proportionate share percent was 0.1273 percent, which was an increase of 0.0025 percent since the prior measurement date.

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

For the year ended June 30, 2016, the School District recognized total pension expense of \$2,753,700. The School District's actual contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$2,023,500, \$2,607,300, and \$1,865,100, respectively.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 102,953
Changes in assumptions	765,305	-
Net difference between projected and actual earnings on pension plan investments	158,649	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	473,016	2,624
Employer contributions subsequent to the measurement date	2,508,803	794,432
	<u>\$ 3,905,773</u>	<u>\$ 900,009</u>

\$2,508,803 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. \$794,432 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2017 when the related payments reduce the net pension liability.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Plan Year Ending September 30	Total
2016	\$ 213,822
2017	213,822
2018	172,320
2019	691,429
	<u>\$ 1,291,393</u>

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:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2014
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of returns:
 - 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
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

- 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.

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

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	28.00%	5.9%
Alternative Investment Pools	18.00%	9.2%
International Equity	16.00%	7.2%
Fixed Income Pools	10.50%	0.9%
Real Estate and Infrastructure Pools	10.00%	4.3%
Absolute Return Pools	15.50%	6.0%
Short Term Investment Pools	2.00%	0.0%
	100.00%	

*

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). 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.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

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

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 40,072,697	\$ 31,082,024	\$ 23,502,519

*Non-university employers, 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.

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/mpers-cafr).

Payables to the Pension Plan

There were no significant payables to the pension plan that are not ordinary accruals to the district.

Post-Employment Benefits

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPERS).

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

For the periods July 1, 2015 through September 30, 2015, and October 1, 2015 through June 30, 2016, the employer contribution rate ranged from 2.20% to 2.71% and 6.40% to 6.83%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$648,900, \$377,000, and \$755,800, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2016, the School District had contributions in the amount of \$1,223,144 to the MPERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 10.53% for the year ending June 30, 2016.

Alma Public Schools
Notes to the Financial Statements
June 30, 2016

Note 12 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2016.

Note 13 - Subsequent Event

Subsequent to June 30, 2016, the School District has paid the balance of \$2,400,000 and accrued interest on the short-term state aid anticipation note borrowed in August of 2015 and has subsequently borrowed \$1,800,000 in short-term state aid anticipation notes with annual interest of 0.83%. Proceeds from the borrowing were distributed to the School District in August of 2016.

Subsequent to June 30, 2016, residents of the School District approved a bond proposal not to exceed \$9,995,000 for various improvements to the School District's various facilities, and for the purchase of equipment and furnishings.

REQUIRED SUPPLEMENTARY INFORMATION

Alma Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 2,172,250	\$ 2,192,202	\$ 2,249,107	\$ 56,905
State sources	16,802,080	16,438,326	16,338,753	(99,573)
Federal sources	668,465	873,178	754,567	(118,611)
Interdistrict sources	1,455,300	1,420,527	1,455,663	35,136
	<u>21,098,095</u>	<u>20,924,233</u>	<u>20,798,090</u>	<u>(126,143)</u>
Total revenues				
Expenditures				
Instruction				
Basic programs	9,345,170	9,625,174	9,551,716	(73,458)
Added needs	3,503,913	3,491,620	3,308,308	(183,312)
Supporting services				
Pupil	1,090,188	1,138,250	1,114,866	(23,384)
Instructional staff	437,613	501,012	480,047	(20,965)
General administration	292,464	294,391	284,351	(10,040)
School administration	1,261,025	1,227,768	1,198,427	(29,341)
Business	509,969	493,663	473,833	(19,830)
Operations and maintenance	2,329,677	2,260,644	2,168,977	(91,667)
Pupil transportation services	722,190	651,888	672,158	20,270
Central	413,430	353,478	351,872	(1,606)
Athletic activities	522,186	496,244	534,040	37,796
Community services	104,365	112,806	92,838	(19,968)
Capital outlay	259,500	320,765	284,001	(36,764)
Debt service				
Principal	27,185	25,880	25,879	(1)
Interest and fiscal charges	-	1,305	1,308	3
	<u>20,818,875</u>	<u>20,994,888</u>	<u>20,542,621</u>	<u>(452,267)</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>279,220</u>	<u>(70,655)</u>	<u>255,469</u>	<u>326,124</u>

Alma Public Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	\$ 4,000	\$ 4,000	\$ 2,071	\$ (1,929)
Transfers out	(40,000)	(40,000)	(25,000)	(15,000)
Total other financing sources (uses)	(36,000)	(36,000)	(22,929)	13,071
Net change in fund balance	243,220	(106,655)	232,540	339,195
Fund balance - beginning	1,845,874	1,845,874	1,845,874	-
Fund balance - ending	<u>\$ 2,089,094</u>	<u>\$ 1,739,219</u>	<u>\$ 2,078,414</u>	<u>\$ 339,195</u>

Alma Public Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th)

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Reporting unit's proportion of net pension liability (%)	0.13%	0.12%								
B. Reporting unit's proportionate share of net pension liability	\$ 31,082,024	\$ 27,470,796								
C. Reporting unit's covered-employee payroll	\$ 10,783,374	\$ 10,732,581								
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	288.24%	255.96%								
E. Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%								

Alma Public Schools
Required Supplementary Information
Schedule of the School District's Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

	For the Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Statutorily required contributions	\$ 2,023,515	\$ 2,607,326								
B. Contributions in relation to statutorily required contributions	<u>2,023,515</u>	<u>2,607,326</u>								
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>								
D. Reporting unit's covered- employee payroll	10,426,497	10,911,799								
E. Contributions as a percentage of covered-employee payroll	19.41%	23.89%								

Notes:

Benefit changes - There were no changes of benefit terms in 2016.

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

OTHER SUPPLEMENTARY INFORMATION

Alma Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

	Special Revenue Funds	Debt Service Funds			Total Nonmajor Governmental Funds
	Food Services	2012 Debt Service	2014 Debt Service	2010 Debt Service	
Assets					
Cash	\$ 6,317	\$ 36,708	\$ 35,756	\$ 44,117	\$ 122,898
Due from other funds	1,198	513	-	-	1,711
Inventory	15,308	-	-	-	15,308
Prepaid items	3,375	-	-	-	3,375
Total assets	\$ 26,198	\$ 37,221	\$ 35,756	\$ 44,117	\$ 143,292
Liabilities					
Accounts payable	\$ 16,847	\$ -	\$ -	\$ -	\$ 16,847
Due to other funds	-	-	16	952	968
Unearned revenue	6,328	-	-	-	6,328
Total liabilities	23,175	-	16	952	24,143
Fund Balance					
Non-spendable					
Inventory	15,308	-	-	-	15,308
Prepaid items	3,375	-	-	-	3,375
Restricted for					
Debt service	-	37,221	35,740	43,165	116,126
Unassigned (deficit)	(15,660)	-	-	-	(15,660)
Total fund balance	3,023	37,221	35,740	43,165	119,149
Total liabilities and fund balances	\$ 26,198	\$ 37,221	\$ 35,756	\$ 44,117	\$ 143,292

Alma Public Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	Special	Debt Service Fund			Total Nonmajor Governmental Funds
	Revenue Funds	2012	2014	2010	
	Food Services	Debt Service	Debt Service	Debt Service	
Revenues					
Local sources	\$ 159,292	\$ 1,290,126	\$ 330,583	\$ 694,432	\$ 2,474,433
State sources	63,569	-	-	-	63,569
Federal sources	669,997	-	-	316,771	986,768
Total revenues	892,858	1,290,126	330,583	1,011,203	3,524,770
Expenditures					
Current					
Food services	917,529	-	-	-	917,529
Capital outlay	200	-	-	-	200
Debt service					
Principal	-	915,000	15,000	635,000	1,565,000
Interest and other expenditures	-	369,050	294,344	351,415	1,014,809
Total expenditures	917,729	1,284,050	309,344	986,415	3,497,538
Excess (deficiency) of revenues over expenditures	(24,871)	6,076	21,239	24,788	27,232
Other Financing Sources					
Transfers in	25,000	-	-	-	25,000
Net change in fund balance	129	6,076	21,239	24,788	52,232
Fund balance - beginning	2,894	31,145	14,501	18,377	66,917
Fund balance - ending	\$ 3,023	\$ 37,221	\$ 35,740	\$ 43,165	\$ 119,149

Alma Public Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2016

	2016	2015
Assets		
Cash	\$ 2,408,649	\$ 1,414,183
Accounts receivable	21,521	8,301
Due from other funds	968	-
Due from other governmental units	3,376,287	3,294,575
Inventory	25,842	23,506
Investments	1,132,754	1,075,578
Prepaid items	111,526	117,278
Total assets	\$ 7,077,547	\$ 5,933,421
Liabilities		
Accounts payable	\$ 92,420	\$ 116,673
State aid anticipation note payable	2,400,000	2,000,000
Due to other funds	228,659	212,843
Due to other governmental units	147,739	119,467
Payroll deductions and withholdings	4,220	5,884
Accrued expenditures	700,129	567,283
Accrued salaries payable	1,274,520	1,060,174
Unearned revenue	151,446	-
Total liabilities	4,999,133	4,082,324
Deferred Inflows of Resources		
Unavailable		
Grants received	-	5,223
Fund Balance		
Non-spendable		
Inventory	25,842	23,506
Prepaid items	111,526	117,278
Restricted for special purposes	53,767	79,185
Unassigned	1,887,279	1,625,905
Total fund balance	2,078,414	1,845,874
Total liabilities, deferred inflows of resources and fund balance	\$ 7,077,547	\$ 5,933,421

Alma Public Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2016

Year Ending June 30,	2014 Refunding Bonds	2012 Refunding Bonds	2010 Building and Site Bonds	Total
2017	\$ 20,000	\$ 895,000	\$ 635,000	\$ 1,550,000
2018	20,000	900,000	635,000	1,555,000
2019	20,000	905,000	635,000	1,560,000
2020	15,000	885,000	640,000	1,540,000
2021	15,000	890,000	640,000	1,545,000
2022	15,000	890,000	640,000	1,545,000
2023	20,000	895,000	640,000	1,555,000
2024	20,000	885,000	640,000	1,545,000
2025	20,000	875,000	640,000	1,535,000
2026	875,000	30,000	640,000	1,545,000
2027	945,000	-	640,000	1,585,000
2028	960,000	-	-	960,000
2029	955,000	-	-	955,000
2030	945,000	-	-	945,000
2031	930,000	-	-	930,000
2032	920,000	-	-	920,000
2033	910,000	-	-	910,000
	<u>\$ 7,605,000</u>	<u>\$ 8,050,000</u>	<u>\$ 7,025,000</u>	<u>\$ 22,680,000</u>
Principal payments due on	May 1st	May 1st	May	
Interest payments due on	May 1st and November 1st	May 1st and November 1st	May 1st and November 1st	
Interest rate	3.38% - 4.00%	2.25 - 5.00%	3.40% - 5.25%	
Original issue	<u>\$ 7,675,000</u>	<u>\$ 10,835,000</u>	<u>\$ 9,715,000</u>	

Alma Public Schools

Single Audit Report

June 30, 2016

Table of Contents

	<u>Page</u>
Single Audit Report	
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	1
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9

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

Independent Auditors' Report

Management and the Board of Education
Alma Public Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alma Public Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Alma Public Schools' basic financial statements, and have issued our report thereon dated September 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Alma Public Schools' 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 Alma Public Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Alma Public Schools' 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 Alma Public Schools' 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.

Yeo & Yeo, P.C.

Alma, Michigan
September 23, 2016

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Education
Alma Public Schools

Report on Compliance for Each Major Federal Program

We have audited Alma Public Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Alma Public Schools' major federal programs for the year ended June 30, 2016. Alma Public Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Alma Public Schools' 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 Alma Public Schools' 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 Alma Public Schools' compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Alma Public Schools 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 Alma Public Schools' 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 Alma Public Schools' 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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Alma Public Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Alma Public Schools' basic financial statements. We issued our report thereon dated September 23, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Alma, Michigan
September 23, 2016

Alma Public Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Approved Award Amount	Accrued (Unearned) Revenue July 1, 2015	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2016
U.S. Department of Agriculture								
Passed through Michigan Department of Education								
Child Nutrition Cluster								
National School Lunch - Breakfast	10.553	151970	\$ 241,218	\$ -	\$ 222,800	\$ 18,418	\$ 18,418	\$ -
National School Lunch - Breakfast	10.553	161970	216,845	-	-	216,845	216,845	-
			<u>458,063</u>	<u>-</u>	<u>222,800</u>	<u>235,263</u>	<u>235,263</u>	<u>-</u>
National School Lunch	10.555	151960	411,278	-	375,133	36,145	36,145	-
National School Lunch - Snacks	10.555	151980	2,486	-	2,440	46	46	-
National School Lunch	10.555	161960	348,423	-	-	348,423	348,423	-
National School Lunch - Snacks	10.555	161980	1,892	-	-	1,892	1,892	-
			<u>764,079</u>	<u>-</u>	<u>377,573</u>	<u>386,506</u>	<u>386,506</u>	<u>-</u>
Non-cash assistance (commodities) Entitlement	10.555		<u>48,228</u>	<u>-</u>	<u>-</u>	<u>48,228</u>	<u>48,228</u>	<u>-</u>
Total Child Nutrition Cluster			<u>1,270,370</u>	<u>-</u>	<u>600,373</u>	<u>669,997</u>	<u>669,997</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>1,270,370</u>	<u>-</u>	<u>600,373</u>	<u>669,997</u>	<u>669,997</u>	<u>-</u>
U.S. Department of Transportation								
Passed through Michigan Fitness Foundation								
Highway Planning and Construction	20.205	SRTS 2013058	<u>6,313</u>	<u>5,223</u>	<u>5,223</u>	<u>5,223</u>	<u>-</u>	<u>-</u>
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I - Part A	84.010	1515301415	625,545	90,771	600,726	98,527	7,756	-
Title I - Part A	84.010	1615301516	623,319	-	-	462,929	527,714	64,785
			<u>1,248,864</u>	<u>90,771</u>	<u>600,726</u>	<u>561,456</u>	<u>535,470</u>	<u>64,785</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Alma Public Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Approved Award Amount	Accrued (Unearned) Revenue July 1, 2015	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue June 30, 2016
U.S. Department of Education (continued)								
Passed through Michigan Department of Education								
Title VI, Part B - Rural and Low Income Grant	84.358	1506601415	\$ 46,055	\$ 7,620	\$ 45,549	\$ 7,620	\$ -	\$ -
Title VI, Part B - Rural and Low Income Grant	84.358	1606601516	45,090	-	-	45,090	45,090	-
			<u>91,145</u>	<u>7,620</u>	<u>45,549</u>	<u>52,710</u>	<u>45,090</u>	<u>-</u>
Passed through Michigan Department of Education								
Title II, Part A - Teacher/Principal Training & Recruitment	84.367	1505201415	181,194	16,069	91,121	38,596	22,527	-
Title II, Part A - Teacher/Principal Training & Recruitment	84.367	1605201516	193,547	-	-	128,524	143,137	14,613
			<u>374,741</u>	<u>16,069</u>	<u>91,121</u>	<u>167,120</u>	<u>165,664</u>	<u>14,613</u>
Total U.S. Department of Education			<u>1,714,750</u>	<u>114,460</u>	<u>737,396</u>	<u>781,286</u>	<u>746,224</u>	<u>79,398</u>
U.S. Department of Health and Human Services								
Passed through Intermediate School District								
Administrative Outreach	93.778		<u>3,120</u>	-	-	3,120	3,120	-
Total Federal Awards			<u>\$ 2,994,553</u>	<u>\$ 119,683</u>	<u>\$ 1,342,992</u>	<u>\$ 1,459,626</u>	<u>\$ 1,419,341</u>	<u>\$ 79,398</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Alma Public Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2016

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Alma Public Schools 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 Alma Public Schools, it is not intended to and does not present the financial position, changes in financial positions, and where applicable, cash flows of Alma Public Schools.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance and OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Alma Public Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

Federal revenue - financial statements	\$ 1,741,335
Less: prior year unavailable revenue	(5,223)
Less: federal debt payment subsidy	<u>(316,771)</u>
Federal expenditures	<u>\$ 1,419,341</u>

Note 4 - Subrecipients

No amounts were provided to subrecipients.

Note 5 - Michigan Department of Education Disclosures

The federal amounts reported on the grant auditor report are in agreement with the schedule of expenditures of federal awards.

The amounts reported on the recipient entitlement balance report agree with the schedule of expenditures of federal awards for U.S.D.A. donated food commodities.

Alma Public Schools
Schedule of Findings and Questioned Costs
June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:
Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not
considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered
to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with §200.516(a)? yes no

Alma Public Schools
Schedule of Findings and Questioned Costs
June 30, 2016

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553 and 10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between
type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

Section II - Governmental Auditing Standards Findings

There were no findings or questioned costs for the year ended June 30, 2016.

Section III - Federal Awards Findings and Questioned Costs

There were no federal award findings for the year ended June 30, 2016.

Section IV - Prior Audit Findings

There were no government auditing standards or federal award findings for the year ended June 30, 2015.

September 23, 2016

Management and the Board of Education
Alma Public Schools
1500 Pine St.
Alma, MI 48801

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Alma Public Schools as of and for the year ended June 30, 2016, and have issued our report dated September 23, 2016. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and we would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Alma, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated April 21, 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 School District are described in Note 1 of the financial statements. The School District has adopted Government Accounting Standards Statement (GASB) No. 72, 76, 79, and 82, *Fair Value Measurement and Application*, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, *Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. GASB No. 72, 76, and 79 are effective July 1, 2015, and GASB 82 is effective for years beginning July 1, 2016, however, early implementation is encouraged. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. Statement 76 identifies the hierarchy of generally accepted accounting principles. Statement 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Statement 82 amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. We noted no transactions entered into by the School District during the year where there is 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 estimates affecting the School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.
- Management's estimate of the accrued compensated absences is based on current hourly rates and policies regarding payment of sick and vacation banks.
- Management's estimate of incurred but not reported claims is based on past claims history and knowledge of claims received in the months subsequent to year end.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity and data backup best practices

The School District's data is critically important. There are millions of ways data can be compromised. It is vitally important that all employees have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event a School District's information is targeted by malware or a phishing attack. A School District's vital information is always a moment away from being compromised. Encouraging and educating employees to pay attention to what they click on and what they do is the first step in keeping information safe.

Having a proper data backup solution in place can mean the difference between a School District surviving a cyber-attack or losing valuable data and time. Every School District should know the answer to two questions when looking at data backup solutions.

1. How long can my District survive a network outage?
Many School Districts assume that they are properly backing up their network but how often are those backups tested? Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.
2. Does our District understand the difference between a backup and disaster recovery?
Management often assumes that simply backing up files is “good enough”. Backing up files is something all School Districts should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all company data in the event of a disaster is another.

Audit and FID Submission Deadline

Beginning in the previous year, the deadline to submit the Financial Information Database (FID) and the school district financial audits will be November 1st. This will continue to be the deadline for future fiscal years.

Uniform Grant Guidance (Super Circular)

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. Districts implemented the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR is the source for guidance that school districts will follow. Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>
- MDE http://www.michigan.gov/mde/0,4615,7-140-5236_76204---,00.html

Fiscal Year (FY) 2017 School Aid

- The Omnibus Education Bill (Senate Bill 801) for FY 2017 has been passed by the legislature. It has been presented to the Governor for signature. There is always the possibility of vetoes. Following are some highlights of the bill:
- The per pupil Foundation Grants for FY 2017 will increase by a range of \$60 to \$120 using the “2X formula.” The increase will be added to the FY 2016 foundation grant resulting in the lowest foundation for FY 2017 being \$7,511 and the maximum state guaranteed foundation being \$8,229.
- A new Section 20m would provide hold harmless districts with the difference in per pupil funding between \$60 and the increase in their foundation which is limited to the rate of inflation (.1% in this case).
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at \$389,685,500.
- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2015-16.
- ISD General Operation funding under Section 81 will remain at \$67.1 million.
- An additional \$90 million is appropriated in Section 147c to reflect the actuarially estimated costs of the required state share of the MPSERS Unfunded Accrued Liability (UAL) and maintain the UAL cap at 20.96%.

Other School Aid “Boilerplate” Changes

- Section 18 has been amended to require that the FID data and audited financial statements must be consistent or school aid must be withheld.
- Section 51a(15) has been amended to state that there will be a 10% state school aid penalty for a district or ISD that does not comply with the language in Section 51a(14) that requires the pupil’s resident district and/or ISD to provide special education services and cover special education added costs for pupils educated in a Public School Academy who reside outside of the ISD in which the academy is located.
- The Section 101 Instructional Day requirement will go from a minimum of 175 days to a minimum of 180 days beginning with the 2016-17 school year.

Early Warning

Pursuant to Public Act 109 of 2015, each school district and public school academy that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2013-2014 or 2014-2015 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)

The UB&AA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UB&AA, including but not limited to general fund deficits, should be reported as financial statement findings in the audit report. UB&AA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the general fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

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 the financial statements taken as a whole.

There were no uncorrected misstatements that were more than trivial.

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 auditors’ report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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 School District'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 School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The School District adopted a new accounting standard, and our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB No. 72, 76, 79, and 82, *Fair Value Measurement and Application, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, Certain External Investment Pools and Pool Participants, and Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: 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*; Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by the Uniform Grant Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of school district's proportionate share of net pension liability, schedule of school district's contributions, and budgetary comparison information, we 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 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.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, 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.

Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of Alma Public Schools as of and for the year ended June 30, 2016, we considered Alma Public Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of several matters for management's consideration that are opportunities for strengthening internal controls. This letter does not affect our report dated September 23, 2016, on the financial statements of Alma Public Schools. Our comments and recommendations regarding those matters are:

Decentralized Cash Collections

Situation

The School District's community education department has cash collections for the open swim program. There are procedures in place to reconcile the number of swimmers to the amount collected, however, we noted discrepancies in the reconciliations. The reconciliations account for the number of swimmers and the cash taken in. When the amounts do not reconcile, there is no action taken to investigate the underlying cause or to develop additional procedures to prevent unreconciled differences.

Recommendation

We recommend that the open swim log be remitted to the business office when cash is remitted. The employee verifying the cash should use the open swim log to verify the proper amount of cash has been collected. The employee running the open swim program should be educated in regards to the importance of maintaining an appropriate log and accurate reconciliations.

Federal Timekeeping

Situation

The School District employs individuals working within the food service program that are paid using federal funding. The School District has contracts for salaried individuals, however, those individuals do not sign semi-annual certifications that indicate they work only on one cost objective. The Michigan Department of Education expects School Districts to use semi-annual certifications for those individuals working under one cost objective or to otherwise prepare a personnel activity report.

Recommendation

We recommend that the School District have employees working under one federal cost objective sign semi-annual certifications to ensure compliance with Michigan Department of Education requirements.

Compensated Absence Tracking

Situation

As a part of our audit, we review the calculation of the compensated absence accrual as well as the clerical accuracy of the reports and spreadsheet containing the calculations. We selected several employees' balances within the accrual to recalculate and discovered that the teacher rates applied were missing adjustments for longevity pay.

Recommendation

We recommend that the School District carefully review the underlying data used for this calculation each year. We suggest the School District select a sample of employees' balances to recalculate for accuracy.