

Addison Community Schools
Report on Financial Statements
(with required supplementary and additional information)
Year Ended June 30, 2015



Addison Community Schools

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Independent Auditor's Report

To the Board of Education
Addison Community Schools
Addison, Michigan

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Addison Community Schools as of and for the year ended June 30, 2015, and related notes to the financial statements, which collectively comprise the District's basic financial statements. These financial statements are the responsibility of Addison Community Schools' management as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 Addison Community Schools as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Your partner in financial statement auditing and all things accounting.

P.O. Box 384, Adrian, Michigan 49221 | phone: 517.945.3312 - meredithamattthews@gmail.com

To the Board of Education
Addison Community Schools

Report on Summarized Comparative Information

I have previously audited Addison Community Schools' 2014 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in my report dated September 15, 2014. In my opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 proportionate share of net pension liability and schedule of contributions on pages 3 through 9 and pages 42 through 47, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Addison Community Schools' basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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 my opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015, on my consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Addison Community Schools' internal control over financial reporting and compliance.

Meredith A. Matthews, CPA

Adrian, Michigan
October 22, 2015

**Addison Community Schools
Management's Discussion and Analysis
June 30, 2015**

Our discussion and analysis of Addison Community School District financial performance provides an overview of the School District's financial activities in the fiscal year ended June 30, 2015. The Addison Community School District implemented GASB 34 requirements in the June 30, 2004 audit as required by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments issued June, 2000. Certain comparative information between the current year and the prior year is required and will be presented in this MD&A. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

The management's discussion and analysis is provided at the beginning of the audit and organized so that the reader can understand terms the past and current position of the Addison Community School District financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the School District's revenues by program for the General Fund and Special Revenue Fund.

Using This Annual Report

The School District's Annual Report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The *District Wide Financial Statements*, which include the **Statement of Net Position** and the **Statement of Activities** provide information about the district as a whole and present a longer-term view of the School District's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The *Fund Financial Statements* provide detailed information about the School District's most significant funds-not the School District as a whole.

Reporting the school district as a whole

These two statements report the School District's net assets-the difference between assets and liabilities, as reported in the **Statement of Net Position** – as one way to measure the School District's financial health or financial position. The **Statement of Net Position**, for the first time, combines and consolidates governmental fund's current financial resources with capital assets and long-term obligations, regardless if they are currently available or not. In comparison to "other assets", capital assets are those assets that are tangible, valued over a specified amount, and usually have a long life. They are depreciated over a useful life. More detail on capital assets and their recorded useful lives is found in the footnote section of the audit. Long-term obligations (liabilities) are those that are longer than one year. Some liabilities are classified as "short-term" for the portion due in a year, and "long-term" for the portion due in future years (such as leases payable, compensated absences, and debt obligations). "Other liabilities" are considered to be obligations due within a year. Over time, increases or decreases in the School District's net position – as reported in the **Statement of Activities** – is one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District's operating results.

However, the School District's goal is to provide services to our students, not to generate a profit as commercial entities do. There are other factors to consider such as quality of education and school safety to assess the overall health of the School District.

The **Statement of Net Position** and **Statement of Activities** report the governmental activities and business-type activities. These statements for the Addison Community School District will include only governmental activities which encompass all of the School District's services including instruction, supporting services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

**Addison Community Schools
Management's Discussion and Analysis
June 30, 2015**

Reporting the school district's most significant funds

The School District's fund financial statements provide detailed information about the School District's most significant funds- not the School District as a whole. The fund statements are similar to financial presentations in the past, but the focus is on the District's major funds rather than fund types. The two Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. Some funds are required by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (such as **Food Service**) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies (such as **Special Revenue**). Due to the passing of the 2010 bond, the School District now has 2 major funds. The School District's major funds are the **General Fund** and **Debt Service Fund**.

Most of the School District's services are reported in governmental funds. Governmental fund reporting focuses on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's operations and services it provides. Governmental fund information help 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 reconciliation on page 14 and 16.

Fund types include the General Fund, Debt Retirement Fund, Capital Projects Fund, Special Revenue Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The Debt Fund is used to record the funding and payment of principal and interest on Bonded Debt. The Special Revenue Fund is used to record the funding and expenditures of monies specified for a specific purpose (Food service). The Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

Recording of Pension Liability

Employees of Addison Community Schools are members of the Michigan Public School Employees Retirement System (MPERS). Due to a new requirement from the Governmental Accounting Standards Board (GASB 68) each district in the state of Michigan must disclose its proportionate share of net pension liability and pension expense. Also, there are additional requirements for pension-related Notes to the Financial Statement and Required Supplemental Information contained in the audit.

Proportionate share is based on each district's historical pension contributions to the system and is based on the MPERS plan fiscal year (October 1 – September 30). Addison's share of total pension liability for the state is 0.05013% and amounts to \$11,042,091 as of the end of the fiscal year. This amount is included in "long term liabilities outstanding" on the government-wide statement and puts the district in a negative position for total net assets. Addison's proportionate share of pension expense is \$894,440 as of the end of the fiscal year.

This data will change every year as the liability is paid off over time, the market value of assets fluctuates over time, and the reporting unit proportionate share can change.

**Addison Community Schools
Management's Discussion and Analysis
June 30, 2015**

The School District as a Whole

The School District's net position was (\$6,720,403) at the end of June 30, 2015 compared to \$4,315,298 at the end of June 30, 2014. Due to GASB 68, there is now a new line item listed under Noncurrent Liabilities – Net Pension Liability - \$11,042,091 which results in a negative balance for Unrestricted Net Assets. This fiscal year and going forward our Net Position will be negative because of showing this new liability on the government wide statements. See **Recording of Pension Liability** (above) and **Note 9 and 10** (near end of audit) for more detailed information. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Our analysis below focuses on the **Net Position** (Table 1) and **Change in Net Position** (Table 2) of the School District's governmental activities.

Table 1

Addison Community Schools' Statement of Net Position		Governmental Activities	
		2015	2014
Current and other assets		\$ 2,266,459	\$ 2,696,984
Capital assets		18,952,838	19,371,393
	Total assets	<u>21,219,297</u>	<u>22,068,377</u>
	Deferred outflows of resources	<u>1,165,209</u>	
Long term liabilities outstanding		1,763,981	1,818,115
Other liabilities		26,120,220	15,934,964
	Total liabilities	<u>27,884,201</u>	<u>17,753,079</u>
	Deferred inflows of resources	<u>1,220,708</u>	
Net position:			
Invested in capital assets, net of related debt		2,962,838	2,516,393
Restricted for:			
Capital Projects		8	42,712
Unrestricted		<u>(10,223,496)</u>	<u>1,221,748</u>
	Total net position	<u><u>\$ (6,720,403)</u></u>	<u><u>\$ 4,315,298</u></u>

Taking Net Pension Liability out of the calculation for total net position \$818,595 is in unrestricted net assets of governmental activities which represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncapital liabilities, (compensated absences for example), we would have \$818,595 left. The net position has decreased by about \$403,153.

The **Statement of Activities** presented later in the government-wide financial statement, provides greater detail on the District's annual activity. The **Statement of Changes in Net Position from Operating Results** (Table 2) showed below details the cost of the District's governmental activities and how those activities were financed.

**Addison Community Schools
Management's Discussion and Analysis
June 30, 2015**

Table 2

Addison Community Schools' Statement of Activities		Governmental Activities	
		2015	2014
Program revenues:			
Charges for services:			
Instruction	\$	94,471	\$ 117,936
Support services		6,820	6,962
Food services		151,088	144,629
Athletics		43,933	54,928
Community services		7,525	9,351
Operating grants:			
Instruction:			
State aid-Categoricals		124,436	124,436
Federal programs		222,989	222,989
Support services:			
State aid-Categoricals		88,130	88,130
Federal programs		33,425	33,425
Food services:			
Free and reduced lunch program		237,353	248,426
USDA commodities		23,882	23,882
QSCB tax subsidy		623,148	636,165
Contributions for Athletics		9,205	-
Total program revenues		<u>1,666,405</u>	<u>1,711,259</u>
General revenues:			
Property taxes		4,186,905	4,057,894
Investment earnings		7,632	9,684
State sources-unrestricted		3,831,948	3,735,270
Intermediate sources		451,300	445,780
Loss on disposition of school property		-	(80,074)
Other		21,335	280,373
Total general revenues		<u>8,499,120</u>	<u>8,448,927</u>
Total revenues		<u>10,165,525</u>	<u>10,160,186</u>
Expenses:			
Instruction		5,403,364	5,339,892
Support services		1,989,009	2,714,263
Food services		407,158	424,561
Athletics		310,558	282,850
Community services		16,728	19,840
Interest expense		909,007	933,572
Unallocated depreciation		470,061	467,666
Total expenses		<u>9,505,885</u>	<u>10,182,644</u>
Change in net position		659,640	(22,458)
Net position, beginning of year		(7,431,070)	4,337,756
Net position, end of year		<u>\$ (6,771,430)</u>	<u>\$ 4,315,298</u>

**Addison Community Schools
Management's Discussion and Analysis
June 30, 2015**

Financial Analysis of the District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well.

General Fund

Factors affecting Revenue

- *State Aid funding* -The State of Michigan provides a \$7,126 per pupil foundation allowance that provides a substantial portion of our district's revenue. The District's blended count, which is used to compute the State Aid allowance, consists of 90% of the fall student count and 10% of the previous spring's student count. For the 2014-15 school year, the District blended count was 861.69. This blended count includes Section 25e of the State School Aid Act which allows for any school district to claim pro-rated full-time equivalency (FTE) for pupils that transfer after the Fall Pupil Membership Count Day. In addition the district also receives various grants from the state. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the District's fiscal year end, there is adjustment made that includes 2 months of state aid payments into revenue that has not yet been made.
- *Property Taxes* – The District levies 18 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. For the 2014-15 fiscal year, 18 mills were levied on non-homestead property for general purposes and 2.95 mills were levied on all property for payment of the 2010 school building and site bonds passed in May 2010. This did not include a Headlee reduction for the 2014-15 fiscal year. Property tax revenues for the 2014-15 fiscal year were \$2,994,446 for general purposes and \$1,153,357 for debt service.
- *Schools of Choice*- The School District have an agreement with the other public schools in Lenawee County to implement a Lenawee County Schools of Choice (Open Enrollment) program. During the 2014-15 school year, of the 860 pupils enrolled, 90 (10%) of our student population were schools of choice pupils.

Factors affecting Expenses

- *Salaries and Benefits*- A significant portion of the School District's expenses are related to compensation.
- *Instructional purchases*- A substantial part of each year's budgetary expenditures include textbooks and supplemental learning materials, supplies, and purchased services.
- *Operation and Maintenance*- Much of each year's budgetary expenditures also include the general operation and maintenance of our school buildings.

**Addison Community Schools
Management's Discussion and Analysis
June 30, 2015**

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget during the school year. In fact, all Michigan school districts must complete a second full budget after the state's official student membership count date (the first Wednesday in October), because only then are they knowledgeable of their Foundation Grant's income level. These revisions are made in order to deal with the unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Original Budget versus Final Budget

- *Revenues*- Estimated original budgets for revenues were \$8,076,152 versus the final budget of \$7,994,293. The decrease in revenue was largely due to special education funding from the LISD decreasing again and a lower student count in the fall then was used in original budget assumptions.
- *Expenditures*- The original budget for expenditures was \$8,312,566 versus the final budget of \$8,367,565.

Final Budget versus Actual Figures

- The majority (about 93%) of *Local Revenues* are property taxes received from five townships including Liberty, Rollin, Somerset, Wheatland and Woodstock.
- *Expenses*- Expenses were budgeted at \$8,357,969 versus actual expenditures of \$8,367,565. The economy for the state continued to be very uncertain for the fiscal year 2014-15. As a school district, Addison Community Schools tried to be very conservative in our spending in order for us provide the best instructional opportunities to our students.
- *Revenues*- Revenues were budgeted at \$7,993,462 versus actual revenues of \$7,994,293. This was due to additional revenue received from MDE for Best Practices and other small changes in the July and August state aid payment.

Actual Figures 2014-15 compared to 2013-14

- *Local Revenues* for the fiscal year ended were \$3,239,491 compared to \$3,154,708 in the previous year. The majority of this increase was due to increase in property tax collections. Due to GASB changes in fiscal year 2010/11, the Athletic Fund is now recorded as part of the General Fund. Athletic revenue from admission fees, donations, etc. is now recorded as part of the local source revenue in the General Fund.
- *State Revenues* for the fiscal year ended were \$4,039,342 compared to \$3,947,836 for fiscal year ended 2013-14. This change reflects increase in 22c Equity Payment and MPSERS stabilization revenue included in state aid payments compared to the previous school year.
- *Federal Revenues* for the fiscal year ended were \$266,642 compared to \$247,245 from the previous school year.
- *Expenditures* for the fiscal year ended were \$8,367,565 compared to \$8,224,146 from the previous school year. These increases in expenses were largely due to increase of retirement stabilization expense to match increase in revenue as this is an in and out flow through item.

**Addison Community Schools
Management's Discussion and Analysis
June 30, 2015**

Special Revenue Funds

- *School Lunch Fund*- The School Lunch Fund receives its revenues from the sale of goods, federal grants, and transfers from the General Fund. For the fiscal year 2014-15, the General Fund did not transfer money to the School Lunch Fund. Addison Community Schools consolidated food service director services with Hudson Schools in 2009-10.
- *Athletic Fund*- Beginning in the fiscal year 2010-11, the Athletic fund is no longer considered a special revenue fund but is recorded as part of the General Fund. In the past, the money used to balance the Athletic Fund was shown on the statements as a transfer out. The Athletic Fund receives its revenues from admission fees, and transfers from the General Fund. Beginning 2010-11 fiscal year and going forward, athletics is now recorded as a line item in the General fund expenditures as athletic activities. The net result of revenue and expenses was that the General Fund subsidized athletics with \$254,677 for the 2014-15 fiscal year compared to \$215,828 for the 2013-14 fiscal year. The increase was due to equipment purchases and upgrades to various athletic fields.
- *Capital Projects Fund*- The additional Capital Project funds are now closed as the bond construction is complete. The original Capital Projects fund is the only one remaining. Capital Projects fund #1 (existed from prior years) - receives its revenues from transfers from the General Fund and interest earned from previous transfers. There were no transfers into this Capital Projects Fund since the 2007/2008 fiscal year.

Debt Service Fund

- Due to the passing of the 2010 bond, there are two new additional debt service funds – QSCB and BAB. Both of these are used to pay the annual interest and principal payments on their corresponding bond issues. The maximum number of years the bonds may be outstanding is twenty-five (25) years.

Capital Asset and Debt Administration

- *Capital Assets*- At June 30, 2015, the School District had \$18,952,838 invested in capital assets, net of accumulated depreciation. This compares to \$19,371,393 in the 2013-14 fiscal year. This decrease is due to increase in accumulated depreciation. As these items also relate to capital assets, the amount *invested in capital assets net of related debt* is \$2,962,838 compared to \$2,516,393 in the previous year.
- *Bond proposal* – On May 4, 2010, the Addison Community Schools community passed a general obligation unlimited tax bond in the amount of \$19,990,000 for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping and re-equipping and furnishing and re-furnishing a school building. Construction began Spring of 2011. School opened in the new and updated buildings in the Fall of 2012.

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the 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 information, please contact:

Business Office
Addison Community Schools
219 N. Comstock St
Addison, MI 49220

Addison Community Schools

Statement of Net Position

June 30, 2015 and 2014

	Governmental Activities	
	2015	2014
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,230,710	\$ 1,744,567
Investments	71,714	32,034
Accounts receivable	5,850	2,523
Interest receivable	3,051	335
Due from other governmental units	886,858	859,518
Prepaid expenses	63,759	54,088
Inventory	4,517	3,919
Total current assets	<u>2,266,459</u>	<u>2,696,984</u>
Noncurrent assets:		
Capital assets	26,903,672	26,852,166
Less: Accumulated depreciation	(7,950,834)	(7,480,773)
Total noncurrent assets	<u>18,952,838</u>	<u>19,371,393</u>
Total assets	<u>\$ 21,219,297</u>	<u>\$ 22,068,377</u>
Deferred outflows of resources	\$ 1,165,209	
Liabilities and Net Position		
Current liabilities:		
Accounts payable	87,229	124,094
State aid loan payable	92,627	92,625
Due to other governmental units	67,511	42,679
Unearned revenue	77,250	94,524
Salaries payable	422,808	443,465
Accrued expenses	140,702	143,609
Current portion of long term obligations	865,000	865,000
Current portion of compensated absences	10,854	12,119
Noncurrent liabilities:		
Noncurrent portion of capital lease obligation		
Noncurrent portion of long term obligations	15,125,000	15,990,000
Less: Discount on bonds	(61,139)	(67,071)
Noncurrent portion of compensated absences	14,268	12,035
Net pension liability	11,042,091	
Total liabilities	<u>27,884,201</u>	<u>17,753,079</u>
Deferred inflows of resources	1,220,708	
Net position:		
Invested in capital assets net of related debt	2,962,838	2,516,393
Restricted for:		
Debt service	540,247	534,445
Capital projects	8	42,712
Unrestricted	(10,223,496)	1,221,748
Total net position	<u>\$ (6,720,403)</u>	<u>\$ 4,315,298</u>

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

Addison Community Schools

Statement of Activities

**For the Year Ended June 30, 2015
With Comparative Totals for the Year Ended June 30, 2014**

Functions/programs	Expenses	Program Revenues		Total Governmental Activities	
		Charges for	Operating	Net (Expense) Revenue and	
		Services	Grants	Changes in Net Position	
				2015	2014
Governmental activities:					
Instruction	\$ 5,403,364	\$ 94,471	\$ 370,185	\$ (4,938,708)	\$ (4,874,531)
Support services	1,989,009	6,820	124,951	(1,857,238)	(2,585,746)
Food services	407,158	151,088	286,106	30,036	(7,624)
Athletics	310,558	43,933	9,205	(257,420)	(227,922)
Community services	16,728	7,525	-	(9,203)	(10,489)
Interest expense	909,007		623,148	(285,859)	(297,407)
Unallocated depreciation	470,061			(470,061)	(467,666)
Total governmental activities	<u>\$ 9,505,885</u>	<u>\$ 303,837</u>	<u>\$ 1,413,595</u>	<u>\$ (7,788,453)</u>	<u>\$ (8,471,385)</u>
General revenues:					
Property taxes, levied for general purposes				\$ 3,031,409	\$ 2,920,775
Property taxes, levied for debt service				1,155,496	1,137,119
Investment earnings				7,632	9,684
State sources-unrestricted				3,831,948	3,735,270
Intermediate sources				451,300	445,780
Loss on disposition of school property				-	(80,074)
Other				21,335	280,373
Total general revenues				<u>8,499,120</u>	<u>8,448,927</u>
Change in net position				710,667	(22,458)
Net position, beginning of year				(7,431,070)	4,337,756
Net position, end of year				<u>\$ (6,720,403)</u>	<u>\$ 4,315,298</u>

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

Addison Community Schools

Balance Sheet

Governmental Funds

June 30, 2015

With Comparative Totals for June 30, 2014

	General	Debt Service Fund	Nonmajor Fund	Total Governmental Funds 2015	Total Governmental Funds 2014
Assets:					
Cash and cash equivalents	\$ 683,475	\$ 540,247	\$ 6,988	\$ 1,230,710	\$ 1,744,567
Investments	38,159		33,555	71,714	32,034
Accounts receivable	5,592		258	5,850	2,523
Deposit	3,051			3,051	335
Due from other governmental units	881,675		5,183	886,858	859,518
Prepaid expenditures	63,759			63,759	54,088
Inventory			4,517	4,517	3,919
Total assets	1,675,711	540,247	50,501	2,266,459	2,696,984
Liabilities:					
Accounts payable	87,129		100	87,229	124,094
State aid loan payable	92,627			92,627	92,625
Due to other governmental units	67,411		100	67,511	42,679
Unearned revenue	75,757		1,493	77,250	94,524
Salaries payable	422,445		363	422,808	443,465
Accrued expenditures	140,580		122	140,702	143,609
Total liabilities	885,949	-	2,178	888,127	940,996
Deferred inflows of resources:					
Unavailable revenue	57,550			57,550	55,068
Fund Balances:					
Nonspendable	63,759		4,517	68,276	58,007
Committed			-	-	9,513
Restricted		540,247	43,806	584,053	582,004
Unassigned	668,453			668,453	1,051,396
Total fund balances	732,212	540,247	48,323	1,320,782	1,700,920
Total liabilities & fund balances	\$ 1,675,711	\$ 540,247	\$ 50,501	\$ 2,266,459	\$ 2,696,984

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

Addison Community Schools
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2015 and 2014

	2015	2014
Total governmental fund balances	\$ 1,320,782	\$ 1,700,920
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in the governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital asset is	26,903,672	26,852,166
The accumulated depreciation is	<u>(7,950,834)</u>	<u>(7,480,773)</u>
	18,952,838	19,371,393
Revenue not recorded in the funds due to not being collected		
Deferred inflows-Special education payment from LISD	57,550	55,068
Pension expense not recorded in the funds due to not being within the reporting period		
Deferred inflows	(1,220,708)	
Deferred outflows	1,165,209	
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable	(15,990,000)	(16,855,000)
Less: Discount on bonds	61,139	67,071
Proportionate share of the MPSERS net pension liability	(11,042,091)	
Compensated absences	<u>(25,122)</u>	<u>(24,154)</u>
Net position of governmental activities	<u>\$ (6,720,403)</u>	<u>\$ 4,315,298</u>

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

Addison Community Schools

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2015

With Comparative Totals for the Year Ended June 30, 2014

	General	Debt Service Fund	Nonmajor Funds	Total Governmental Funds	
				2015	2014
Revenues:					
Local sources:					
Property taxes	\$ 3,031,409	\$ 1,155,496		\$ 4,186,905	\$ 4,057,894
Investment earnings	3,693	3,859	80	7,632	9,684
Sales, admissions and fees	152,749		151,088	303,837	333,806
Contributions	30,305			30,305	9,169
Other	21,335			21,335	30,144
Total local sources	3,239,491	1,159,355	151,168	4,550,014	4,440,697
State sources	4,039,342		24,871	4,064,213	3,962,409
Federal sources	266,642	623,148	261,235	1,151,025	1,141,145
Intermediate sources	448,818			448,818	452,597
Total revenues	7,994,293	1,782,503	437,274	10,214,070	9,996,848
Expenditures:					
Current:					
Instruction	5,402,896			5,402,896	5,343,343
Support services	2,608,813			2,608,813	2,568,613
Food service activities			378,620	378,620	396,017
Athletic activities	310,558			310,558	282,850
Community service	16,728			16,728	19,840
Interest		909,007		909,007	933,572
Other		2,700	10,278	12,978	139,718
Capital outlay	19,006		32,500	51,506	9,500
Total expenditures	8,358,001	911,707	421,398	9,691,106	9,693,453
Excess (deficiency) of revenues over (under) expenditures	(363,708)	870,796	15,876	522,964	303,395
Other financing sources (uses):					
Sale of property				-	250,229
Prior year expenditures	(9,564)			(9,564)	-
Redemption of principal		(865,000)		(865,000)	(865,000)
Payments to other public schools			(28,538)	(28,538)	(28,544)
Transfers in		6		6	4
Transfers out			(6)	(6)	(4)
Total other financing sources (uses)	(9,564)	(864,994)	(28,544)	(903,102)	(643,315)
Change in fund balances	(373,272)	5,802	(12,668)	(380,138)	(339,920)
Fund balances:					
Beginning of year	1,105,484	534,445	60,991	1,700,920	2,040,840
End of year	\$ 732,212	\$ 540,247	\$ 48,323	\$ 1,320,782	\$ 1,700,920

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

Addison Community Schools

**Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities**

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Change in fund balances total governmental funds	\$ (380,138)	\$ (339,920)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	(470,061)	(467,666)
Capital outlay	51,506	9,500
Loss on disposal of capital assets		(80,074)
The proportionate share of the MPSERS net pension liability is not recorded in the governmental funds; contributions to MPSERS are recognized as expense as incurred.		
Net pension liability, beginning of year	11,746,368	
Net pension liability, end of year	(11,042,091)	
The proportionate share of deferred outflows and deferred inflows of resources as it relates to pension expense, are not recorded in the funds.		
Deferred outflows-pension expense, end of year	1,165,209	
Deferred inflows-pension expense, end of year	(1,220,708)	
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:		
Deferred inflows-Unearned revenue, beginning of year	(55,068)	(61,885)
Deferred inflows-Unearned revenue, end of year	57,550	55,068
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment on long-term debt and related items and are as follows:		
Amortization of bond discount	(5,932)	(5,932)
Redemption of principal	865,000	865,000
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in governmental funds:		
Accrued compensated absences, beginning of year	24,154	27,605
Accrued compensated absences, end of year	(25,122)	(24,154)
Change in net position of governmental activities	<u>\$ 710,667</u>	<u>\$ (22,458)</u>

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

Addison Community Schools
Statements of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2015 and 2014

		Agency Fund	
		2015	2014
Assets:			
Cash and cash equivalents		\$ 40,656	\$ 49,876
Accounts receivable		132	141
	Total assets	40,788	50,017
Liabilities:			
Due to student groups		40,788	50,017
	Total liabilities	\$ 40,788	\$ 50,017

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

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The District is governed by the Board of Education (the “Board”) of Addison Community Schools, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District’s activities are classified as governmental activities. Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net position. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net position as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The District first utilizes restricted resources to finance qualifying activities.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

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

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

The District does not allocate indirect costs.

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

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

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

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

The *Debt Service Fund* accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

The *Capital Projects Fund* accounts for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or constructions of capital facilities and other capital assets.

Other Nonmajor Funds

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trust or major capital projects). The District accounts for its food service activities in the Special Revenue Fund.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

Agency Fund

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. It is used to account for assets that the District holds for others in an agency capacity, primarily student activities.

C. Measurement Focus, Basis Of Accounting And Basis Of Presentation

Accrual Method

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

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2015, the foundation allowance was based on pupil membership counts taken in February and September of 2014.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis Of Accounting And Basis of Presentation (Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2014 to August 2015. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

Pensions

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

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit. The District utilizes pooled cash accounts for some of its funds.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Accounting Policies (Continued)

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of August 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2015, the District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Residence Exemption	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
Principal and Non-Principal Residence Exemption	2.950

3. Accounts Receivable

Accounts receivable at June 30, 2015 have been determined to be collectible in full.

4. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the Special Revenue Funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

D. Other Accounting Policies (Continued)

5. Capital Assets (Continued)

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and equipment	5 – 20 years
Transportation equipment	8 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Deferred outflows/inflows of resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source: receipts that exceeded 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7. Fund Balances

Fund balances on the Governmental Fund Balance Sheet are classified as either nonspendable, assigned or unassigned. The term nonspendable indicates that a portion of the fund balance that will either never convert to cash or not convert within the current period. School lunch fund report reports a portion of fund balance as nonspendable for inventory. The assigned fund balance represents the portion of fund balance that is intended to be spent within the purpose of the fund. The unassigned fund balance represents the residual classification for the general fund.

After classifying any fund balance as nonspendable, the District considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

7. Use of Estimates

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

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 2. Stewardship, Compliance and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue Funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2015. The District does not consider these amendments to be significant.
7. On the Budgetary Comparison Schedule, one function exceeded budget for the General Fund.

Note 3. Deposits and Investments

Deposits

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2015, \$1,147,077 of the District's bank balance of \$1,397,077 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized

\$ 1,147,077

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 3. Deposits and Investments (Continued)

Investments

The District's investments include deposits in Michigan Cooperative Liquid Assets Securities System (CLASS). Michigan CLASS is a Participant controlled trust available only to Michigan municipalities, school districts and public agencies for the purpose of enabling such entities to cooperate in the investment of their available funds. Michigan CLASS operates like a money market mutual fund with each share valued at \$1.00.

The District also invests in the Michigan Liquid Asset Fund (MILAF) and MILAF+ Portfolio. MILAF is a local government investment pool. MILAF may only invest in instruments as authorized by Sections 622, 1221 and 1223 of the Michigan school code. MILAF shares are distributed by PFM Fund Distributors, Inc., member Financial Industry Regulatory Authority (FINRA). MILAF reports the fair value of the District's investment is the same as the value of the pool shares.

The District held the following investments at June 30, 2015:

	Weighted Average Maturity	Fair Value	Standard & Poor Rating
Investment:			
MBIA-Michigan CLASS	50.00	\$ 70,921	AAAm
Michigan Liquid Asset Fund	55.00	793	*
		<u>\$ 71,714</u>	
	*S&P Rating	Percentage of Portfolio	
	AA+	7.9%	
	A-1+	41.7%	
	A-1	46.2%	
	Exempt	1.9%	
	Not rated	2.3%	

Credit Risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligations. The CLASS investment is rated AAAM by Standard and Poor's Ratings Services. The District's MILAF investment consists of the Cash Management Class and the MAX Class of the MILAF+ portfolio and is rated as classified above by Standard and Poor's Ratings Services.

Concentration of credit risk: The risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy is to diversify investments to minimize the impact of potential losses. As of June 30, 2015, concentrations of 5% or higher were 1.1% of investments at MILAF and 98.9% of investments at MBIA.

Interest Rate Risk: The District will minimize interest rate risk, which is the risk that the market value of securities invested will fall due to changes in market interest rates, by: structuring the investments so that they mature to meet cash requirements for ongoing operations and thus avoiding the need to sell in the open market; and by investing in shorter-term securities. The weighted average maturity of the securities underlying the CLASS investment was 50 days. The weighted average maturity of the MILAF portfolio at September 30, 2014 was 55days.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Valuation of Investments

Michigan CLASS Securities, other than repurchase agreements, are valued at the most recent market bid price as obtained from one or more market makers for such securities. Repurchase agreements are recorded at cost, which approximates market value.

MILAF+ Portfolio securities are valued at amortized cost, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. It is the Fund's policy to compare amortized cost and fair values of the securities periodically throughout each month and as of the last business day of each month. Fair value is determined by reference to quoted market prices.

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, each investment agency discloses the fair value of the investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance establishes three levels of the fair value hierarchy as follows:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and like factors.

Level 3 – Unobservable inputs for the assets, including the Portfolios' own assumption for determining fair value.

Investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

There have been no significant changes in valuation techniques used in valuing any such positions held by Michigan CLASS since the beginning of the fiscal year. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The inputs used as of June 30, 2015 to value Michigan CLASS's investments in securities and other financial instruments was categorized as Level 2. There were no transfers between Level 1 and Level 2 during the year ending June 30, 2015.

MILAF money market securities are valued using amortized cost, as outlined in Rule 2a-7 under the Investment Company Act of 1940, however, the MILAF+ Portfolio is not registered under this act. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the MILAF+ Portfolio are categorized as Level 2. There were no transfers between levels during the year ended September 30, 2014.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 4. Capital Assets

A summary of changes in the District's capital assets follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental activities:				
Land improvements	2,370,477			2,370,477
Buildings and improvements	23,750,503	51,506		23,802,009
Machinery and equipment	689,686			689,686
Transportation equipment	41,500			41,500
Depreciable capital assets	26,852,166	51,506	-	26,903,672
Less accumulated depreciation for:				
Land improvements	2,360,580	2,791		2,363,371
Buildings and improvements	4,581,146	449,652		5,030,798
Machinery and equipment	510,323	15,868		526,191
Transportation equipment	28,724	1,750		30,474
Total accumulated depreciation	7,480,773	470,061	-	7,950,834
Governmental activities capital assets, net	<u>\$19,371,393</u>	<u>\$ (418,555)</u>	<u>\$ -</u>	<u>\$18,952,838</u>

Capital assets are depreciated over their estimated useful lives using the straight line method of depreciation for all classes of assets. Depreciation for the fiscal year ended June 30, 2015 and 2014 amounted to \$470,061 and \$467,666, respectively. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 5. Long-Term Debt

The District issued general obligation bonds, 2010 School Building and Site Bonds, Series A, in the amount of \$15,000,000 (federally taxable-Qualified School Construction Bonds-direct payment). The proceeds are to be used for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping and re-equipping and furnishing and re-furnishing a school building; acquiring, installing and equipping and re-equipping school buildings for technology; developing and improving playgrounds, athletic fields and athletic facilities; preparing, developing and improving sites; and paying the costs of issuing the bonds.

The following is a schedule of repayment for serial bonds:

Year ended <u>June 30,</u>	<u>Principal</u>
2018	\$ 865,000
2021	<u>885,000</u>
	<u><u>\$ 1,750,000</u></u>

Term bonds are due as follows:

Year ended <u>June 30,</u>	<u>Principal</u>
2017	\$ 1,730,000
2018	1,740,000
2021	<u>5,780,000</u>
	<u><u>\$ 9,250,000</u></u>

The District issued general obligation bonds, 2010 School Building and Site Bonds, Series B, in the amount of \$4,990,000 (federally taxable-Build America Bonds-direct payment). The proceeds are to be used for the purpose of erecting, equipping and furnishing additions to and remodeling, equipping and re-equipping and furnishing and re-furnishing a school building; acquiring, installing and equipping and re-equipping school buildings for technology; developing and improving playgrounds, athletic fields and athletic facilities; preparing, developing and improving sites; and paying the costs of issuing the bonds.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 5. Long-Term Debt (Continued)

A schedule of principal payments follows:

Year ended	Principal
<u>June 30,</u>	
2028	\$ 555,000
2029	575,000
2030	595,000
2031	615,000
2032	635,000
2033	650,000
2034	670,000
2035	<u>695,000</u>
	<u>\$ 4,990,000</u>

Total interest paid on all bonds for the years ended June 30, 2015 and 2014 were \$909,007 and \$933,572, respectively.

Compensated Absences

Employees can accumulate compensated absences by not using the number of sick day allotted each year. The vested liability for compensated absences for teachers is based on the amount specified in the employee's contract multiplied by the number of days accumulated by employees who have been employed by the District for twenty or more years. Other support staff have negotiated the daily rate in each employee's contract. The current portion represents the estimated amount that will be paid to employees in the next fiscal year.

The following is a schedule of the governmental long-term obligations for the District for the year ended June 30, 2015:

	<u>Bonds</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance July 1, 2014	\$ 16,855,000	\$ 24,154	\$ 16,879,154
Increases		13,087	13,087
Decreases	(865,000)	(12,119)	(877,119)
Balance June 30, 2015	15,990,000	25,122	16,015,122
Less: current portion	<u>865,000</u>	<u>10,854</u>	<u>875,854</u>
Total due after one year	<u>\$ 15,125,000</u>	<u>\$ 14,268</u>	<u>\$ 15,139,268</u>

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 6. Short Term Debt-State Aid Anticipation Notes

State school aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The District pledged its State aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the District. The District was obligated by the State School aid anticipation note for the amount of \$650,000 with an interest rate of .430% and maturity date of July 2015. The interest expense for this note was \$2,089 for the year ended June 30, 2015.

The District refinanced its State School aid anticipation note in the 2015-16 fiscal year.

Short-term debt activity for the fiscal year ended June 30, 2015 is as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid anticipation note	\$ 92,625	\$ 650,000	\$ (649,998)	\$ 92,627

Note 7. Operating Lease

The District has entered into a lease agreement with GreenLeaf Funding, LLC for the use of copiers. The lease term is sixty (60) months, beginning December 2012, with payments of \$668 per month. The District is also obligated by a copier lease with Leaf Capital Funding, LLC for sixty (60) months, beginning January 2012, with payments of \$517 per month. The rental costs for the year ended June 30, 2015 and 2014 were \$20,917 and \$13,293, respectively.

The following is a schedule of operating lease payments:

<u>Year Ended June 30,</u>	<u>Payments</u>
2016	\$ 15,156
2017	12,054
2018	3,730
	<u>\$ 30,940</u>

Note 8. Employee Retirement System Defined Benefit Plan

Plan Description The District contributes to the statewide Michigan Public School Employees' Retirement System (System), 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. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 8. Employee Retirement System Defined Benefit Plan (Continued)

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

The System is administered by the Office of Retirement Services 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.

Membership

At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	204,512
Inactive plan members entitled to but not yet receiving benefits:	
	<u>16,979</u>
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	210,777
Total plan members	<u>432,268</u>

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 8. Employee Retirement System Defined Benefit Plan (Continued)

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.

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 8. Employee Retirement System Defined Benefit Plan (Continued)

Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Reserves

Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was \$1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$59.5 million.

Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was \$4.7 billion.

Reserve for Employer Contributions - This reserve represents all District contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was (\$25.8) billion.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 8. Employee Retirement System Defined Benefit Plan (Continued)

Reserve for Pension Plus Employer Contributions - This reserve represents all District contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$55.5 million.

Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$44.6 billion.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was \$0.

Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expense, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was \$18.6 billion.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was \$3.5 billion.

Reporting Entity

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 8. Employee Retirement System Defined Benefit Plan (Continued)

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an “antialienation” clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State’s general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 8. Employee Retirement System Defined Benefit Plan (Continued)

Cash

At September 30, 2014, the System had \$246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to (\$0.6) thousand for the year ended September 30, 2014.

Contributions and Funding Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Pension Contribution Rates

<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0%	18.34 - 19.61%
Member Investment Plan	3.0 - 7.0%	18.34 - 19.61%
Pension Plus	3.0 - 6.4%	18.11%
Defined Contribution	0.0%	15.44 - 16.61%

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 9. Net Pension Liability

Measurement of the MPSERS Net Pension Liability

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

The audited balances as of September 30, 2014 were:

Total Pension Liability	\$	65,160,887,182
Plan Fiduciary Net Position	\$	43,134,384,072
Net Pension Liability	\$	22,026,503,110
Plan Fiduciary Net Position as a Percentage of Total Pension Liability		66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll		250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the District's proportionate share between beginning net pension liability and ending net pension liability.

The unaudited balances as of October 1, 2013 were:

Total Pension Liability	\$	62,859,499,994
Plan Fiduciary Net Position	\$	39,427,686,072
Net Pension Liability	\$	23,431,813,922

Proportionate Share of District's Net Pension Liability

At September 30, 2014, the District reported a liability of \$11,042,091 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all Districts' statutorily required contributions for the measurement period. At September 30, 2014, the District's proportionate share percent was .05013 percent.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 9. Net Pension Liability (Continued)

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	4.8%
% Alternative Investment Pools	18.0%	8.5%
International Equity	16.0%	6.1%
Fixed Income Pools	10.5%	1.5%
Real Estate and Infrastructure Pools	10.0%	5.3%
Absolute Return Pools	15.5%	6.3%
Short Term Investment Pools	2.0%	-2.0%
TOTAL	100.0%	

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

Rate of Return

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 9. Net Pension Liability (Continued)

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

As required by GASB Statement No. 68, the following presents the 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 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%
\$ 14,558,035	\$ 11,042,091	\$ 8,079,856

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan’s fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan’s fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 9. Net Pension Liability (Continued)

Actuarial Valuations and Assumptions (Continued)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Actuarial Assumptions

Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12

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

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 10. Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the District recognized total pension expense of \$894,440. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	407,430	-
Net difference between projected and actual earnings on pension plan investments	-	1,220,708
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	-	-
Reporting Unit contributions subsequent to the measurement date	757,779	
Total	<u>\$ 1,165,209</u>	<u>\$ 1,220,708</u>

\$757,779 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

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

Plan Year Ended September 30,	Amount
2015	\$ (199,233)
2016	\$ (199,293)
2017	\$ (199,293)
2018	\$ (215,579)

Addison Community Schools

Notes to Financial Statements

June 30, 2015

Note 11. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. The premiums are accrued based on the ultimate cost of the experience to date of participating members. The District cannot estimate any losses from reported and unreported claims at June 30, 2015.

In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The likelihood of additional District liability is minimal.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2015 or any of the prior three years.

Note 12. Net Position Restricted By Enabling Legislation

Net Position

The government-wide statement of net position reports \$540,255 of restricted net position at June 30, 2015, all of which is restricted by enabling legislation.

Note 13. Accounting Change

GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The objective of this statement is to improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. This Statement was implemented in this fiscal year.

The restatement of the beginning of the year net position is as follows:

Net position as previously stated at July 1, 2014	\$ 4,315,298
Adoption of GASB Statement 68	<u>(11,746,368)</u>
Net position as restated at July 1, 2014	<u>\$ (7,431,070)</u>

Required Supplementary Information

Addison Community Schools
Required Supplementary Information
Budgetary Comparison Schedule
General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	\$ 3,124,763	\$ 3,239,491	\$ 3,239,491	\$ -
State sources	4,199,622	4,038,543	4,039,342	799
Federal sources	273,174	266,610	266,642	32
Intermediate sources	478,593	448,818	448,818	-
Total revenues	8,076,152	7,993,462	7,994,293	831
Expenditures:				
Instruction:				
Basic programs	4,078,208	4,136,645	4,136,645	-
Added needs	1,312,812	1,266,343	1,266,251	92
Total instruction	5,391,020	5,402,988	5,402,896	92
Support services:				
Pupil	203,291	198,218	198,218	-
Instructional staff	25,914	38,607	38,731	(124)
General administration	240,438	241,550	241,550	-
School administration	455,075	453,644	453,644	-
Business	134,042	134,724	134,724	-
Operation & maintenance	991,203	927,314	927,314	-
Transportation	492,901	506,839	506,839	-
Technology	109,590	107,793	107,793	-
Community services	20,459	16,728	16,728	-
Athletic activities	248,633	310,558	310,558	-
Total support services	2,921,546	2,935,975	2,936,099	(124)
Capital outlay	-	19,006	19,006	-
Total expenditures	8,312,566	8,357,969	8,358,001	(32)
Excess (deficiency) of revenues over (under) expenditures	(236,414)	(364,507)	(363,708)	799
Other financing sources (uses):				
Prior period expenditures			(9,564)	(9,564)
Total other financing sources (uses)	-	-	(9,564)	(9,564)
Change in fund balance	(236,414)	(364,507)	(373,272)	(8,765)
Fund balance:				
Beginning of year			1,105,484	
End of year			\$ 732,212	

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

Addison Community Schools
Required Supplementary Information
Budgetary Comparison Schedule
Debt Service Fund
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Local sources	\$ 1,126,900	\$ 1,159,355	\$ 1,159,355	\$ -
Federal sources	636,165	623,148	623,148	-
Total revenues	<u>1,763,065</u>	<u>1,782,503</u>	<u>1,782,503</u>	<u>-</u>
Expenditures:				
Current:				
Interest	909,007	909,007	909,007	-
Other	3,200	2,700	2,700	-
Total expenditures	<u>912,207</u>	<u>911,707</u>	<u>911,707</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>850,858</u>	<u>870,796</u>	<u>870,796</u>	<u>-</u>
Other financing sources (uses):				
Redemption of principal	(865,000)	(865,000)	(865,000)	-
Transfers in	<u> </u>	<u>6</u>	<u>6</u>	<u>-</u>
Total other financing sources (uses)	<u>(865,000)</u>	<u>(864,994)</u>	<u>(864,994)</u>	<u>-</u>
Change in fund balance	(14,142)	5,802	5,802	-
Fund balance:				
Beginning of year			<u>534,445</u>	
End of year			<u>\$ 540,247</u>	

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

Addison Community Schools

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability

For the Year Ended June 30, 2015

	<u>2015</u>
A. Reporting unit's proportion of net pension liability (%)	0.05013%
B. Reporting unit's proportionate share of net pension liability	\$ 11,042,091
C. Reporting unit's covered-employee payroll (gross wages)	\$ 3,421,393
D. Reporting units' proportionate share of net pension liability as a percentage of its covered-employee payroll	30.9850%
E. Plan fiduciary net position as a percentage of total pension liability	66.20%

The notes to the required supplementary information are an integral part of this schedule.

Addison Community Schools
Required Supplementary Information
Schedule of Contributions
For the Year Ended June 30, 2015

		<u>2015</u>
A.	Statutorily required contributions	\$ 950,185
B.	Contributions in relation to statutorily required contributions	\$ 950,185
C.	Contribution deficiency (excess)	\$ -
D.	Reporting unit's covered-employee payroll	\$ 4,059,598
E.	Contributions as a percentage of covered-employee payroll	23.4059%

The notes to the required supplementary information are an integral part of this schedule.

Addison Community Schools
Notes to Required Supplementary Information
For the Year Ended June 30, 2015

Changes of benefit terms: There were no changes of benefit terms in 2014.

Changes of assumptions: There were no changes of benefit assumptions in 2014.

Other Supplementary Information

Addison Community Schools

Combining Balance Sheets

Nonmajor Funds

June 30, 2015

With Comparative Totals for June 30, 2014

	Special Revenue	Capital Projects	Total Nonmajor Governmental Funds	
			2015	2014
Assets:				
Cash and cash equivalents	\$ 6,980	\$ 8	\$ 6,988	\$ 45,048
Investments	33,555		33,555	11,419
Accounts receivable	258		258	213
Due from other governmental units	5,183		5,183	2,535
Inventory	4,517		4,517	3,919
	<hr/>		<hr/>	<hr/>
Total assets	<u>50,493</u>	<u>8</u>	<u>50,501</u>	<u>63,134</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	100		100	100
Due to other governmental units	100		100	100
Salaries payable	363		363	396
Accrued expenditures	122		122	129
Unearned revenue	1,493		1,493	1,418
	<hr/>		<hr/>	<hr/>
Total liabilities	<u>2,178</u>	<u>-</u>	<u>2,178</u>	<u>2,143</u>
Fund Balances:				
Nonspendable				
Inventory	4,517		4,517	3,919
Committed				
			-	9,513
Restricted:				
Special revenue funds	43,798		43,798	14,360
Capital projects		8	8	33,199
	<hr/>		<hr/>	<hr/>
Total fund balances	<u>48,315</u>	<u>8</u>	<u>48,323</u>	<u>60,991</u>
	<hr/>		<hr/>	<hr/>
Total liabilities & fund balances	<u>\$ 50,493</u>	<u>\$ 8</u>	<u>\$ 50,501</u>	<u>\$ 63,134</u>

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

Addison Community Schools

Combining Statements of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Funds

**For the year ended June 30, 2015
With Comparative Totals for June 30, 2014**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	
			<u>2015</u>	<u>2014</u>
Revenues:				
Local sources:				
Investment earnings		\$ 80	\$ 80	\$ 723
Food sales and athletic admissions	151,088		151,088	144,629
Total local sources	151,088	80	151,168	145,352
State sources	24,871		24,871	14,573
Federal sources	261,235		261,235	257,735
Total revenues	437,194	80	437,274	417,660
Expenditures:				
Current:				
Food service activities	378,620		378,620	396,017
Other		10,278	10,278	136,518
Capital outlay		32,500	32,500	-
Total expenditures	378,620	42,778	421,398	532,535
Excess (deficiency) of revenues over (under) expenditures	58,574	(42,698)	15,876	(114,875)
Other financing sources (uses):				
Payments to other public schools	(28,538)		(28,538)	(28,544)
Transfers out		(6)	(6)	(4)
Change in fund balances	30,036	(42,704)	(12,668)	(143,423)
Fund balances:				
Beginning of year	18,279	42,712	60,991	204,414
End of year	<u>\$ 48,315</u>	<u>\$ 8</u>	<u>\$ 48,323</u>	<u>\$ 60,991</u>

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



**Independent Auditor's Report on Internal Control over Financial Reporting
And on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Education
Addison Community Schools
Addison, Michigan

I have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Addison Community Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Addison Community Schools' basic financial statements and have issued my report thereon dated October 22, 2015.

Internal Control over Financial Reporting

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

My consideration of internal control was for the limited purpose described in first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies (2015-001 and 2015-002).

To the Board of Education
Addison Community Schools
Addison, Michigan

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Addison Community Schools' financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, though I feel it is prudent to report the following other matter, which is described as:

The District does not have proper segregation of duties over cash receipts, disbursements and accounts payable. A good system of internal control provides for a proper segregation of the accounting functions. Proper segregation is not always possible, but segregation to the extent possible should be implemented to reduce the risk of errors or fraud. The Board should be aware of and attempt to establish procedures to minimize risk.

Addison Community Schools' Response to Findings

Addison Community Schools' response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Addison Community Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Meredith A. Matthews, CPA
Adrian, Michigan
October 22, 2015



**Independent Auditor's Report on Internal Control for each Major Program and on
Internal Control over Compliance Required by OMB Circular A-133**

To the Board of Education
Addison Community Schools
Addison, Michigan

Report on Compliance for each Major Federal Program

I have audited Addison Community Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Addison Community Schools' major federal programs for the year ended June 30, 2015. Addison Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Addison Community Schools' major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I 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 Addison Community Schools' compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Addison Community Schools' compliance.

Opinion on each Major Federal Program

In my opinion, Addison Community Schools' complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

To the Board of Education
Addison Community Schools
Addison, Michigan

Report on Internal Control over Compliance

Management of Addison Community 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 my audit of compliance, I considered Addison Community 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Addison Community 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.

My 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. I did not identify any deficiencies in internal control over compliance that I 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 my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Meredith A. Matthews, CPA
Adrian, Michigan
October 22, 2015

Addison Community Schools

Schedule of Expenditures of Federal Awards

For the year ended June 30, 2015

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2014	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2015
Passed Through MDE							
U.S. Department of Agriculture							
Child Nutrition Cluster							
School Breakfast Program	10.553						
1519701415		\$ 66,845			\$ 66,845	\$ 66,845	\$ -
National School Lunch Program	10.555						
Cash							
1519601415		161,581			161,581	161,581	
Entitlement Commodities		22,323		22,323	22,323	22,323	-
Total National School Lunch Program		183,904	-	22,323	183,904	183,904	-
Summer Lunch Program	10.559						
1409001314		9,736	2,812	9,736	7,036	9,848	-
1419001314		1,021	293	1,021	735	1,028	-
1509001415		257			257		257
1519001415		2,458			2,458		2,458
Total Summer Lunch Program		13,472	3,105	10,757	10,486	10,876	2,715
Total Child Nutrition Cluster		264,221	3,105	33,080	261,235	261,625	2,715
Total U.S. Department of Agriculture		\$ 264,221	\$ 3,105	\$ 33,080	\$ 261,235	\$ 261,625	\$ 2,715
U.S. Department of Education							
Title I, Part A*							
1415301314	84.010	\$ 236,213	\$ 30,778	\$ 209,068		\$ 30,778	\$ -
1415301415		220,040			207,489	174,404	33,085
Total Title I, Part A		456,253	30,778	209,068	207,489	205,182	33,085
Title II Part A*							
1405201415	84.367	78,957		28,560	54,723	54,248	475
Total Title II Part A		78,957	-	28,560	54,723	54,248	475
Total U.S. Department of Education		\$ 535,210	\$ 30,778	\$ 237,628	\$ 262,212	\$ 259,430	\$ 33,560
Total Passed through MDE		\$ 799,431	\$ 33,883	\$ 270,708	\$ 523,447	\$ 521,055	\$ 36,275

The accompanying notes are an integral part of this schedule.

Addison Community Schools
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2015

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award	Accrued (Deferred) Revenue July 1, 2014	(Memo Only) Prior Years Expenditures	Current Years Expenditures	Current Years Receipts	Accrued (Deferred) Revenue June 30, 2015
Federal Grantor Pass Through Other Pass through - Lenawee Intermediate School District (LISD) Transition Grant 70590/TS	84.027	71			71		71
Title II Part B*	84.366B	2,692		2,692	2,692	1,992	700
Medical Assistance Program 1415	93.778	1,667		1,667	1,667	1,667	-
Total Passed Through LISD		4,430	-	4,359	4,430	3,659	771
Total Federal Financial Assistance		\$ 803,861	\$ 33,883	\$ 275,067	\$ 527,877	\$ 524,714	\$ 37,046

Addison Community Schools

Notes to Schedule of Expenditures of Federal Awards

For the year ended June 30, 2015

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards presents the activity of all awards programs of Addison Community Schools (District). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The reporting entity of the District is defined in Note 1 of the District's basic financial statements.

Note 2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting which is described in Note 1 of the District's basic financial statements.

Management has utilized the CMS Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards. Differences on amounts reported are shown below:

Reconciliation to the Grant Auditor Report for 2014-15

Current year receipts per Schedule of Expenditures of Federal Awards	\$	524,714
Add: TRIG District participation state funds		8,550
Less: Commodities		(22,323)
Amount passed through LISD		<u>(3,659)</u>
Total Grant Auditor Reports per the State of Michigan	\$	<u><u>507,282</u></u>

The District also received a federal tax credit through the Qualified School Construction Bonds (QSCB) that is included in federal revenue that is not reported on the SEFA. A reconciliation follows:

Reconciliation of Schedule of Expenditures of Federal Awards to Financial Statement Federal Revenue

Federal expenditures per SEFA	\$	527,877
Federal tax credit on QSCB bonds		<u>623,148</u>
Federal revenues per financial statements	\$	<u><u>1,151,025</u></u>

Addison Community Schools
Schedule of Findings and Questioned Costs
For the year ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: **Unmodified**

Internal Control over Financial Reporting:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> None reported
Significant deficiency (ies) identified that are not considered to be material weaknesses?	_____ <u>X</u> Yes	_____ No
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

Federal Awards

Internal Control Over Major Programs:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None reported

Type of Auditor's Report Issued on Compliance for Major Program: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	_____ Yes	_____ <u>X</u> No
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Identification of Major Programs

CFDA Number	Name of Federal Program/Cluster
84.010	Title I, Part A
84.367	Title II, Part A
84.366B	Title II, Part B

Addison Community Schools
Schedule of Findings and Questioned Costs
For the year ended June 30, 2015

Section I - Summary of Auditor's Results (Continued)

Dollar Threshold Used to Distinguish Between Type A and Type B **\$300,000**

Auditee qualified as low-risk auditee? Yes X No

Section II - Financial Statement Findings

Finding 2015-001

The District's management prepares the internal interim and annual financial statements. The annual financial statements for the year ended June 30, 2015, required the assistance of the auditors for preparation of its financial statement footnotes in accordance with accounting principles generally accepted in the United States of America. Statement on Auditing Standards No. 115, *Communicating Internal control Related Matters Identified in an Audit* requires written communication when an organization lacks an adequate design of internal control over the preparation of the financial statements footnotes being audited.

Client Response

We are aware of this deficiency and believe it is not cost beneficial to develop this expertise.

Finding 2015-002

The District's management prepares budget information for the Board of Education in order to make informed decisions at the time of budget adoption and amendment. The Budgetary Comparison Schedule presents one expenditure function overspent compared to the final amended budget for the fiscal year 2014-15. Unfortunately, the District received an invoice for services within the fiscal year after the final budget adoption. As a result, a deficiency must be reported due to a lack of compliance with budgetary controls put into place by the District.

Client Response

We are aware of this deficiency and understand the importance budgetary controls over expenditures. Due diligence will be used to prepare and adopt budgets for the District in the future.

We are aware of this deficiency and believe it is not cost beneficial to develop this expertise.

Section III - Federal Award Findings and Questioned Costs

None.

Section IV – Prior Year Findings

None.

The accompanying notes are an integral part of this schedule.