

**ELKTON PIGEON BAY PORT
LAKER SCHOOLS
PIGEON, MICHIGAN**

**FINANCIAL REPORT
JUNE 30, 2015**

ELKTON PIGEON BAY PORT LAKER SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Elkton Pigeon Bay Port Laker Schools
Pigeon, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elkton Pigeon Bay Port Laker Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Elkton Pigeon Bay Port Laker Schools, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Emphasis of Matter – Change in Accounting Principle

As discussed in Note 12 to the financial statements, Elkton Pigeon Bay Port Laker Schools implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

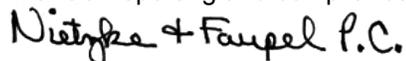
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Elkton Pigeon Bay Port Laker School's basic financial statements. The additional information, as identified in the table of contents, and schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 26, 2015, on our consideration of Elkton Pigeon Bay Port Laker School'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 Elkton Pigeon Bay Port Laker School's internal control over financial reporting and compliance.



NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 26, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents our discussion and analysis of the District's financial performance during the school year ended June 30, 2015. The intent of this discussion and analysis is to provide, in layman's terms, a look at the District's performance and past and current position. Readers should also review the transmittal letter, notes to the financial statements and financial statements to enhance their understanding of the District's financial performance.

For the year ended June 30, 2015, the District implemented Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These changes are significant at the government-wide level.

These new financial reporting standards require participants in a multi-employer cost sharing plan to:

- Record a proportionate share of the net pension liability on our statement of net position.
- Record a proportionate share of pension expense as defined by GASB on our statement of activities.
- Report additional note disclosures and require supplementary information.
- These changes will not result in any changes at the fund level.

FINANCIAL HIGHLIGHTS

The General fund showed revenues exceeded expenditures by \$206,078. This is \$32,718 more than the final budget had anticipated.

The Combined Debt Service funds showed expenditures exceeded revenues by \$159,058.

The Capital Projects fund showed revenues exceeded expenditures by \$272,864.

The Food Service fund showed revenues exceeded expenditures by \$6,413.

OVERVIEW OF THE FINANCIAL STATEMENTS

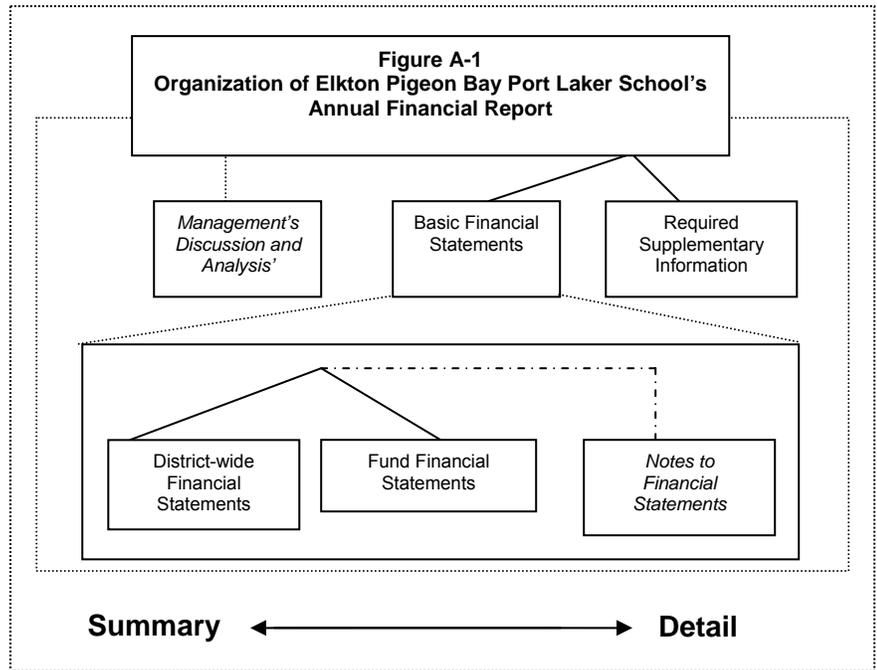
This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.

The *governmental fund* statements tell how *basic* services like instruction and support services were financed in the *short term* as well as what remains for future spending.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2
Major Features of District-Wide and Fund Financial Statements**

	<u>District-wide Statements</u>	<u>Fund Financial Statements</u>	
		<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Elkton Pigeon Bay Port Laker Schools funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include *all* of the District’s assets, deferred outflows, deferred inflows and liabilities. All of the revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District’s *net position* and how it has changed. Net position – the difference between the District’s assets, deferred outflows, deferred inflows and liabilities – is one way to measure the District’s financial health or *position*.

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

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

Governmental activities – Most of the District's basic services are included here, such as instruction, support services, community services, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

The District's combined net position at the beginning of the fiscal year as restated because of GASB 68 and 71 implementation was (\$4,579,642) and on June 30, 2015 it was (\$3,273,951) which represents an increase of \$1,305,691 as recorded in the statement of activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying its debt and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

Government funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental fund financial statements that explain the relationship (or differences) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position increased by \$1,305,691 during the fiscal year 2015. The increase was primarily due to replacement of capital assets and adjustments related to pensions. Capital asset additions and improvements amounted to \$728,832.

The statement of net position provides the perspective of the District as a whole. Table A-3 provides a summary of the District's net position as of June 30, 2015 and 2014.

**Table A-3
Elkton Pigeon Bay Port Laker Schools
Net Position**

	<u>2015</u>	<u>2014</u>
Current assets	\$ 4,424,188	\$ 4,074,134
Capital assets	<u>10,966,259</u>	<u>10,882,060</u>
Total assets	<u>15,390,447</u>	<u>14,956,194</u>
Deferred outflows of resources	<u>1,307,977</u>	<u>212,727</u>
Current liabilities	2,594,537	1,993,297
Long-term debt outstanding	5,860,123	7,266,472
Net pension liability	<u>10,371,175</u>	-
Total liabilities	<u>18,825,835</u>	<u>9,259,769</u>
Deferred inflows of resources	<u>1,146,540</u>	-
Net position:		
Net investment in capital assets	4,960,445	4,014,546
Restricted for debt service	108,163	289,177
Restricted for food service	103,009	93,822
Restricted for capital projects	781,673	508,809
Unrestricted	<u>(9,227,240)</u>	<u>1,002,797</u>
Total net position	<u>\$ (3,273,951)</u>	<u>\$ 5,909,152</u>

The 2014 amounts have not been updated for the adoption of GASB 68 and 71.

The statement of activities shows the results of this year's operations for Elkton Pigeon Bay Port Laker Schools as a whole. Table A-4 shows the changes in net position of the District as of June 30, 2015 and 2014.

**Table A-4
Changes in Elkton Pigeon Bay Port Laker School's Net Position**

	<u>2015</u>	<u>2014</u>
Revenues		
Program revenues:		
Charges for services	\$ 868,266	\$ 736,208
Federal and State categorical grants	881,860	577,741
Capital grants and contributions	23,552	26,224
General revenues:		
Property taxes	4,540,808	3,768,541
State sources	4,640,565	4,961,299
Other	<u>122,891</u>	<u>239,055</u>
Total revenues	<u>11,077,943</u>	<u>10,309,069</u>
Expenses		
Instruction	5,432,377	5,288,166
Support services	3,024,765	2,791,411
Community service	6,308	-
Food services	423,155	383,790
Interest on long-term debt	299,516	356,927
Unallocated depreciation	<u>586,131</u>	<u>587,374</u>
Total expenses	<u>9,772,252</u>	<u>9,407,668</u>
Change in net position	<u>\$ 1,305,691</u>	<u>\$ 901,401</u>

The 2014 amounts have not been updated for the adoption of GASB 68 and 71.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District uses funds to help it control and manage money for particular purposes. The reader can look at these funds to help determine whether the Elkton Pigeon Bay Port Laker School District is being held accountable for the resources taxpayers and others provide to it, and it may give them insight into the District's overall financial health.

Table A-5 shows the breakdown of the sources of revenue for the District. A substantial portion (27%) of the District's revenues is received from State sources, which means that the financial stability of the District rests primarily with the economic health of the State of Michigan. This fiscal year sources of revenue reflect the 2015 refunding bonds which are included in financing sources (37%).

Table A-5

Sources of Revenue for Fiscal Year 2014/2015

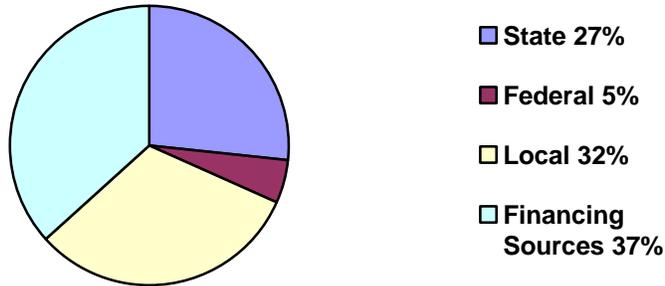
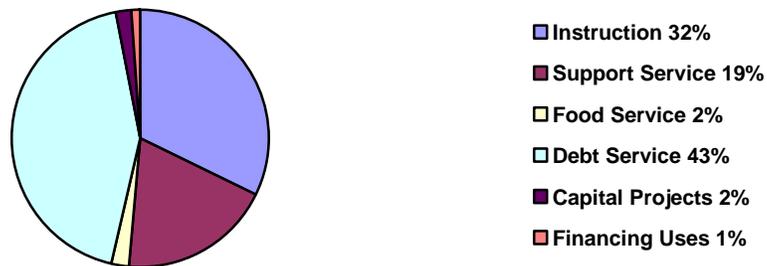


Table A-6 shows that 32% of the District's resources are spent on instruction services and 19% on support services. These two functions make up 51% of the District's expenditures. The District resources spent in Debt Service reflects the 2015 Refunding Bonds.

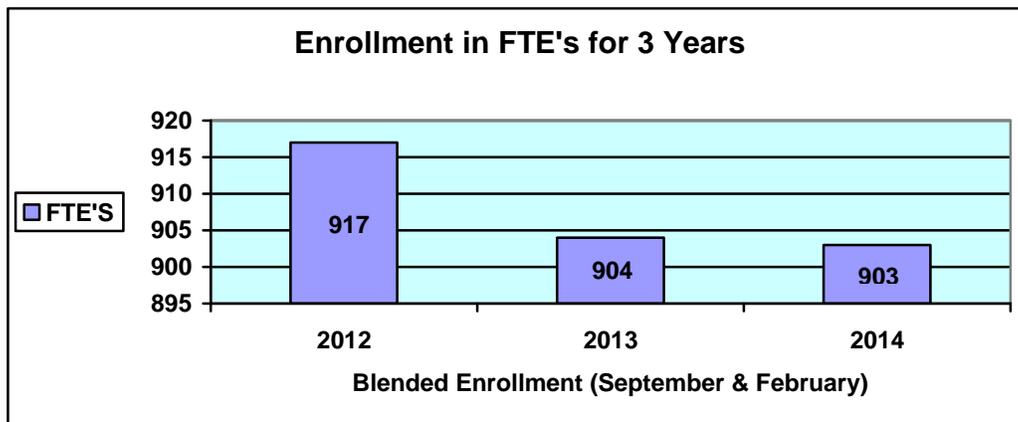
Table A-6



The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the 2014/2015 school year, the governmental funds reported a combined fund balance of \$2,454,885. The fiduciary funds had a balance of \$154,702.

Factors Affecting Fund Equity

- *General Fund Equity* – Increased \$206,078.
- *Grants* – The District received grants for professional development, parent programs, at risk, and literacy programs. These help to offset the cost of instructional budget items normally paid from fund equity.
- *Combined Debt Service Fund Equity* – Decreased \$159,058.
- *Food Service Fund Equity* – Increased \$6,413.
- *Capital Project Fund Equity* – Increased \$272,864.
- *Student Enrollment*
The chart below shows a decrease in enrollment for the last year. There was a decrease of 1 student between 2013-14 and 2014-15 with state aid at \$7,126 per student; this is a loss in revenue of \$7,126.



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. Over the course of the year, the District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted just before the year-end, along with the new adopted budget for the upcoming school year.

Initial budget amendments were made to reflect the impact of changes to increases in grant funds, the impact of actual student counts and finalizing the amount to be received in state aid. Also, budget amendments were required to reflect staffing changes and contract settlements.

Original revenues were budgeted at \$8,343,705 and the actual revenue amount was \$8,931,456. The original budget amount for expenditures and transfers was \$8,343,705 and the actual figure was \$8,794,393.

The final amended budget was to have revenue and other financing sources more than expenditures and other financing uses. Final results showed that revenues came in \$12,381 greater than anticipated, and expenditures were less than anticipated by \$32,718. The net result was a change in fund balance of \$206,078 increasing fund balance to \$1,392,330.

Capital Asset and Debt Administration

Capital Assets

The District's capital additions for the year are as follows:

Building improvements	\$ 476,111
Vehicles	75,634
Copiers	87,000
Ipads, Chrome books	70,365
Athletic equipment	<u>19,722</u>
Total additions	<u>\$728,832</u>

The District's capital assets at cost at year-end are outlined in Table A-5.

Table A-5
Elkton Pigeon Bay Port Laker Schools Capital Assets

	<u>2015</u>	<u>2014</u>
Buildings	\$14,693,890	\$14,396,865
Site improvements	3,153,674	3,153,674
Machinery and equipment	1,186,846	915,088
School buses	<u>1,000,190</u>	<u>996,396</u>
Totals	<u>\$20,034,600</u>	<u>\$19,462,023</u>

Debt Administration

As of June 30, 2015, the District had debt on the financial statements for the 2015 refunding bonds in the amount of \$5,540,000. The final payment is due in 2025.

As of June 30, 2015, the District had compensated absences payable, which include accumulated sick and vacation pay, totaling \$184,245.

As of June 30, 2015, the District had a capital lease payable for new copiers totaling \$81,200.

We present more detailed information about our long-term liabilities in the notes to financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several areas that could have a major impact on the 2015-2016 fiscal year and the near future.

While the State of Michigan has approved the student foundation allowance for 2015-2016, there are still expenses to the District that are beyond the control of the board of education and administration. Pension costs continue to increase, which causes significant financial resources to be unavailable for educational services.

Health insurance costs continue to rise. The District plans to continue to explore alternative insurance packages to give the District the most cost effective plan. School employees reimburse the school district for amounts exceeding the Health Care Cap as set by the state.

Student enrollment projections continue to indicate a long-term decline. The decline in enrollment along with the State's depressed economic status makes it difficult to cover the anticipated increases in personnel costs and allocate requested resources to support the educational programs.

On May 5, 2015 a bond issue passed approving a bond issue not to exceed \$2,650,000 for the purpose of acquiring, installing, and equipping instructional technology at the District.

On July 15, 2015 the District issued 2015 School Building and Site Bonds in the amount of \$1,830,000. The purpose for the bond issue is to continue to improve the structures of the school buildings in the District.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Chief Financial Officer, EPBP Laker Schools, 6136 Pigeon Road, Pigeon, Michigan, 48755, and telephone number (989) 453-4602.

BASIC FINANCIAL STATEMENTS

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**STATEMENT OF NET POSITION
JUNE 30, 2015**

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and deposits	\$ 1,586,830
Investments	925,037
Receivables:	
Accounts receivable	5,734
Due from other governments	1,071,077
Prepaid expenses	50,179
Restricted cash - Capital projects	785,328
Depreciated capital assets	20,034,600
Less: Accumulated depreciation	(9,068,341)
TOTAL ASSETS	15,390,447
 DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charge on bond refunding	225,589
Related to pensions	1,082,388
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,307,977
 LIABILITIES:	
Accounts payable	78,717
Salaries payable	590,825
Prepaid meals	7,988
Accrued employee benefits	352,516
Accrued interest payable	75,921
Due to other governmental units	16,325
Unearned revenue	16,720
State aid note payable	900,000
Noncurrent liabilities:	
Due within one year	555,525
Due in more than one year	5,860,123
Net pension liability	10,371,175
TOTAL LIABILITIES	18,825,835
 DEFERRED INFLOWS OF RESOURCES:	
Related to pensions	1,146,540
 NET POSITION:	
Net investment in capital assets	4,960,445
Restricted for:	
Debt service	108,163
Food service	103,009
Capital projects	781,673
Unrestricted	(9,227,240)
TOTAL NET POSITION	\$ (3,273,951)

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>PROGRAM REVENUES</u>		<u>GOVERNMENTAL ACTIVITIES</u>
			<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>NET (EXPENSES) REVENUE AND CHANGES IN NET POSITION</u>
Governmental activities:					
Instruction	\$ 5,432,377	\$ 528,926	\$ 592,630	\$ -	\$ (4,310,821)
Support services	3,024,765	195,999	11,519	23,552	(2,793,695)
Community services	6,308	-	-	-	(6,308)
Food service	423,155	143,341	277,711	-	(2,103)
Interest on long-term obligations	299,516	-	-	-	(299,516)
Depreciation - Unallocated	586,131	-	-	-	(586,131)
Total governmental activities:	<u>\$ 9,772,252</u>	<u>\$ 868,266</u>	<u>\$ 881,860</u>	<u>\$ 23,552</u>	<u>(7,998,574)</u>
General revenues:					
Property taxes, levied for general purposes					2,838,650
Property taxes, levied for debt service					1,012,578
Property taxes, levied for capital projects					689,580
State sources					4,640,565
Investment earnings					2,946
Sale of assets					(36,226)
Miscellaneous					156,171
Total general revenue					<u>9,304,266</u>
CHANGE IN NET POSITION					<u>1,305,691</u>
NET POSITION - JULY 1, AS RESTATED					(4,579,642)
NET POSITION - JUNE 30					<u>\$ (3,273,951)</u>

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>GENERAL</u>	<u>COMBINED DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
ASSETS					
Cash and deposits	\$ 1,298,193	\$ 177,511	\$ -	\$ 111,126	\$ 1,586,830
Investments	924,674	362	-	-	925,037
Accounts receivable	5,734	-	-	-	5,734
Due from other governments	1,068,273	-	-	2,805	1,071,077
Prepaid expenses	50,179	-	-	-	50,179
Restricted cash - Capital projects	-	-	785,328	-	785,328
TOTAL ASSETS	<u>\$ 3,347,054</u>	<u>\$ 177,874</u>	<u>\$ 785,328</u>	<u>\$ 113,930</u>	<u>\$ 4,424,186</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 74,934	\$ -	\$ 3,655	\$ 128	\$ 78,717
State aid note payable	900,000	-	-	-	900,000
Prepaid meals	-	-	-	7,988	7,988
Accrued interest payable	6,210	-	-	-	6,210
Due to other governments	16,325	-	-	-	16,325
Accrued salaries and wages	590,325	-	-	500	590,825
Accrued benefits	350,211	-	-	2,305	352,516
Unearned revenue	16,720	-	-	-	16,720
TOTAL LIABILITIES	<u>1,954,725</u>	<u>-</u>	<u>3,655</u>	<u>10,922</u>	<u>1,969,301</u>
FUND BALANCE:					
Nonspendable:					
Prepaid expenses	50,179	-	-	-	50,179
Restricted for:					
Debt service	-	177,874	-	-	177,874
Food service	-	-	-	103,009	103,009
Capital projects	-	-	781,673	-	781,673
Assigned for:					
Subsequent year expenditures	41,180	-	-	-	41,180
Unassigned	1,300,971	-	-	-	1,300,971
TOTAL FUND BALANCE	<u>1,392,330</u>	<u>177,874</u>	<u>781,673</u>	<u>103,009</u>	<u>2,454,885</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,347,054</u>	<u>\$ 177,874</u>	<u>\$ 785,328</u>	<u>\$ 113,930</u>	<u>\$ 4,424,186</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
GOVERNMENTAL ACTIVITIES NET POSITION
JUNE 30, 2015**

TOTAL GOVERNMENTAL FUND BALANCES		\$ 2,454,885
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in governmental funds.		
	The cost of capital assets is	\$ 20,034,600
	Accumulated depreciation is	<u>(9,068,341)</u>
		10,966,259
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the governmental funds.		
Long-term liabilities at year-end consist of:		
	Note and capital lease payable	81,200
	Bonds payable	5,540,000
	Compensated absences	184,245
	Accrued interest payable on long-term obligations	<u>69,711</u>
		(5,875,156)
Certain transactions related to the advance refunding of the 2005 bonds and 2015 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.		
The transactions include the following:		
	Book value of deferred loss of 2005 Refunding Bond to call date	233,368
	Less: Amortization of deferred loss	<u>(7,779)</u>
		225,589
	2015 Refunding Bonds issued at a premium	(631,245)
	Less: Amortization of bond premium	<u>21,042</u>
		(610,203)
Deferred outflows of resources - related to pensions		1,082,388
Deferred inflows of resources - related to pensions		(1,146,540)
Net pension liability		(10,371,175)
NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$ (3,273,951)</u></u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>GENERAL</u>	<u>COMBINED DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUE:					
Local sources:					
Taxes	\$ 2,838,650	\$ 1,012,862	\$ 689,580	\$ -	\$ 4,541,092
Food service	-	-	-	144,691	144,691
Other local revenue	858,207	437	715	-	859,359
State sources	4,640,565	-	-	14,896	4,655,461
Federal sources	594,034	-	-	262,815	856,849
TOTAL REVENUE	<u>8,931,456</u>	<u>1,013,299</u>	<u>690,295</u>	<u>422,402</u>	<u>11,057,451</u>
EXPENDITURES:					
Instruction	5,477,421	-	-	-	5,477,421
Supporting services	3,289,821	-	-	-	3,289,821
Community services	6,308	-	-	-	6,308
Food service	-	-	-	423,155	423,155
Capital projects	-	-	417,431	-	417,431
Debt service:					
Miscellaneous	-	96,486	-	-	96,486
Principal repayment	20,256	7,088,825	-	-	7,109,081
Interest and fiscal charges	587	158,290	-	-	158,877
TOTAL EXPENDITURES	<u>8,794,393</u>	<u>7,343,601</u>	<u>417,431</u>	<u>423,155</u>	<u>16,978,581</u>
EXCESS OF REVENUE OVER (UNDER)					
EXPENDITURES	<u>137,063</u>	<u>(6,330,303)</u>	<u>272,864</u>	<u>(753)</u>	<u>(5,921,130)</u>
OTHER FINANCING SOURCES (USES):					
Bond proceeds	-	6,171,245	-	-	6,171,245
Sale of assets	15,110	-	-	7,166	22,276
Capital lease	87,000	-	-	-	87,000
Transfers from other funds	-	94,207	-	-	94,207
Transfers to other funds	-	(94,207)	-	-	(94,207)
Subgrantee flow-through	(3,095)	-	-	-	(3,095)
Facilities acquisition, construction & improvements	(30,000)	-	-	-	(30,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>69,015</u>	<u>6,171,245</u>	<u>-</u>	<u>7,166</u>	<u>6,247,425</u>
EXCESS OF REVENUE AND OTHER SOURCES					
OVER (UNDER) EXPENDITURES					
AND OTHER USES	<u>206,078</u>	<u>(159,058)</u>	<u>272,864</u>	<u>6,413</u>	<u>326,296</u>
FUND BALANCE - JULY 1	1,186,252	336,932	508,809	96,596	2,128,589
FUND BALANCE - JUNE 30	<u>\$ 1,392,330</u>	<u>\$ 177,874</u>	<u>\$ 781,673</u>	<u>\$ 103,009</u>	<u>\$ 2,454,885</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 326,296

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

Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

	Depreciation expense	\$ (586,131)	
	Capital outlays	<u>644,201</u>	58,071

Capital lease payment of principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 15,487

Bond repayments and proceeds affect long-term liabilities in the statement of net position and do not affect the statement of activities.

	Proceeds from long-term debt	(6,171,245)	
	Repayment of bond principal	<u>7,088,825</u>	917,581

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

	Accrued interest payable - beginning of year	47,755	
	Accrued interest payable - end of year	<u>(69,711)</u>	(21,956)

Residual value of capital assets disposed of in the current year is recorded in the statement of activities, but is not recorded in the governmental funds. (58,502)

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental funds until it is paid.

	Accrued compensated absences - beginning of year	186,230	
	Accrued compensated absences - end of year	<u>(184,245)</u>	1,985

Certain transactions related to the advance refunding of the 2005 bonds are reported as revenue and expenditures in the fund financial statements, however they are reported as assets or liabilities in the government-wide financial statements.

The transactions include the following:

	Deferred loss beginning of year	(233,368)	
	Deferred loss end of year	225,589	
	Bond premium beginning of year	631,245	
	Bond premium end of year	<u>(610,203)</u>	13,263

Some expenses reported in the statement of activities do not require the use of current fiscal resources and therefore, are not reported as expenditures in the government funds.

Pension related items 53,467

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 1,305,691

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015**

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and deposits	\$ 154,702
TOTAL ASSETS	<u>\$ 154,702</u>
LIABILITIES:	
Due to student organizations	\$ 154,702
TOTAL LIABILITIES	<u>\$ 154,702</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Elkton Pigeon Bay Port Laker School District is a consolidated school system located in Huron County, Michigan. The School has approximately 903 students in grades kindergarten through twelve. The school operates under a seven person elected Board of Education.

The basic financial statements of Elkton Pigeon Bay Port Laker School District have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the District's accounting policies are described below.

The Reporting Entity:

The Elkton Pigeon Bay Port Laker Schools (the "District") is governed by the Elkton Pigeon Bay Port Laker Schools Board of Education (the "Board"), 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 the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by U.S. GAAP. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined by U.S. GAAP.

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. For the most part, the effect of interfund activity has been removed from these statements. 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.

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

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Government-Wide and Fund Financial Statements: (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, state sources, intermediate district sources, interest income and other revenues.) The statement of activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, 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 and fiduciary funds, even though the latter are excluded from the 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 District's expendable financial resources and the related current liabilities are reported through governmental funds.

The District reports the following major governmental funds:

General Fund - This fund type is used to account for all financial transactions except those required to be accounted for in another fund. Revenue is derived primarily from property taxes and State and Federal distributions, grants and other intergovernmental revenue.

Debt Service Funds - The Debt Service Funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects Funds - The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

The Technology Bond Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of section 1351(a) of the Revised School Code.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Capital Projects Funds (Continued)

The following is a summary of the revenue and expenditures for the 2012 capital project bond activity since inception of the fund through the current fiscal year:

Revenue and other financing sources	<u>\$545,556</u>
Expenditures	<u>\$545,556</u>

The above revenue amount includes net bond proceeds of \$545,000.

Other Non-major Funds:

Special Revenue Funds - This fund type is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Special Revenue Fund financial statement includes the Food Service Fund.

Fiduciary Fund – This fund accounts for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

Agency Fund - This fund accounts for assets held in trust or as an agency for others. The District's Agency Fund is the Student Activity Fund.

Measurement Focus, Basis of Accounting, and Basis of Presentation

Accrual Method:

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as does the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting, and Basis of Presentation: (Continued)

State Revenue:

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide 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 the pupil membership counts taken in February and October of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and funded through payments from October 2014 to August 2015. Thus, the unpaid portion at June 30th is reported as accounts receivable.

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. Categorical funds which are not expended by the close of the fiscal year are recorded as unearned revenue.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as needed.

Other Accounting Policies:

Cash and Equivalents:

The District's cash and equivalents include cash on hand, demand deposits and certificates of deposit.

Investments:

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.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Investments: (Continued)

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. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables:

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Inventory and Prepaid Items:

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consisting of expendable supplies held for consumption, is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets:

Capital assets, which include buildings, furniture and equipment, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with initial, individual cost of \$2,500 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Improvements, buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and additions	50
Furniture and other equipment	5-20

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Defined Benefit Plan:

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the deferred charge on refunding of bonds and pension related items reported in the government-wide statement of net position. A deferred charge on bond refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows are recognized for pension related items. These amounts are expensed in the plan year in which they apply.

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 one item that qualifies for reporting in this category. It is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

Compensated Absences:

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

Long-Term Obligations:

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year in which they are incurred.

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

Fund Balance:

The District implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions.*" This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Nonspendable fund balance – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects, Debt Service, and Food Service fund balances are considered restricted.

Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Other Accounting Policies: (Continued)

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 July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the taxes become delinquent and penalties and interest may be assessed by the collecting entity.

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

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Resident Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	1.470
Capital projects fund	1.000

Use of Estimates:

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles 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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. The capital projects funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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 comment.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (CONTINUED)

3. Prior to July 1, the budget is legally enacted by a School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). 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 is 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, special revenue and debt service funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2015.

During the year ended June 30, 2015, there were no expenditures in excess of the amounts appropriated for the year.

NOTE 3 – DEPOSITS AND INVESTMENTS:

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Net Position follows:

Statement of Net Position

Government-wide Financial Statement Captions:

Cash and deposits	\$2,372,158
Investments	925,037

Statement of Fiduciary Net Position

Cash and deposits	<u>154,702</u>
Total	<u>\$3,451,897</u>

Notes to Financial Statements:

Deposits	\$2,526,860
Investments	<u>925,037</u>
Total	<u>\$3,451,897</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 3 – DEPOSITS AND INVESTMENTS: (CONTINUED)

As of June 30, 2015, the District had the following investments.

<u>INVESTMENT TYPE</u>	<u>FAIR VALUE</u>	<u>MATURITIES</u>
MILAF + MAX Class	\$925,037	N/A
Total fair value	<u>\$925,037</u>	

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2015, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2015, \$3,009,559 of the District’s bank balance of \$3,557,236 was exposed to custodial credit risk because it was uninsured and uncollateralized. Included in the totals above are certificates of deposit of \$47,678 and other interest bearing deposits. The carrying amount is \$3,451,823.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk..

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 4 – RECEIVABLES:

Receivables at June 30, 2015 consist of the following:

Grants receivable	\$	80,504
Taxes receivable		5,194
State aid		842,825
Special education		147,748
Miscellaneous		540
Total		<u>\$1,076,811</u>

No allowance for uncollectible accounts is considered necessary for the governmental funds reporting.

NOTE 5 – CAPITAL ASSETS:

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

	<u>BALANCE JULY 1, 2014</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	<u>BALANCE JUNE 30, 2015</u>
Capital Assets:				
Buildings	\$14,396,865	\$ 297,025	\$ -	\$14,693,890
Site improvements	3,153,674	-	-	3,153,674
Machinery and equipment	915,088	356,173	84,415	1,186,846
School buses	<u>996,396</u>	<u>75,634</u>	<u>71,840</u>	<u>1,000,190</u>
Total Capital Assets	<u>19,462,023</u>	<u>728,832</u>	<u>156,255</u>	<u>20,034,600</u>
Accumulated Depreciation:				
Buildings	5,154,981	308,925	-	5,463,907
Site improvements	2,074,239	113,125	-	2,187,364
Machinery and equipment	547,465	112,286	25,913	633,838
School buses	803,277	51,795	71,840	783,232
Total Accumulated Depreciation	<u>8,579,963</u>	<u>586,131</u>	<u>97,753</u>	<u>9,068,341</u>
Capital Assets-Net	<u>\$10,882,060</u>	<u>\$142,701</u>	<u>\$ 58,502</u>	<u>\$10,966,259</u>

The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 –UNEARNED REVENUE:

Unearned revenue reported in the governmental funds at year end consisted of the following:

General Fund:	
First robotics	\$ 116
Math & Science grant	2,330
Medicaid service provider	10,209
Miscellaneous unearned revenue	<u>4,065</u>
Total unearned revenue	<u>\$16,720</u>

NOTE 7 –NOTE PAYABLE:

At June 30, 2015, the District has outstanding \$900,000 in state aid notes. The state aid note bears interest at .69% and matures on August 20, 2015.

<u>BALANCE</u> <u>JUNE 30, 2014</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>BALANCE</u> <u>JUNE 30, 2015</u>
\$900,000	\$900,000	\$900,000	\$900,000

NOTE 8 – LONG-TERM DEBT :

In prior years, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2015, \$6,240,000 of the bonds outstanding are considered defeased.

On February 24, 2015 the District issued general obligation bonds of \$5,540,000 with an interest rate ranging from 2.0% to 4.0% to advance refund refunding bonds with an interest rate ranging from 4.0% to 5.0%. The refunding bonds mature on May 1, 2025. The general obligation bonds were issued at a premium after paying issuance costs of \$98,420, the net proceeds were \$6,072,825. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements. The reacquisition price was less than the net carrying amount of the old debt by \$233,368.

As result of the advance refunding, the District reduced its total debt service requirements by \$712,140, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$645,933.

The District issued general obligation bonds to provide funds for the construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 – LONG-TERM DEBT: (CONTINUED)

2015 general obligation refunding bonds due in annual installments of \$475,000 to \$640,000 starting May 1, 2016 through May 1, 2025 with interest at 2.00% to 4.00%.	\$5,540,000
Premium on bond refunding	610,203
Total general obligation bonds	6,150,203
Capital lease for copiers due in monthly installments of \$1,450 starting March 2015 through March 2020 with 0% interest.	81,200
Obligation under contract for compensated absences	184,245
Total general long-term debt	\$6,415,648

Interest expense (all funds) for the year ended June 30, 2015 was approximately \$166,000. General fund interest expense is included in support services.

The annual requirements to amortize the long-term obligations as of June 30, 2015, including interest are as follows:

Years ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 492,400	\$ 239,507	\$ 731,907
2017	502,400	192,900	695,300
2018	517,400	183,200	700,600
2019	537,400	163,200	700,600
2020	551,600	142,400	694,000
2021-2025	3,020,000	370,600	3,390,600
Subtotal	5,621,200	1,291,807	6,913,007
Premium on bond refunding	610,203	-	610,203
Obligation under contract for compensated absences	184,245	-	184,245
Total general long-term debt and interest	\$6,415,648	\$1,291,807	\$7,707,455

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 8 – LONG-TERM DEBT: (CONTINUED)

The following is a summary of the changes in the long-term debt during the year ended June 30, 2015:

	BALANCE JUNE 30, 2014	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2015	DUE WITHIN ONE YEAR
2005 Refunding General obligation bonds	\$6,775,000	\$ -	\$6,775,000	\$ -	\$ -
2015 Refunding General obligation bonds	-	5,540,000	-	5,540,000	475,000
Premium on bond refunding	108,184	631,245	129,226	610,203	63,125
2012 Technology bonds	185,000	-	185,000	-	-
Capital Lease - Telephone system	12,058	-	12,058	-	-
Capital lease – Copiers	-	87,000	5,800	81,200	17,400
Compensated absences	186,230	-	1,985	184,245	-
Totals	<u>\$7,266,472</u>	<u>\$6,258,245</u>	<u>\$7,109,069</u>	<u>\$6,415,648</u>	<u>\$555,525</u>

NOTE 9–DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS:

Plan Description

The Michigan Public School Employee’s retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board’s authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Benefits Provided

Benefit provisions of the defined 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 plan 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.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Benefits Provided (Continued)

Pension Reform 2010

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

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Regular Retirement (no reduction factor for age)

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

Annual Amount – total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plan

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

Option 1 – Credited Service after the Transition Date times 1.5% times FAC

Option 2 – Credited Service after the Transition Date (until total service reached 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 – Credited Service after the Transition Date times 1.25% times FAC.

Option 4 – None (Member will receive benefit through a Defined Contribution plan).

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 –DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Benefits Provided (Continued)

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

Member Contribution

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

Employer Contributions

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

The District’s pension contributions for the year ended June 30, 2015 were equal to the required contribution total. Pension contributions were approximately \$1,191,412 with \$1,109,298 specifically for the Defined Benefit Plan. The amounts included Section 147 contributions also.

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

Pension Liabilities

At June 30, 2015, the District reported a liability of \$10,371,175 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 as of that date. The District’s proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2014, the District’s proportion was 0.04708 percent.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 –DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

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 pension expenses of approximately \$840,093. At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Change in assumptions	382,674	-
Net difference between projected and actual earnings on pension plan investments	-	(1,146,538)
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions		(2)
Reporting Unit's contributions subsequent to the measurement date	<u>699,714</u>	<u>-</u>
Totals	<u>\$1,082,388</u>	<u>\$(1,146,540)</u>

\$699,714 reported as deferred outflows of resources related to pensions resulting from District employer 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:

<u>Years ended June 30,</u>	<u>Amount</u>
2016	\$(187,128)
2017	(187,128)
2018	(187,128)
2019	(202,482)

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Actuarial Assumptions

Investment rate of return – 8.0% per year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% per year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

Salary increases – The rate of pay increase used for individual members is 3.5%.

Inflation – 2.5%

Mortality assumptions – The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Female Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after treatment.

Experience study – The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2008 to September 30, 2013. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

The long-term expected rate of return on pension plan investments – The rate of 8% (7% for Pension Plus Plan) net of investment and administrative expenses was determined using a 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.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 –DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Actuarial Assumptions: (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.00%	4.80%
Alternate Investment Pools	18.00%	8.50%
International Equity	16.00%	6.10%
Fixed Income Pools	10.50%	1.50%
Real Estate and Infrastructure Pools	10.00%	5.30%
Absolute Return Pools	15.50%	6.30%
Short Term Investment Pools	2.00%	(0.2)%
	<u>100.00%</u>	

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

Discount rate – The discount rate used to measure the total pension liability was 8% (7% for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the Reporting Unit’s proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the Reporting Unit’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	<u>1% Lower (7.0%)</u>	<u>Discount rate (8.0%)</u>	<u>1% Higher (9.0%)</u>
Reporting Unit’s proportionate share of the net pension liability	<u>\$13,673,491</u>	<u>\$10,371,175</u>	<u>\$7,588,925</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 –DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2014 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Benefit Provisions – Other Postemployment

Introduction

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

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

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

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

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)

Employer Contributions

The District's postemployment healthcare contributions to MPERS for the year ended June 30, 2015 were approximately \$117,737.

NOTE 10 – RISK MANAGEMENT:

The District is exposed to the risks of loss related to injuries to employees. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays quarterly premiums to the pool for the insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance, torts, theft of, damage to and destruction of assets and errors and omissions. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

NOTE 11 – SUBSEQUENT EVENTS:

Subsequent to year-end, the District entered into an agreement to borrow \$600,000 from Mayville State Bank. The funding assists the District with cash flow during the months there is no state aid or property taxes received. The note is dated August 20, 2015, and carries interest at .89% per annum. The note matures August 22, 2016.

NOTE 12 – NEW ACCOUNTING STANDARDS:

For the year ended June 30, 2015, the District implemented the following new pronouncements: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 12 – NEW ACCOUNTING STANDARDS: (CONTINUED)

Summary:

GASB Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position an actuarial calculation. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

GASB Statement No. 71 addressed the issue of contributions made to the defined benefit pension plans after the measurement date for the year in which GASB Statement No. 68 is implemented. The effect is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual basis financial statements.

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

	Governmental Activities
Net position as previously stated July 1, 2014	\$ 5,909,152
Adoption of GASB Statements 68 & 71	
Net Pension Liability	(11,031,698)
Deferred Outflows	<u>542,904</u>
Net position as restated July 1, 2014	<u><u>\$(4,579,642)</u></u>

NOTE 13 – UPCOMING ACCOUNTING PRONOUNCEMENT:

Governmental Accounting Standards Board (GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

**REQUIRED SUPPLEMENTARY
INFORMATION**

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>FINAL BUDGET</u>
REVENUE:				
Local sources:				
Taxes	\$ 2,150,250	\$ 2,833,455	\$ 2,838,650	\$ 5,195
Interest	1,405	1,415	1,639	224
Other local revenue	783,780	855,225	856,568	1,343
State sources:				
State school aid-Restricted	819,000	898,670	900,206	1,536
Other state aid revenue	4,302,000	3,737,770	3,740,359	2,589
Federal sources	287,270	592,540	594,034	1,494
TOTAL REVENUE	<u>8,343,705</u>	<u>8,919,075</u>	<u>8,931,456</u>	<u>12,381</u>
EXPENDITURES:				
Instruction:				
Basic programs	4,449,885	4,319,075	4,309,067	10,008
Added needs	1,011,870	1,169,610	1,168,355	1,255
Total instruction	<u>5,461,755</u>	<u>5,488,685</u>	<u>5,477,421</u>	<u>11,264</u>
Supporting services:				
Pupil	278,040	482,410	481,421	989
Instructional staff	103,550	214,560	213,306	1,254
General administration	210,565	244,225	244,170	55
School administration	414,430	434,845	433,972	873
Business services	185,265	189,815	188,201	1,614
Operations and maintenance	688,530	680,080	677,809	2,271
Transportation	516,355	554,155	553,339	816
Athletics	209,415	236,640	235,706	934
Other central support	248,010	262,125	261,897	228
Total supporting services	<u>2,854,160</u>	<u>3,298,855</u>	<u>3,289,821</u>	<u>9,034</u>
Community services	475	6,325	6,308	17
Debt service:				
Principal repayment	12,060	20,270	20,256	14
Interest and fiscal charges	220	595	587	8
TOTAL EXPENDITURES	<u>8,328,670</u>	<u>8,814,730</u>	<u>8,794,393</u>	<u>20,337</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>15,035</u>	<u>104,345</u>	<u>137,063</u>	<u>32,718</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
OTHER FINANCING SOURCES (USES):				
Sale of assets	500	15,110	15,110	-
Capital lease	-	87,000	87,000	-
Subgrantee flowthrough	(15,535)	(3,095)	(3,095)	-
Facilities acquisition, construction & improvements	-	(30,000)	(30,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(15,035)</u>	<u>69,015</u>	<u>69,015</u>	<u>-</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>-</u>	<u>173,360</u>	<u>206,078</u>	<u>32,718</u>
FUND BALANCE - JULY 1	1,186,252	1,186,252	1,186,252	-
FUND BALANCE - JUNE 30	<u>\$ 1,186,252</u>	<u>\$ 1,359,612</u>	<u>\$ 1,392,330</u>	<u>\$ 32,718</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 9/30 OF EACH FISCAL YEAR)**

	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.04708%
Reporting unit's proportionate share of net pension liability	\$ 10,371,175
Reporting unit's covered-employee payroll	\$ 4,344,522
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	238.72%
Plan fiduciary net position as a percentage of total pension liability	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED

AS OF 6/30 OF EACH FISCAL YEAR)

	<u>2015</u>
Statutorily required contributions	\$ 887,429
Contributions in relation to statutorily required contributions	887,429
Contribution deficiency (excess)	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 4,344,522
Contributions as a percentage of covered-employee payroll	20.43%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

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

Changes of assumptions: Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

**ADDITIONAL SUPPLEMENTARY
INFORMATION**

ELKTON PIGEON BAY PORT LAKER SCHOOLS

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	<u>2005 DEBT FUND</u>	<u>TECHNOLOGY BOND DEBT FUND</u>	<u>2015 DEBT FUND</u>	<u>2015 TECHNOLOGY DEBT FUND</u>	<u>TOTAL DEBT SERVICE FUNDS</u>
REVENUE:					
Local sources:					
Property taxes	\$ 779,263	\$ 233,573	\$ 19	\$ 8	\$ 1,012,862
Earnings on investments	274	149	0	14	437
TOTAL REVENUE	<u>779,537</u>	<u>233,722</u>	<u>19</u>	<u>21</u>	<u>1,013,299</u>
EXPENDITURES:					
Miscellaneous	227	57	96,203	-	96,486
Debt service:					
Principal repayment	831,000	185,000	6,072,825	-	7,088,825
Interest and fiscal charges	156,163	2,128	-	-	158,290
TOTAL EXPENDITURES	<u>987,389</u>	<u>187,185</u>	<u>6,169,028</u>	<u>-</u>	<u>7,343,601</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(207,853)</u>	<u>46,537</u>	<u>(6,169,009)</u>	<u>21</u>	<u>(6,330,303)</u>
OTHER FINANCING SOURCES (USES):					
Bond proceeds	-	-	6,171,245		6,171,245
Operating transfer in	-	-	-	94,207	94,207
Operating transfer out	-	(94,207)	-	-	(94,207)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(94,207)</u>	<u>6,171,245</u>	<u>94,207</u>	<u>6,171,245</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(207,853)</u>	<u>(47,670)</u>	<u>2,236</u>	<u>94,228</u>	<u>(159,058)</u>
FUND BALANCE - JULY 1	289,262	47,670	-	-	336,932
FUND BALANCE - JUNE 30	<u>\$ 81,409</u>	<u>\$ -</u>	<u>\$ 2,236</u>	<u>\$ 94,228</u>	<u>\$ 177,874</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**SCHEDULE OF BONDED INDEBTEDNESS
2015 REFUNDING BONDS
JUNE 30, 2015**

Fiscal	Interest	Interest due		Principal	Total due
Year ending	Rate	Nov - 1	May - 1	May - 1	Annually
<u>June 30,</u>					
2016	2.000%	\$ 138,307	\$ 101,200	\$ 475,000	\$ 714,507
2017	2.000%	96,450	96,450	485,000	677,900
2018	4.000%	91,600	91,600	500,000	683,200
2019	4.000%	81,600	81,600	520,000	683,200
2020	4.000%	71,200	71,200	540,000	682,400
2021	4.000%	60,400	60,400	560,000	680,800
2022	4.000%	49,200	49,200	585,000	683,400
2023	4.000%	37,500	37,500	605,000	680,000
2024	4.000%	25,400	25,400	630,000	680,800
2025	4.000%	12,800	12,800	640,000	665,600
Total		<u>\$ 664,457</u>	<u>\$ 627,350</u>	<u>\$ 5,540,000</u>	<u>\$ 6,831,807</u>

On February 24, 2015, a portion of the 2005 Refunding Bonds were refunded.

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Approved Grant Award Amount	Memo Only Prior Year Expenditures	Accrued or (Deferred) Revenue 7/1/2014	Current Year Receipts (Cash basis)	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/15
U.S. Department of Agriculture							
Passed Through Michigan Dept. of Education Child Nutrition Cluster:							
Non-Cash Assistance (donated foods):							
Entitlement	10.555	\$ 21,346	\$ -	\$ -	\$ 21,346	\$ 21,346	\$ -
Non-cash assistance subtotal		<u>21,346</u>	<u>-</u>	<u>-</u>	<u>21,346</u>	<u>21,346</u>	<u>-</u>
Cash assistance:							
School Breakfast Program	10.553	56,084	-	-	56,084	56,084	-
National School Lunch Program	10.555	185,385	-	-	185,385	185,385	-
Cash assistance subtotal		<u>241,469</u>	<u>-</u>	<u>-</u>	<u>241,469</u>	<u>241,469</u>	<u>-</u>
Total for Child Nutrition Cluster		<u>262,815</u>	<u>-</u>	<u>-</u>	<u>262,815</u>	<u>262,815</u>	<u>-</u>
Total U.S. Department of Agriculture		<u>262,815</u>	<u>-</u>	<u>-</u>	<u>262,815</u>	<u>262,815</u>	<u>-</u>
U.S. Department of Health & Human Serv.							
Abuse/Mental Health Grant	93.243	108,803	-	-	92,627	108,804	16,177
Youth/Mental Health Grant	93.243	100,000	-	-	27,582	27,582	-
Passed through ISD							
Medicaid Outreach	93.778	1,404	-	-	1,404	1,404	-
Total U.S. Department of Health & Human Serv.		<u>210,207</u>	<u>-</u>	<u>-</u>	<u>121,613</u>	<u>137,790</u>	<u>16,177</u>
National Endowment for the Arts							
Passed through MCACA							
Promotion of the Arts in							
Partnership Agreements	45.025	1,142	-	-	1,142	1,142	-
Total National Endowment for the Arts		<u>1,142</u>	<u>-</u>	<u>-</u>	<u>1,142</u>	<u>1,142</u>	<u>-</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor Pass Through Grantor Program Title	Federal CFDA Number	Approved Grant Award Amount	Memo Only Prior Year Expenditures	Accrued or (Deferred) Revenue 7/1/2014	Current Year Receipts (Cash basis)	Current Year Expenditures	Accrued (Deferred) Revenue 6/30/15
U.S. Department of Education							
Passed Through Michigan Dept of Education							
Title I Part A							
141530-1314	84.010	136,244	136,244	23,299	23,299	-	-
151530-1415	84.010	153,238	-	-	137,669	138,988	1,319
		<u>289,482</u>	<u>136,244</u>	<u>23,299</u>	<u>160,968</u>	<u>138,988</u>	<u>1,319</u>
Title II Part A							
140520-1314	84.367	70,400	70,400	9,111	9,111	-	-
150520-1415	84.367	74,547	-	-	60,684	73,561	12,877
		<u>144,947</u>	<u>70,400</u>	<u>9,111</u>	<u>69,795</u>	<u>73,561</u>	<u>12,877</u>
Total Passed Through MDE		<u>434,429</u>	<u>206,644</u>	<u>32,410</u>	<u>230,763</u>	<u>212,549</u>	<u>14,196</u>
Climate Transformation Grant	84.184g	<u>361,303</u>	<u>-</u>	<u>-</u>	<u>197,830</u>	<u>242,553</u>	<u>44,723</u>
Passed through ISD							
Math & Science Teacher leader	84.366	<u>20,000</u>	<u>-</u>	<u>(2,330)</u>	<u>-</u>	<u>-</u>	<u>(2,330)</u>
Total Passed Through ISD		<u>20,000</u>	<u>-</u>	<u>(2,330)</u>	<u>-</u>	<u>-</u>	<u>(2,330)</u>
Total U.S. Department of Education		<u>815,732</u>	<u>206,644</u>	<u>30,080</u>	<u>428,593</u>	<u>455,102</u>	<u>56,589</u>
Total Federal Financial Assistance		<u>\$ 1,289,896</u>	<u>\$ 206,644</u>	<u>\$ 30,080</u>	<u>\$ 814,163</u>	<u>\$ 856,849</u>	<u>\$ 72,766</u>

ELKTON PIGEON BAY PORT LAKER SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2015

1. Basis of Presentation – The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the grant activity of Elkton Pigeon Bay Port Laker Schools under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Elkton Pigeon Bay Port Laker Schools, it is not intended to and does not present the financial position or changes in net position of Elkton Pigeon Bay Port Laker Schools.
2. Summary of Significant Accounting Policies - Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Negative amounts (if any) shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.
3. Climate Transformation Grant (CFDA #84.184g) was audited as a major program, representing 28% of expenditures. The District qualifies for low-risk auditee status.
4. The threshold for distinguishing Type A and Type B programs was \$300,000.
5. Management has utilized the Cash Management System (CMS) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.
6. Reconciliation to the Financial Statements:

General Fund	\$594,034
Special Revenue Funds:	
Food Service Fund	<u>262,815</u>
Current Year Expenditures	<u>\$856,849</u>

7. Reconciliation of Schedule of Federal Expenditures:

Total Expenditures	<u>\$856,849</u>
Total Receipts (Cash Basis)	\$814,163
Accrued revenue 2013/14	(30,080)
Accrued revenue 2014/15	<u>72,766</u>
Total	<u>\$856,849</u>

**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
Elkton Pigeon Bay Port Laker Schools
Pigeon, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elkton Pigeon Bay Port Laker Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Elkton Pigeon Bay Port Laker School's basic financial statements, and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Elkton Pigeon Bay Port Laker School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 26, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Education
Elkton Pigeon Bay Port Laker Schools
Pigeon, Michigan

Report on Compliance for Each Major Federal Program

We have audited Elkton Pigeon Bay Port Laker School's 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 Elkton Pigeon Bay Port Laker School's major federal programs for the year ended June 30, 2015. Elkton Pigeon Bay Port Laker School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Elkton Pigeon Bay Port Laker School's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Elkton Pigeon Bay Port Laker School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Elkton Pigeon Bay Port Laker School's compliance.

Opinion on Each Major Federal Program

In our opinion, Elkton Pigeon Bay Port Laker 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.

Report on Internal Control Over Compliance

Management of Elkton Pigeon Bay Port Laker Schools, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Elkton Pigeon Bay Port Laker School's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Elkton Pigeon Bay Port Laker School's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Nietzke & Faupel P.C.

NIETZKE & FAUPEL, P.C.
Pigeon, Michigan

October 26, 2015

ELKTON PIGEON BAY PORT LAKER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- ▶ Material weakness (es) identified? Yes No
- ▶ Significant deficiency (ies) identified? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- ▶ Material weakness (es) identified? Yes No
- ▶ Significant deficiency (ies) identified? Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.184g	Climate Transformation Grant

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as a low risk auditee? Yes No

ELKTON PIGEON BAY PORT LAKER SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

B. FINDINGS-FINANCIAL STATEMENTS AUDIT

1. None.

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

1. None.

ELKTON PIGEON BAY PORT LAKER SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

There were no findings or questioned costs for the year ended June 30, 2014.

October 26, 2015

To the Board of Education
Elkton Pigeon Bay Port Laker Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elkton Pigeon Bay Port Laker Schools for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 27, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Elkton Pigeon Bay Port Laker Schools are described in Note 1 to the financial statements. As described in Note 12 to the financial statements, the Elkton Pigeon Bay Port Laker Schools changed accounting policies related to pensions by adopting Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in 2015. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the payout of employee compensated absences upon their retirement is based on an expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the net pension liability is based on actuarial data. We evaluated the key factors and assumptions used to develop the balance of the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management estimates the lives of capital assets. We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the District's net pension liability in Note 9 to the financial statements. This represents the District's proportionate share of the Michigan Public School Employee's Retirement System (MPERS) based on actuarial data.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2015.

Management Consultations with Other Independent Accountants

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

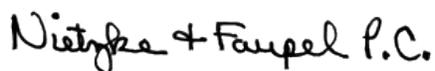
Other Audit Findings or Issues

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

Other Matters

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

This information is intended solely for the use of the Board of Education and management of Elkton Pigeon Bay Port Laker Schools and is not intended to be, and should not be, used by anyone other than these specified parties.



Nietzke & Faupel, P.C.
Pigeon, Michigan