

Beaver Island Community School

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2015



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Management's Discussion and Analysis

Overview of the Basic Financial Statements

Beaver Island Community School's (the "School's") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the School's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Position displays all of the School's assets and liabilities, with the difference reported as net position. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the School (instruction, support services, etc...), which are supported by the School's general revenues (property taxes, unrestricted state aid, etc...).

Fund Financial Statements

The fund financial statements report on the government funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented separately from the governmental funds, due to the fact that these assets do not represent assets of the School. These assets are not presented as part of the government-wide financial statements.

Beaver Island Community School maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and 2007 General Obligation Bond Fund, which are considered major funds. Data from the other two governmental funds are combined into a single, non-major governmental funds column. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the Other Supplemental Information section of this report.

Financial Highlights

The overall conditions of all funds remain very strong for the School. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available to meet the School's financial needs.

The liabilities and deferred inflows of resources of the School exceeded its assets at the close of the recent fiscal year by \$.17 million (net position).

The School's total net position has increased by \$0.024 million this fiscal year.

The School implemented the provisions of GASB 68, *Financial Reporting for Pension Plans*, during the year by retroactive restatement of the June 30, 2014 net position. The net pension liability of the School was \$2,399,925 and \$2,401,241 at June 30, 2014 and 2015, respectively.

The June 30, 2014 amounts in this Management's Discussion and Analysis have not been restated for this change.

At the end of the current fiscal year, the aggregated fund balance for the School's operational funds was \$910,498.

Government-Wide Financial Analysis

Table 1 provides a summary of the School's net position as of June 30, 2015 and 2014:

	<u>Governmental Activities</u>	
	(in millions)	
	<u>2015</u>	<u>2014</u>
Assets		
Current assets	\$ 1.16	\$ 1.15
Non-current assets	<u>4.60</u>	<u>4.69</u>
Total assets	<u>5.76</u>	<u>5.84</u>
Deferred outflows of resources	<u>.23</u>	<u>-</u>
Liabilities		
Current liabilities	.40	.42
Non-current liabilities	<u>5.49</u>	<u>3.21</u>
Total liabilities	<u>5.89</u>	<u>3.63</u>
Deferred inflows of resources	<u>.27</u>	<u>-</u>
Net position		
Invested in capital assets, net of related debt	1.39	1.36
Restricted	.04	.07
Unrestricted (deficit)	<u>(1.60)</u>	<u>.78</u>
Total net position	<u>\$ (.17)</u>	<u>\$ 2.21</u>

The School currently reports positive balances in each category of net position, except unrestricted net position which has a deficit balance.

Operations for the School as a whole are presented in the state of activities. The following summary shows the changes in the net position for the fiscal years 2015 and 2014.

<u>Governmental Activities</u>		
(in millions)		
	<u>2015</u>	<u>2014</u>
Revenue		
Program revenue		
Charges for services	\$.001	\$.002
Operating grants and contributions	.398	.420
General revenue		
Property taxes	1.636	1.713
State school aid	.160	.160
Other	.025	.020
	<u>2.220</u>	<u>2.315</u>
Functions/Program expenses		
Instruction	1.070	1.272
Supporting services	.963	.866
Community services and other	.002	.001
Food service	.027	.026
Interest on long-term debt	.134	.138
	<u>2.196</u>	<u>2.303</u>
Total expenses		
	<u>2.196</u>	<u>2.303</u>
Increase in net position	<u>\$.024</u>	<u>\$.012</u>

As recorded above, the School recorded \$2.196 million of expenses. The majority of the School's activities were funded by property taxes, grants and contributions.

The School experienced an increase in net position of \$.024 million. In the fund financial statements debit and capital outlay payments represent expenditures of available spendable resources, however in the government wide statements as noted above they are not current expenses. Depreciation is used to ratably expense these costs over the estimated life to be benefited by the School.

Fund Financial Analysis

The June 30, 2015 General Fund balance increased by \$54,956 during the fiscal year. The fund balance of \$838,983 is approximately 44% of reported expenditures over the same fiscal year. The School has a goal of maintaining a 15% fund balance.

General Fund Budgetary Highlights

Local revenues were down by \$62,668 mostly due to the decrease in property taxable values and a reduction in delinquent taxes collected. State revenue changes included an additional \$37,519 in MPSERS Cost Offset-Relief. Federal funds were down by \$132,917 resulting from the loss of the 21st CCLC grant, as well as a reduced utilization of Title funds due to staff hiring challenges during the school year.

Expenditures during the school year were reduced by \$76,284. A long standing elementary teacher retired at the end of FY14 saving the district \$58,143 in replacement costs. Staffing costs for the Special Education classroom was down due to the teacher leaving mid-year saving the district nearly \$23,959. Property Tax board of reviews were also significantly lower with \$12,390 less in board of review payments going out during the school year.

Capital Assets

At June 30, 2015 the School had \$4,596,230 invested in capital assets. The following table summarizes the capital asset activity for the year.

	<u>2015</u>	<u>2014</u>
Capital assets not being depreciated		
Land	<u>\$ 92,228</u>	<u>\$ 92,228</u>
Capital assets being depreciated		
Building and improvements	5,503,993	5,482,159
Furniture and fixtures	93,406	70,633
Vehicles	17,522	17,522
Equipment	<u>168,239</u>	<u>141,709</u>
Total capital	5,783,160	5,712,023
Less accumulated depreciation	<u>(1,279,158)</u>	<u>(1,116,801)</u>
Total capital assets, net	<u>\$ 4,596,230</u>	<u>\$ 4,687,450</u>

Long-Term Debt

At June 30, 2015, the School had \$3,214,266 in long-term debt. The following table summarizes the long-term debt activity for the year.

	<u>2015</u>	<u>2014</u>
General obligation bonds	\$ 3,245,000	\$ 3,365,000
Discount on bonds payable	<u>(30,734)</u>	<u>(32,542)</u>
Total long-term debt	<u>\$ 3,214,266</u>	<u>\$ 3,332,458</u>

Economic Factors

For the upcoming school year, local and state revenues are expected to remain relatively steady, expenses will continue to rise at the cost of living. The School plans on making staffing changes to meet the unique needs of its student population. Beaver Island will have a change in leadership to start the school-year. While reducing teacher aide FTE, the School has made plans to enhance high school education with additional part-time math teacher and science teachers. There are also plans to hire an English Language teacher for High School directed education. The School will be exploring ways to collaborate student trips off the island for educational opportunities to fully utilize funding to meet a variety of student learning objectives.

Financial Contact

The School's financial statements are designed to present users with a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the business office of Beaver Island Community Schools.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Beaver Island Community School

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Beaver Island Community School* (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 School District'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 School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

Accounting Change

As described in Note B to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Financial Reporting for Pension Plans*, during the year ended June 30, 2015.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *v*, and budgetary comparison information on page 31, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 26, 2015

Beaver Island Community School

STATEMENT OF NET POSITION

June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 1,096,578
Due from fiduciary activities	1,448
Due from other governments	56,562
Prepaid expenses	<u>9,750</u>
Total current assets	1,164,338
Capital assets, net of accumulated depreciation	<u>4,596,230</u>
Total assets	5,760,568
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow for pension obligation	<u>229,586</u>
Total assets and deferred outflows of resources	<u><u>\$ 5,990,154</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 987
Accrued salaries and related expenses	155,399
Accrued interest	21,639
Unearned revenue	97,454
Current portion of long-term debt	<u>123,192</u>
Total current liabilities	398,671
Non-current portion of long-term debt	3,091,074
Net pension liability	<u>2,401,241</u>
Total liabilities	<u>5,890,986</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow of resources for pension obligation	<u>265,493</u>
NET POSITION	
Invested in capital assets, net of related debt	1,381,964
Restricted for	
Debt service	37,729
Capital projects	10,411
Food service	1,736
Unrestricted (deficit)	<u>(1,598,165)</u>
Total net position	<u>(166,325)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 5,990,154</u></u>

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

Beaver Island Community School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
Instruction	\$ 1,070,070	\$ -	\$ 161,244	\$ (908,826)
Supporting services	963,291	-	227,017	(736,274)
Community services	1,280	-	-	(1,280)
Food service	26,546	1,173	9,407	(15,966)
Other	750	-	-	(750)
Interest on long-term debt	133,583	-	-	(133,583)
Total governmental activities	\$ 2,195,520	\$ 1,173	\$ 397,668	(1,796,679)
General purpose revenues				
Property taxes				
Levied for general purposes				1,402,805
Levied for debt service				233,067
State school aid - unrestricted				159,698
Unrestricted investment earnings				23,845
Other				1,547
Total general purpose revenues				1,820,962
Change in net position				24,283
Net position, beginning of year, as restated				(190,608)
Net position, end of year				\$ (166,325)

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

Beaver Island Community School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	2007 General Obligation Bond Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,025,628	\$ 59,368	\$ 11,582	\$ 1,096,578
Due from other funds	1,590	-	-	1,590
Due from other governments	55,268	-	1,294	56,562
Prepaid expenditures	9,750	-	-	9,750
Total assets	\$ 1,092,236	\$ 59,368	\$ 12,876	\$ 1,164,480
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 459	\$ -	\$ 528	\$ 987
Accrued salaries and related expenditures	155,340	-	59	155,399
Due to other funds	-	-	142	142
Unearned revenues	97,454	-	-	97,454
Total liabilities	253,253	-	729	253,982
FUND BALANCES				
Nonspendable for prepaid expenditures	9,750	-	-	9,750
Restricted for debt service	-	59,368	-	59,368
Restricted for capital projects	-	-	10,411	10,411
Restricted for food service	-	-	1,736	1,736
Committed for building and land improvements	87,000	-	-	87,000
Committed for potential employee leave	25,000	-	-	25,000
Unassigned	717,233	-	-	717,233
Total fund balances	838,983	59,368	12,147	910,498
Total liabilities and fund balances	\$ 1,092,236	\$ 59,368	\$ 12,876	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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 the assets is \$5,875,388 and the accumulated depreciation is \$1,279,158.	4,596,230
Deferred outflow of resources for net pension obligation	229,586
Interest is accrued on outstanding bonds in governmental activities, whereas in governmental funds, an interest expenditure is reported when due.	(21,639)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable	(3,245,000)
Discount on bonds payable	30,734
Net pension liability	(2,401,241)
Deferred inflow of resources for net pension obligation	(265,493)
Total net position - governmental activities	\$ (166,325)

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

Beaver Island Community School

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

Year Ended June 30, 2015

	General Fund	2007 General Obligation Bond Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local sources				
Property taxes	\$ 1,402,805	\$ 233,067	\$ -	\$ 1,635,872
Charges for services	-	-	1,176	1,176
Interest	1,400	137	10	1,547
Other local revenue	250,859	-	-	250,859
State sources	288,872	-	1,082	289,954
Federal sources	32,070	-	8,325	40,395
	<u>1,976,006</u>	<u>233,204</u>	<u>10,593</u>	<u>2,219,803</u>
Expenditures				
Instruction	947,783	-	-	947,783
Supporting services	875,418	-	-	875,418
Community services	1,280	-	-	1,280
Food service	-	-	26,546	26,546
Debt service				
Principal	-	120,000	-	120,000
Interest	-	134,333	-	134,333
Other	-	750	-	750
Capital outlays	79,909	-	-	79,909
	<u>1,904,390</u>	<u>255,083</u>	<u>26,546</u>	<u>2,186,019</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>71,616</u>	<u>(21,879)</u>	<u>(15,953)</u>	<u>33,784</u>
Other financing sources (uses)				
Operating transfers in	-	-	16,661	16,661
Operating transfers out	(16,661)	-	-	(16,661)
	<u>(16,661)</u>	<u>-</u>	<u>16,661</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>54,955</u>	<u>(21,879)</u>	<u>708</u>	<u>33,784</u>
Fund balance, beginning of year	784,028	81,247	11,439	876,714
Fund balance, end of year	<u>\$ 838,983</u>	<u>\$ 59,368</u>	<u>\$ 12,147</u>	<u>\$ 910,498</u>

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

Beaver Island Community School

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Total Net Change in Fund Balance - Governmental Funds	\$	33,784
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
	Capital outlays \$	71,137
	Depreciation expense	<u>(162,357)</u> (91,220)
Change in deferred outflows of resources for pension obligation		229,586
Repayment of long-term debt is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position:		
	Bonds \$	120,000
	Amortization of bond discount	(1,808)
	Net pension liability	(1,316) 116,876
Accrued interest expense on long-term debt is reported in the district-wide statement of activities, but does not require the use of current financial resources. Therefore, accrued interest expense is not reported as an expenditure in government funds.		750
Change in deferred inflows of resources for pension obligation		<u>(265,493)</u>
Changes in Net Position of Governmental Activities	\$	<u><u>24,283</u></u>

Beaver Island Community School

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS

June 30, 2015

	<u>Student Activity Fund</u>
ASSETS	
Cash and cash equivalents	\$ <u>11,444</u>
LIABILITIES	
Due to student groups	\$ 9,996
Due to other funds	<u>1,448</u>
Total liabilities	<u>\$ 11,444</u>

Beaver Island Community School

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Beaver Island Community School (the "School District") operates under a Board-Superintendent form of government and provides education services to Beaver Island residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

The accounting and reporting framework and the more significant accounting principles and practices of Beaver Island Community School are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2015.

The Financial Reporting Entity

Beaver Island Community School is a special purpose government and considered to be a primary government because it has separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Beaver Island Community School includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature and significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the District-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

The *General Fund* is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The *2007 General Obligation Bond Fund* accounts for principal and interest payments on the bonds used to finance various construction projects in the School District.

Other Governmental Funds

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted or Board committed to expenditures for special purposes. The Food Service Fund is accounted for as Special Revenue Funds.

NOTES TO FINANCIAL STATEMENTS - Continued

The *Sinking Fund* was approved by the voters for a period of five years, fiscal 2003 through 2007 to levy an amount not to exceed 1 mill on all property for constructing, remodeling and repairing school buildings, and developing and improving sites. The fund balance in the Sinking Fund is restricted for capital projects.

Fiduciary Funds

The *Agency Fund* accounts for assets held by the School District as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Student Activity Fund is an Agency Fund.

Cash and Cash Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20-50 years
Furniture and other equipment	3-7 years
Vehicles	7 years

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Isolated District, 21st Century, Special Education and Vocational Education Grants, and School Lunch Programs, which are reported as operating grants and contributions.

NOTES TO FINANCIAL STATEMENTS - Continued

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Pension Plan

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - ACCOUNTING CHANGES

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 68 requires employers to report net pension benefits as a liability in the statement of net position. GASB 68 requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. GASB 68 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District implemented GASB 68 during the year by retroactive restatement of June 30, 2014 net position, as follows:

Net position at June 30, 2014, <i>as originally stated</i>	\$ 2,209,317
Record net pension liability at June 30, 2014	<u>(2,399,925)</u>
Net position at June 30, 2014, <i>as restated</i>	<u><u>\$ (190,608)</u></u>

NOTE C - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which are submitted to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. This is done by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

NOTE D - CASH AND EQUIVALENTS

At June 30, 2015, the School District's cash and equivalents include the following:

	<u>Cash and Equivalents</u>
Bank deposits	<u><u>\$ 1,108,022</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2015, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$1,108,022 and the bank balance was \$1,112,718. As of June 30, 2015, \$851,274 of the bank balance was exposed to custodial risk because it was uninsured and uncollateralized.

NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the counties and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$15.791 per \$1,000 of equalized non-principal residence property value in the School District of \$89 million and \$3.791 per \$1,000 of commercial personal property value in the School District of \$521 thousand was levied for general operating purposes. For debt service purposes, \$2 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value in the School District of \$114.2 million was levied.

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and deferred inflows - revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue in the government-wide and the fund financial statements consist of categorical and other grant monies received but not yet earned at year-end.

There were no deferred inflows. Amounts due from other governments at June 30, 2015 are as follows:

Due from State of Michigan - State Aid	\$	52,632
Due from Federal programs		<u>3,930</u>
	\$	<u><u>56,562</u></u>

NOTES TO FINANCIAL STATEMENTS - Continued

Unearned revenue for the year ended June 30, 2015 is comprised of the following:

Vocational Education	<u>\$ 97,454</u>
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NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2015</u>
Capital assets not being depreciated				
Land	<u>\$ 92,228</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,228</u>
Capital assets being depreciated				
Buildings and improvements	5,482,159	21,834	-	5,503,993
Furniture and fixtures	70,633	22,773	-	93,406
Vehicles	17,522	-	-	17,522
Equipment	<u>141,709</u>	<u>26,530</u>	<u>-</u>	<u>168,239</u>
Total capital assets being depreciated	5,712,023	71,137	-	5,783,160
Less accumulated depreciation	<u>(1,116,801)</u>	<u>(162,357)</u>	<u>-</u>	<u>(1,279,158)</u>
Total capital assets, net	<u>\$ 4,687,450</u>	<u>\$ (91,220)</u>	<u>\$ -</u>	<u>\$ 4,596,230</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Instruction	\$ 140,514
Support services	<u>21,843</u>
Total depreciation expense	<u>\$ 162,357</u>

NOTE G - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The district-wide statement of activities eliminates transfers as reported within the governmental activities column.

NOTES TO FINANCIAL STATEMENTS - Continued

The following schedule reports transfers and payments within the reporting entity:

Fund	Transfers In	Transfers Out
Major Governmental Funds		
General Fund	\$ -	\$ 16,661
Other Governmental Funds		
Food Service Fund	<u>16,661</u>	<u>-</u>
	<u>\$ 16,661</u>	<u>\$ 16,661</u>

NOTE H - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2015 were as follows:

	Beginning Balance	New Debt	Payments/ Accretion	Ending Balance	Current Portion
General obligation bonds	\$ 3,365,000	\$ -	\$ 120,000	\$ 3,245,000	\$ 125,000
Discount on bonds payable	<u>(32,542)</u>	<u>-</u>	<u>(1,808)</u>	<u>(30,734)</u>	<u>(1,808)</u>
Total long-term liabilities	<u>\$ 3,332,458</u>	<u>\$ -</u>	<u>\$ 118,192</u>	<u>\$ 3,214,266</u>	<u>\$ 123,192</u>

At June 30, 2015, the School District's long-term debt consisted of the following:

2007 School Building and Site Bonds due in annual installments through May 1, 2032; interest at 3.75% - 4.15% due semi-annually.	\$ 3,245,000
Unamortized bond discount	<u>(30,734)</u>
Total long-term debt	<u>\$ 3,214,266</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds outstanding as of June 30, 2015 are as follows:

Years Ending June 30,	Principal	Interest	Total
2016	\$ 125,000	\$ 129,832	\$ 254,832
2017	135,000	125,146	260,146
2018	140,000	120,082	260,082
2019	145,000	114,832	259,832
2020	155,000	109,322	264,322
2021-2025	885,000	450,910	1,335,910
2026-2030	1,125,000	254,364	1,379,364
2031-2032	<u>535,000</u>	<u>33,614</u>	<u>568,614</u>
	<u>\$ 3,245,000</u>	<u>\$ 1,338,102</u>	<u>\$ 4,583,102</u>

Interest expense for the year ended June 30, 2015 was \$133,583 and interest paid for the year ended June 30, 2015 was \$134,333.

NOTE I - RISK MANAGEMENT

The School District carries commercial insurance for risks of loss, including property and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, disability insurance and errors and omissions coverages. SET-SEG is a public entity risk pool currently operating as a common risk management and workers' compensation insurance program for various school districts throughout the State. The School District pays an annual premium for its workers' compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the School District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE J - PENSION PLAN AND POST EMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System ("MPERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-20636585---,00.html>.

Benefits Provided

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

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

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System ("MPERS") who became a member of 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 services 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.

NOTES TO FINANCIAL STATEMENTS - Continued

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Defined Contribution ("DC") plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation ("FAC"). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

Non-Duty and Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty or non-duty related cause may be eligible for a disability pension, subject age, service and other requirements.

Survivor Benefit

A non-duty survivor pension is available subject to certain requirements of the plan.

Funding Policy

Defined Benefit Plan

The School District participates on a contributory basis, as described above under "Benefits Provided." The School District is 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.

Defined Contribution Plan

Employer contributions to the Plan are dependent on the plan elected by the participant.

Employee Contributions

Basic plan members are not required to make contributions. Member Investment Plan members contribute at rates ranging from 0 to 7% of gross wages.

NOTES TO FINANCIAL STATEMENTS - Continued

Employer Contributions

Employer contributions to the system are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of the cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability will be amortized over a 23 year period for the 2013 fiscal year.

Employer contributions to the system for covered payroll of the plan were as follows:

Fiscal Year 2013-2014 Employer Contribution Rate
Active Members and Qualified Participants - Effective July 1 - September 30, 2014

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
Defined Benefit Plan Contributions:							
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Defined Contribution Plan Contributions:							
Employee contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

Fiscal Year 2014-2015 Employer Contribution Rate
Active Members and Qualified Participants - Effective October 1, 2014 - June 30, 2015

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
Defined Benefit Plan Contributions:							
Pension contributions	23.07%	21.99%	21.99%	18.76%	18.76%	18.76%	23.07%
Health contributions	2.71%	2.71%	2.2%	2.2%	2.71%	2.2%	2.2%
Defined Contribution Plan Contributions:							
Employee contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

NOTES TO FINANCIAL STATEMENTS - Continued

The School District's contributions to the MPSERS Defined Benefit Plan for the year ended June 30, 2015 was \$188,872, which is equal to the required contribution for the year. The covered payroll for the year ended June 30, 2015 was \$838,573.

The School District's contributions to the MPSERS Defined Contribution Plan were \$832, for the year ended June 30, 2015, which is equal to the pension expense recognized by the School District for the year.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above. The School District's contributions for post-employment health care benefits were \$24,820 for the year ended June 30, 2015.

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

Pension Liabilities

At June 30, 2015, the School District reported a liability of \$2,401,241 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 School 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 school districts, actuarially determined. At September 30, 2014, the School District's proportion was 0.01090%.

NOTES TO FINANCIAL STATEMENTS - Continued

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

For the year ended June 30, 2015, the School District recognized pension expense of \$194,498. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	88,601	-
Net difference between projected and actual earnings on pension plan investments	-	265,458
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	-	35
School District contributions subsequent to the measurement date	<u>140,985</u>	<u>-</u>
Total	<u>\$ 229,586</u>	<u>\$ 265,493</u>

From the above table, \$140,985 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2016	\$ (43,335)
2017	(43,335)
2018	(43,335)
2019	(46,887)

10-Year Trend Information - Defined Benefit Plan

<u>Schedule of School District's Proportionate Share of Net Pension Liability</u>	
	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.01090 %
School District's proportionate share of collective net pension liability	\$ 2,401,241
School District's covered-employee payroll	\$ 932,670
School District's proportionate share of net pension liability as a percentage of covered payroll	257.46 %
Plan fiduciary net position as a percentage of total pension liability	66.20 %

NOTES TO FINANCIAL STATEMENTS - Continued

Schedule of School District's Contributions

	6/30/2015
Contractually required employer contributions	\$ 188,872
School District contributions recognized by the Plan	<u>188,872</u>
Contributions difference	-
Contributions difference as a percentage of contractually required employer contributions	- %
School District's covered-employee payroll	\$ 838,573
Contributions as a percentage of covered-employee payroll	22.52 %

Actuarial Assumptions

Valuation Assumptions

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

The assumed real return is the rate of return in excess of wage inflation. Considering other assumptions used in the valuation, the 8.0% nominal rate translates to a net real return of 4.5% a year for the Non-Hybrid groups. Considering other assumptions used in the valuation, the 7.0% nominal rate translates to a net real return of 3.5% a year for the Hybrid group.

The rate of pay increase used for individual members is 3.5%. This assumption is used to project a member's current pay to the pay upon which System benefits will be based. The current assumption was first used for the September 30, 2004 valuation of the System.

Actuarial Cost Method - Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

- the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- each annual normal cost is a constant percentage of the member's year-by-year projected *covered* pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities - Unfunded actuarial accrued liabilities (full funding credit if assets exceed liabilities) were amortized by level (principal and interest combined) percent-of-payroll contributions *over* a reasonable period of future years.

NOTES TO FINANCIAL STATEMENTS - Continued

Amortization of UAAL resulting from the Early Retirement Incentive ("ERi") program of 2010 - It has been reported that 1.36% of payroll will be contributed beginning in fiscal year 2013 for a 10-year period to amortize the UAAL associated with the ERi program of 2010. In order to avoid duplication of the employer contributions, the present value of future ERi amortization payments is subtracted from the unfunded actuarial accrued liability ("UAAL") to determine the remaining UAAL contribution.

Actuarial Value of System Assets - The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in *over* a closed five year period. During periods when investment performance exceeds the assumed rate, actuarial value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, actuarial value of assets will tend to be greater than market value. The actuarial value of assets was reset to market value as of September 30, 2006, with five-year smoothing restarted at that time. The actuarial value of assets is developed separately for the Non-Hybrid and Hybrid portions of the System. The total actuarial value of assets is the sum of these two components.

Mortality Assumptions

The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 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 retirement.

Experience Study

The annual actuarial valuation report of the System used for these statements is dated September 30, 2013. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

NOTES TO FINANCIAL STATEMENTS - Continued

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	4.8 %
Private Equity Pools	18.0	8.5
International Equity Pools	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Real Return, Opportunistic and Absolute Pools	15.5	6.3
Short-Term Investment Pools	2.0	(0.2)
	100.0 %	

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. 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.

NOTES TO FINANCIAL STATEMENTS - Continued

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

- The expected rate of return on pension plan investments is 8.0%.
- The municipal bond rate is 3.480% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve).
- The resulting single discount rate is 8.0%.
- The Plan Fiduciary Net Position is projected to be sufficient to make Projected Benefit Payments until 2114.

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

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

	<u>1% Lower (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Higher (9.0%)</u>
School District's proportionate share of net pension liability	\$ 3,165,828	\$ 2,401,241	\$ 1,757,066

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 2013 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Payables to the Pension Plan

The School District reported \$23,262 and \$367 payable to the plan at June 30, 2015 for legally required defined benefit and defined contribution plan contributions including post-employment health care benefits, respectively.

NOTE K - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Beaver Island Education Association. The Board of Education and the Beaver Island Education Association have a contract through August 31, 2015. As of October 26, 2015, a new contract has not been ratified.

REQUIRED SUPPLEMENTARY INFORMATION

Beaver Island Community School

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
Revenues					
Local sources	\$ 1,667,921	\$ 1,661,026	\$ 1,655,064	\$ (6,895)	\$ (5,962)
State sources	252,191	288,872	288,872	36,681	-
Federal sources	<u>74,559</u>	<u>39,166</u>	<u>32,070</u>	<u>(35,393)</u>	<u>(7,096)</u>
Total revenues	<u>1,994,671</u>	<u>1,989,064</u>	<u>1,976,006</u>	<u>(5,607)</u>	<u>(13,058)</u>
Expenditures					
Education					
Instruction	1,123,496	982,441	970,206	141,055	12,235
Supporting services	928,040	945,764	932,904	(17,724)	12,860
Community services	<u>10,564</u>	<u>1,364</u>	<u>1,280</u>	<u>9,200</u>	<u>84</u>
Total expenditures	<u>2,062,100</u>	<u>1,929,569</u>	<u>1,904,390</u>	<u>132,531</u>	<u>25,179</u>
REVENUES OVER EXPENDITURES	(67,429)	59,495	71,616	126,924	12,121
Other financing uses					
Operating transfers out	<u>(10,000)</u>	<u>(17,500)</u>	<u>(16,661)</u>	<u>(7,500)</u>	<u>839</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(77,429)	41,995	54,955	119,424	12,960
Fund balance, beginning of year	<u>784,028</u>	<u>784,028</u>	<u>784,028</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 706,599</u></u>	<u><u>\$ 826,023</u></u>	<u><u>\$ 838,983</u></u>	<u><u>\$ 119,424</u></u>	<u><u>\$ 12,960</u></u>

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Beaver Island Community School

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Food Service Fund	Sinking Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,171	\$ 10,411	\$ 11,582
Due from other governments	1,294	-	1,294
 Total assets	 \$ 2,465	 \$ 10,411	 \$ 12,876
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 528	\$ -	\$ 528
Salaries payable and related expenses	59	-	59
Due to other funds	142	-	142
 Total liabilities	 729	 -	 729
 FUND BALANCES			
Restricted for capital projects	-	10,411	10,411
Restricted for food service	1,736	-	1,736
 Total fund balances	 1,736	 10,411	 12,147
 Total liabilities and fund balances	 \$ 2,465	 \$ 10,411	 \$ 12,876

Beaver Island Community School

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2015

	Food Service Fund	Sinking Fund	Total Non-Major Governmental Funds
Revenues			
Local Sources			
Charges for services	\$ 1,176	\$ -	\$ 1,176
Interest	-	10	10
State sources	1,082	-	1,082
Federal sources	8,325	-	8,325
Total revenues	10,583	10	10,593
Expenditures			
Food service	26,546	-	26,546
Total expenditures	26,546	-	26,546
REVENUES OVER (UNDER) EXPENDITURES	(15,963)	10	(15,953)
Other financing sources			
Operating transfers in	16,661	-	16,661
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	698	10	708
Fund balance, beginning of year	1,038	10,401	11,439
Fund balance, end of year	\$ 1,736	\$ 10,411	\$ 12,147



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**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***

Board of Education
Beaver Island Community School

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 ***Beaver Island Community School*** (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District'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 the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

October 26, 2015