Vestaburg Community Schools

Financial Statements

June 30, 2015

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Vestaburg Community Schools
Members of the Board of Education and Administration
June 30, 2015

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Independent Auditors' Report

Management and the Board of Education
Vestaburg Community Schools

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 Vestaburg Community Schools, 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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vestaburg Community 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.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2015, the School District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vestaburg Community Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, is the responsibility of management and, other than the prior year information, was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, other than the prior year information, the other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Supplementary Information

We have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Vestaburg Community Schools' basic financial statements as of and for the year ended June 30, 2014, which are not presented with the accompanying basic financial statements. In our report dated September 11, 2014, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Vestaburg Community Schools' basic financial statements as a whole. The 2014 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2014 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2014 information in the comparative supplementary schedules is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015 on our consideration of Vestaburg Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vestaburg Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, MI
October 19, 2015

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of the annual financial report presents management's discussion and analysis of Vestaburg Community School District's (hereon referred to as "the District") performance during the fiscal year ending June 30, 2015. Please read this along with the financial statements of the District.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the June 30, 2015 fiscal year by $12,964,412 (net position).
- The General Fund received $5,587,310 in revenues and had $5,532,936 in expenditures. The General Fund's fund balance increased to $655,495.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was $457,731 or 8.27% of total General Fund expenditures. The assigned fund balance for the General Fund was $197,764 or 3.57% of total General Fund expenditures.
- The District's total debt decreased by $175,376 during the current year due to principal payments made on bonds and the installment note.

Annual Report

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, and supplementary information. The financial statements (government-wide financial statements) provide information about the activities of the District as a whole. There are two District-wide statements: The Statement of Net Position and the Statement of Activities. They present a year-end cumulative view and a longer-term view of the District's finances. All funds, long-term debt and capital assets are combined. The Fund Financial Statements (governmental fund statements) provide more detail showing the year's activity by fund. They also show the amount available to finance future programs.

Government-wide Financial Statements

The Government-wide Financial Statements appear first in the financial statements. They present information on the District as a whole. They show net position and a statement of activities for the year. These statements include all assets and liabilities using the full accrual basis of accounting, similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account.

Net position, the difference between assets and liabilities, is one way of measuring the financial health of the District. In the statement of activities, revenue less expense results in an increase or decrease in the net position. Increases or decreases in net position, over time, affect the financial health of the District. When analyzed together, the two statements help the reader determine whether the District is financially stronger or weaker as a result of the year's activities. However, the goal of the District is to provide quality education and a safe environment, not to make a profit.

The statement of activities covers all of the District's services, including instruction, supporting services, food service, athletics, and community services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities.

Fund Financial Statements

The Fund Financial Statements focus on individual parts of the District, by reporting the District's operation in more detail than the district-wide statements provide. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives (i.e., Food Service). Many of the other funds are created to help control and manage money for a particular purpose, or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the District focus on showing how money flows into and out of funds, and the balances left at year-end. They provide a detailed, short-term view of the operations and services of the District. An accounting method called "modified accrual accounting" is used in fund accounting. This method measures cash and all other financial assets that can readily be converted to cash.

The fund statements are formatted to comply with the legal requirement of the Michigan Department of Education's Public School Accounting Manual. In the State of Michigan, the District's major instructional and instructional support activities are reported in their relevant funds. The funds used by the District include General Fund, Special Revenue Fund for food service and Debt Service Funds for bonded debt.

Agency and Trust Accounts

Vestaburg Community School District is the trustee, or fiduciary, for its student activity and scholarship funds established for the benefit of our students. These fiduciary activities are reported in a separate statement of assets and liabilities. They are excluded from the other financial statements because the District may not use the assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements.

Adoption of New Accounting Standard

Effective for the year ended June 30, 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board's (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This new accounting standard requires school district employers to report their portion of the long term obligation of pension benefits as a liability. This liability has been recorded along with deferred outflows and inflows of resources associated with this pension liability. The amounts necessary to restate the assets and liabilities for 2014 were not available for comparative reporting. The District recorded net pension liability of $7,318,488, and other related deferred inflows and outflows of resources.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by $12,964,412 at the end of the June 30, 2015 fiscal year.

Summary of Statement of Net Position

	2014-2015	2013-2014
Assets		
Current assets	$2,212,816	$1,835,727
Capital assets, net	6,953,555	7,304,203
Total assets	9,166,371	9,139,930
Deferred Outflows of Resources	822,563	-0-
Total assets and deferred outflows of resources	9,988,934	9,139,930
Liabilities		
Current liabilities	1,697,035	1,328,280
Long-term liabilities	20,447,249	13,304,137
Total liabilities	22,144,284	14,632,417
Deferred Inflows of Resources	809,062	-0-
Total liabilities and deferred inflows of resources	22,953,346	14,632,417
Net Position		
Net investment in capital assets (deficit)	(6,175,206)	(5,999,934)
Restricted for food service	107,500	132,378
Unrestricted (deficit)	(6,896,706)	375,069
Total net position (deficit)	$(12,964,412)	$(5,492,487)

A substantial portion of the District's assets (75.9%) reflects its investment in capital assets (i.e., land, buildings, vehicles, and equipment), less accumulated depreciation. The District uses these capital assets to provide services to the students; consequently, these assets are not available for future spending. The District's net investment in capital assets is reported net of related debt; it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Long-term liabilities include general obligation bonds used to finance acquisition of capital assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due.
Net position represents the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of this year's activity for the District as a whole is reported below. The District's net position decreased by $100,939 during the current fiscal year. This decrease largely reflects the degree to which ongoing expenses exceeded ongoing revenues.

Summary of Statement of Activities

	2014-2015	2013-2014
Revenue		
Program revenue		
Charges for services	$ 222,167	$ 169,860
Operating and Capital grants and contributions	1,686,495	1,375,894
General revenue		
Property taxes	1,029,053	999,780
State aid - unrestricted	3,734,733	3,870,426
Other	22,795	99,153
Total revenue	6,695,243	6,515,113
Expenses		
Instruction	3,621,509	3,875,099
Supporting services	2,141,342	2,323,347
Food services	250,464	259,689
Community services	505	1,318
Interest on long-term debt	782,362	787,306
Total expenses	6,796,182	7,246,759
Change in net position	$ (100,939)	$ (731,646)

Total revenues increased approximately $180,000 mostly due to increased categoricals related to state funding. Total expenses decreased approximately $451,000 mostly due to staffing positions not being replaced once retirements occur, and overall monitoring of expenses to ensure fiscal responsibility.

Summary of Fund Financial Statements

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

The combined governmental fund balance of $849,776 increased by $67,590 from last year. The General Fund, which is the primary operating fund, increased by $78,745.

The District adopts an annual appropriated budget for its General and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with that budget.

The special revenue fund balance, which includes Food Service, decreased $24,878. The fund balance in Food Service at June 30, 2015, was $107,500.

The Debt Service Funds show a fund balance of $86,781.

General Fund Budget

By law, the District must establish an original budget in June, with a beginning fiscal date of July 1, for the General Fund and Special Revenue Funds. Budgets are revised twice a year. Approximately 71.48% of the District's revenue comes from the State through a Foundation Allowance and Categoricals (specific program grants). The State Foundation Allowance is based on student enrollment and an amount per pupil designated by the State. Therefore, the budget is primarily based on an estimate of the student population including the following October count, the per-pupil amount set by the State, and an estimate of the categoricals that will be approved by the State.

State law requires that budgets be amended to ensure that expenditures do not exceed appropriations. Original and final budgets, as well as actual amounts paid and received, are included in the basic financial statements.

- The General Fund received $5,587,310 in revenues which was $1,147 over the final budget.
- The General Fund had $5,532,936 in expenditures which was $27,721 over final budget. The actual General Fund expenditures were within .05% of the final budget amounts.

Capital Assets

As of June 30, 2015, the District had $6,953,555 in capital assets as follows:

	2014-2015	2013-2014
Land	$ 75,000	$ 75,000
Buildings	9,236,627	9,209,452
Vehicles	535,470	611,762
Site improvements	921,455	921,455
Equipment and furniture	3,074,793	3,074,793
Subtotal	13,843,345	13,892,462
Less accumulated depreciation	(6,889,790)	(6,588,259)
Net capital assets	$ 6,953,555	$7,304,203

Capital asset additions for the year included two buses and a generator.

Long-term Debt

The long-term obligations for the District decreased from $13,304,137 at the end of 2013-2014 to $13,128,761 at the end of 2014-2015. The total decrease includes the payment of debt service requirements for the government obligation bonds and the installment note.

Economic Factors and Next Year's Budget and Rates

Since most of the District's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the blended count is one of the key factors in forecasting revenue. Once the final student count is known in late October, State law requires the District to amend the budget if actual revenues will vary significantly from those originally appropriated. Under State law, the District cannot assess additional property tax revenue for general operations.

The State periodically holds a revenue-estimating conference. Based on the results of the most recent conference, the State estimates funds sufficient to maintain the per pupil foundation this year will bring the per pupil amount to $7,126 for the 2015-16 school year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances, and to demonstrate 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 Bonnie Walker, Vestaburg Community School District, 7188 Avenue B, Vestaburg, MI 48891.

BASIC FINANCIAL STATEMENTS

Vestaburg Community Schools
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash	$ 1,199,500
Due from other governmental units	1,012,277
Inventory	1,039
Capital assets not being depreciated	75,000
Capital assets - net of accumulated depreciation	6,878,555
Total assets	9,166,371
Deferred Outflows of Resources	
Deferred amount of pension expense related to net pension liability	822,563
Total assets and deferred outflows of resources	9,988,934

See Accompanying Notes to the Financial Statements

Vestaburg Community Schools
Statement of Net Position
June 30, 2015

	Governmental Activities
Liabilities	
Accounts payable	$ 23,804
State aid anticipation note payable	771,015
Accrued expenditures	594,270
Accrued salaries payable	304,956
Unearned revenue	2,990
Noncurrent liabilities	
Net pension liability	7,318,488
Debt due within one year	549,534
Debt due in more than one year	12,579,227
Total liabilities	22,144,284
Deferred Inflows of Resources	
Deferred amount on net pension liability	809,062
Total liabilities and deferred inflows of resources	22,953,346
Net Position	
Net investment in capital assets (deficit)	(6,175,206)
Restricted for	
Food service	107,500
Unrestricted (deficit)	(6,896,706)
Total net position	$ (12,964,412)

See Accompanying Notes to the Financial Statements

Vestaburg Community Schools
Statement of Activities
For the Year Ended June 30, 2015

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Governmental activities					
Instruction	$ 3,621,509	$ 15,116	$ 1,283,915	$ -	$ (2,322,478)
Supporting services	2,141,342	31,112	-	188,626	(1,921,604)
Food services	250,464	64,578	213,954	-	28,068
Community services	505	111,361	-	-	110,856
Interest and fiscal charges on long-term debt	782,362	-	-	-	(782,362)
Total governmental activities	$ 6,796,182	$ 222,167	$ 1,497,869	$ 188,626	(4,887,520)
General revenues					
Property taxes, levied for general purposes					419,051
Property taxes, levied for debt service					610,002
State aid - unrestricted					3,734,733
Interest and investment earnings					1,271
Other					21,524
Total general revenues					4,786,581
Change in net position					(100,939)
Net position - beginning, as restated					(12,863,473)
Net position - ending					$ (12,964,412)

See Accompanying Notes to the Financial Statements

Vestaburg Community Schools
Governmental Funds
Balance Sheet
June 30, 2015

	General Fund	2009 Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	$ 1,004,094	$ 55,788	$ 139,618	$ 1,199,500
Due from other funds	-	-	12	12
Due from other governmental units	1,010,642	-	1,635	1,012,277
Inventory	-	-	1,039	1,039
Total assets	$ 2,014,736	$ 55,788	$ 142,304	$ 2,212,828
Liabilities				
Accounts payable	$ 22,983	$ -	$ 821	$ 23,804
State aid anticipation note payable	771,015	-	-	771,015
Due to other funds	12	-	-	12
Accrued expenditures	244,652	-	-	244,652
Accrued salaries payable	304,956	-	-	304,956
Unearned revenue	-	-	2,990	2,990
Total liabilities	1,343,618	-	3,811	1,347,429
Deferred Inflows of Resources				
Unavailable revenue				
Universal service funds	15,623	-	-	15,623
Fund Balance				
Non-spendable				
Inventory	-	-	1,039	1,039
Restricted for				
Food service	-	-	106,461	106,461
Debt service	-	55,788	30,993	86,781
Assigned				
Fiscal year 2015-2016 budget	197,764	-	-	197,764
Unassigned	457,731	-	-	457,731
Total fund balance	655,495	55,788	138,493	849,776
Total liabilities, deferred inflows of resources and fund balance	$ 2,014,736	$ 55,788	$ 142,304	$ 2,212,828

See Accompanying Notes to the Financial Statements

Vestaburg Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2015

Total fund balances for governmental funds	$ 849,776
Total net position for governmental activities in the statement of net position is different because	
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Other revenue	15,623
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	75,000
Capital assets - net of accumulated depreciation	6,878,555
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(809,062)
Deferred outflows of resources from pension expenses subsequent to measurement date of net pension liability	822,563
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(349,618)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Bonds payable	(10,806,248)
School bond loan payable	(2,312,979)
Other loans payable and liabilities	(9,534)
Net pension liability	(7,318,488)
Net position of governmental activities	$(12,964,412)

Vestaburg Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	General Fund	2009 Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	$ 469,486	$ 387,853	$ 288,178	$ 1,145,517
State sources	4,761,707	-	9,712	4,771,419
Federal sources	234,975	188,626	213,954	637,555
Interdistrict sources	121,142	-	-	121,142
Total revenues	5,587,310	576,479	511,844	6,675,633
Expenditures				
Current				
Education				
Instruction	3,419,240	-	-	3,419,240
Supporting services	1,986,973	-	-	1,986,973
Food services	-	-	252,444	252,444
Community services	505	-	-	505
Capital outlay	28,359	-	41,650	70,009
Debt service				
Principal	69,800	250,000	205,000	524,800
Interest and other expenditures	28,059	576,387	100,589	705,035
Total expenditures	5,532,936	826,387	599,683	6,959,006
Excess (deficiency) of revenues over expenditures	54,374	(249,908)	(87,839)	(283,373)

See Accompanying Notes to the Financial Statements

Vestaburg Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	General Fund	2009 Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Proceeds from school bond loan fund	$ -	$ 260,314	$ 86,662	$ 346,976
Proceeds from sale of capital assets	3,987	-	-	3,987
Transfers in	20,384	-	-	20,384
Transfers out	-	-	(20,384)	(20,384)
Total other financing sources (uses)	24,371	260,314	66,278	350,963
Net change in fund balance	78,745	10,406	(21,561)	67,590
Fund balance - beginning	576,750	45,382	160,054	782,186
Fund balance - ending	$ 655,495	$ 55,788	$ 138,493	$ 849,776

Vestaburg Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2015

Net change in fund balances - Total governmental funds	$ 67,590
Total change in net position reported for governmental activities in the statement of activities is different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Other	15,623
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(393,900)
Capital outlay	43,252
Expenses are recorded when incurred in the statement of activities.	
Interest	(74,879)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	467,904
Net change in the deferred inflow of resources related to the net pension liability	(809,062)
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	407,157
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or payments, as ”a” financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Debt issued	(346,976)
Repayments of long-term debt	524,800
Amortization of bond discount	(2,448)
Change in net position of governmental activities	$ (100,939)

See Accompanying Notes to the Financial Statements

Vestaburg Community Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2015

	Agency Funds
Assets	
Cash	$ 27,537
Investments	54,271
Total assets	$ 81,808
Liabilities	
Due to agency fund activities	$ 81,808

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

District-wide Financial Statements

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

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

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

The School District reports the following major governmental funds:

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

2009 Debt Service Fund – Debt Service Funds are used to record taxes, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Additionally, the School District reports the following fund types:

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

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

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

Assets, Liabilities and Net Position or Equity

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

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

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2015, the rates are as follows per $1,000 of assessed value.

General Fund	
Non-principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	7.00000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 96% of the School District's tax roll lies within Richland Township, Ferris Township and Fremont Township.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before February 28. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Montcalm and remitted to the School District by May 15.

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

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

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of $5,000 and an estimated useful life in excess of one year. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	30-50 years
Site improvements	10-20 years
Equipment and furniture	5-20 years
Buses and other vehicles	8-15 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

Compensated Absences – District employees are not allowed to accumulate or carryover leave time and therefore, no liability is required in the district-wide financial statements.

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

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

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

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

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

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

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

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

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

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

The Governmental Accounting Standards Board has issued *Statement 68, Accounting and Financial Reporting for Pensions*, and Statement 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability IS recorded on the government-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. Statements 68 and 71 are effective for the year ending June 30, 2015.

Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board ("The GASB") has issued Statement No. 72 *Fair Value Measurements and Applications.* Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. The School District is evaluating the impact GASB 72 will have on its financial reporting. Statement 72 is effective for the year ending June 30, 2016.

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement 67 and 68.* The first objective of this Statement is provide the readers of the financial statements information about the effects of the pension-related transactions on the financial statements of state and local government employers. It will assist in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period in addition to providing information about the government's pension obligation. The second objective of this Statement is to improve the information about financial support provided by certain nonemployer entities for pensions that are provided to the employees of other entities that are not within the scope of Statement No. 68. These requirements are effective for the fiscal year ending June 30, 2017. The third objective is to improve the quality of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions that are not within the scope of Statement 68 and to clarify the application of certain provisions of Statement No. 67 and 68. These requirements are effective for the fiscal year ending June 30, 2016.

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

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

The School District is evaluating the impact GASB 72 thru 75 will have on its financial reporting.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

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

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

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

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

Excess of Expenditures over Appropriations

The School District had the following expenditure budget variances.

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Added needs	$ 575,403	$ 576,489	$ 1,086
Pupil	321,203	321,798	595
General administration	196,572	198,480	1,908
School administration	352,661	357,133	4,472
Business	102,048	104,165	2,117
Operations and maintenance	428,603	441,411	12,808
Central	87,869	102,268	14,399

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of $6,896,706 as of June 30, 2015. There are no other governmental funds with a deficit.

Note 3 - Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	$ 1,199,500	$ 27,537	$ 1,227,037
Investments	-	54,271	54,271
	$ 1,199,500	$ 81,808	$ 1,281,308

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	$ 1,226,537
Investments in securities, mutual funds, and similar vehicles	54,271
Petty cash and cash on hand	500
Total	$ 1,281,308

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

Investment	Fair Value	Maturities	Rating	Rating Organization
MI LAF + MAX Class	$ 54,271	6 months	AAAm	Standard and Poor's

Interest rate risk – The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District has no investment policy that would further limit its investment choices.

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year-end, $931,608 of the District's bank balance of $1,268,389 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Note 4 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 75,000	$ -	$ -	$ 75,000
Capital assets being depreciated				
Buildings and additions	9,209,452	27,175	-	9,236,627
Site improvements	921,455	-	-	921,455
Equipment and furniture	3,074,793	-	-	3,074,793
Buses and other vehicles	611,762	16,077	92,369	535,470
Total capital assets being depreciated	13,817,462	43,252	92,369	13,768,345
Less accumulated depreciation for				
Buildings and additions	(3,406,482)	(272,088)	-	(3,678,570)
Site improvements	(138,219)	(46,073)	-	(184,292)
Equipment and furniture	(2,493,894)	(55,693)	-	(2,549,587)
Buses and other vehicles	(549,664)	(20,046)	(92,369)	(477,341)
Total accumulated depreciation	(6,588,259)	(393,900)	(92,369)	(6,889,790)
Net capital assets being depreciated	7,229,203	(350,648)	-	6,878,555
Net capital assets	$ 7,304,203	$ (350,648)	$ -	$ 6,953,555

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

Governmental activities	
Instruction	$ 249,128
Supporting services	144,772
Total governmental activities	$ 393,900

Note 5 - Transfers

An interfund transfer was made during the year between the General Fund and the Food Service Fund totaling $20,384. This transfer was made to reimburse the General Fund for indirect costs.

Note 6 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Other - student lunch deposits	$ 2,990

Note 7 - Leases

Operating Leases

The School District leases copiers under non-cancelable operating leases. Total costs for such leases were $8,578 for the year. The future minimum lease payments for these leases are as follows:

Year ending June 30,	
2016	$ 31,836
2017	31,836
2018	31,836
2019	31,836
2020	23,877
Total	$ 151,221

Note 8 - State Aid Anticipation Note

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

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	$ 485,010	$ 900,000	$ 613,995	$ 771,015

The state aid anticipation note agreement includes an irrevocable set-aside of $128,985 at year end that is considered defeased debt and not included in the ending balance.

Note 9 - Long-Term Debt

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

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	$ 11,380,000	$ -	$ 515,000	$ 10,865,000	$ 540,000
School Bond Loan	1,966,003	346,976	-	2,312,979	-
Installment Note	19,334	-	9,800	9,534	9,534
Discount on bonds	(61,200)	-	(2,448)	(58,752)	-
Total	$ 13,304,137	$ 346,976	$ 522,352	$ 13,128,761	$ 549,534

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

2005 refunding bond due in annual installments of $205,000 through May 1, 2026, interest at 4.00% to 4.25%	$ 2,255,000
2008 energy bond due in annual installments of $65,000 to $75,000 through May 1, 2019, interest at 4.75% to 5.2%	280,000
2009 school building and site bonds due in annual installments of $270,000 to $380,000 through May 1, 2039, interest at 5.07% to 7.32%	8,330,000
Total general obligation bonded debt	$ 10,865,000

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

Year Ending June 30,	Principal	Interest	Total
2016	$ 540,000	$ 671,823	$ 1,211,823
2017	565,000	646,845	1,211,845
2018	590,000	619,527	1,209,527
2019	610,000	590,120	1,200,120
2020	535,000	558,848	1,093,848
2021-2025	2,705,000	2,350,378	5,055,378
2026-2030	1,965,000	1,610,560	3,575,560
2031-2035	1,840,000	959,652	2,799,652
2036-2039	1,515,000	277,794	1,792,794
Total	$ 10,865,000	$ 8,285,547	$ 19,150,547

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of $86,781 to pay this debt. Future debt and interest will be payable from future tax levies.

State School Bond Loan

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's bond issues. Since 2005, the School District issued bonds to renovate School District facilities. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond voted millage of 7 mills. Since the monies generated by the 7 mills are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow a total of $2,312,979 to meet debt service requirements. Management of the School District anticipates that as bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District borrowed $346,976 and had an outstanding balance at year of $2,312,979, from the State School Bond Loan Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Installment Note
The School District obtained an installment note to purchase a vehicle. The interest rate is 1.49% and the note matures March 28, 2016. The outstanding balance at June 30, 2015 was $9,534.

Future principal and interest requirements for the installment note are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2016	$ 9,534	$ 145	$ 9,679

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were $25,917 and $676,676, respectively.

Note 10 - Risk Management

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

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had $14,854 of unemployment compensation expense for the year. No provision has been made for possible future claims in the district wide statements.

Note 11 - Pension Plans and Post-Employment Benefits

Organization
The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), originally created under Public Act 136 of 1945, recodified, and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member. The Governor appointed board members consist of:

- Two active classroom teachers or other certified school personnel.
- One active member or retiree from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retiree from a classroom teaching position.
- One retiree from a finance or operations management position.
- One administrator or trustee of a community college that is a reporting unit of the System.
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience.
- One elected member of a reporting unit's board of control.

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

The System is administered by the Office of Retirement Services (ORS) within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

MPSERS issues a publicly-available Comprehensive Annual Financial Report. That report may be obtained by writing to ORS at P.O. Box 30171, Lansing, Michigan 48909-7671, or on the Internet at http://www.michigan.gov/orsschools.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Building rentals	$ 789,000
Technological support	10,420,000
Attorney general	417,000
Investment services	12,846,000
Personnel services	9,922,000

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

Contributions and Funding Status

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

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

Pension Contribution Rates

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

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

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

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

Net Pension Liability

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

MPSERS (Plan) Net Pension Liability – As of September 30, 2014:

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

Year one MPSERS implementation of GASB Statement No. 68 recognizes a 0.00% change in the employers' proportionate share between beginning net pension liability and ending net pension liability.

MPSERS (Plan) Net Pension Liability – As of October 1, 2013

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

Proportionate Share of Reporting Unit's Net Pension Liability – At September 30, 2014, the School District reported a liability of $7,318,488 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2014, the School District's proportionate share percent was 0.03323 percent.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	4.8%
Alternative Investment Pools	18.00%	8.5%
International Equity	16.00%	6.1%
Fixed Income Pools	10.50%	1.5%
Real Estate and Infrastructure Pools	10.00%	5.3%
Absolute Return Pools	15.50%	6.3%
Short Term Investment Pools	2.00%	-0.2%
test	100.00%	

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

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

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – As required by GASB Statement No. 68, the following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
$ 9,648,790	$ 7,318,488	$ 5,355,175

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

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

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

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Actuarial Assumptions:

- Wage inflation rate: 3.5%
- Investment Rate of returns:
  - MIP and Basic Plans (Non-Hybrid): 8.0%
  - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The experience study is included in the actuarial valuation described above.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the MPSERS Comprehensive Annual Financial Report.

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 total pension expense of $592,817. At June 30, 2015, the employer reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 270,037	$ -
Net difference between projected and actual earnings on pension plan investments	-	809,062
Employer contributions subsequent to the measurement date	552,526	-
	$ 822,563	$ 809,062

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

Deferred (Inflows) and Deferred Outflows of Resources by Year

Plan Year Ending September 30	Amount
2015	$ 420,478
2016	(132,048)
2017	(132,048)
2018	(142,881)
	$ 13,501

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

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

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

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

For the periods July 1, 2014 through September 30, 2014, and October 1, 2014 through June 30, 2015, the employer contribution rate ranged from 5.52% to 6.45% and 2.20% to 2.71%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2015, 2014, and 2013 and were approximately $89,800, $210,000, and $264,100, respectively.

Unfunded Accrued Liability
During the year ending June 30, 2015, the School District had contributions in the amount of $242,173 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 7.63% for the year.

Note 12 - Contingent Liabilities

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

Note 13 - Federal Revenue

Federal revenue recorded in the School District's financial statements exceeded $500,000, the threshold for a single audit, however, a portion of that revenue is in the form of a federal interest subsidy on the 2009 School Building and Site Bonds. Following is a reconciliation of the federal revenue to the expenditures of federal awards. Because the expenditure of federal awards does not exceed $500,000, no single audit was obtained.

Federal revenue per the financial statements	$ 637,555
Less: federal interest subsidy	(188,626)
Expenditures of federal awards	$ 448,929

Note 14 - Subsequent Event

Subsequent to June 30, 20155, the School District has paid the balance of $771,015 and accrued interest on the short-term state aid anticipation note borrowed in August 2014 and has subsequently borrowed $900,000 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. Proceeds from the borrowing were distributed to the School District during August 2015.

Subsequent to June 30, 2015, the School District Board approved to refund the School District's 2005 Refunding Bonds. The 2015 Refunding Bonds were issued for $2,310,000. The bonds were dated September 30, 2015 and are due in various maturities through May 1, 2026. The interest rate is 1% to 3.15%.

Note 15 - Prior Period Adjustment

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statements 68 and 71. These statements require the School District to record their proportionate share of the net pension liability and pension expense. Previously these amounts were not recorded on the School District's statements. The standards require this change be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2014, by $7,370,986, restating it from ($5,492,487) to ($12,863,473).

REQUIRED SUPPLEMENTARY INFORMATION

Vestaburg Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts			
	Original	Final	Actual	Over (Under) Budget
Revenues				
Local sources	$ 442,994	$ 469,395	$ 469,486	$ 91
State sources	4,339,589	4,760,498	4,761,707	1,209
Federal sources	249,957	235,127	234,975	(152)
Interdistrict sources	22,500	121,143	121,142	(1)
Total revenues	5,055,040	5,586,163	5,587,310	1,147
Expenditures				
Instruction				
Basic programs	2,590,548	2,850,231	2,842,751	(7,480)
Added needs	554,351	575,403	576,489	1,086
Supporting services				
Pupil	294,618	321,203	321,798	595
Instructional staff	42,816	44,151	44,151	-
General administration	210,023	196,572	198,480	1,908
School administration	355,330	352,661	357,133	4,472
Business	101,347	102,048	104,165	2,117
Operations and maintenance	482,427	428,603	441,411	12,808
Pupil transportation services	336,587	284,123	281,954	(2,169)
Central	92,100	87,869	102,268	14,399
Athletic activities	151,021	135,628	135,613	(15)
Community services	-	505	505	-
Intergovernmental payments	85,100	-	-	-
Capital outlay	25,000	28,359	28,359	-

Vestaburg Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2015

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Budget
Debt service				
Principal	$ 69,650	$ 69,800	$ 69,800	$ -
Interest and fiscal charges	19,212	28,059	28,059	-
Total expenditures	5,410,130	5,505,215	5,532,936	27,721
Excess (deficiency) of revenues over expenditures	(355,090)	80,948	54,374	(26,574)
Other Financing Sources				
Proceeds from sale of capital assets	-	3,987	3,987	-
Transfers in	10,000	20,384	20,384	-
Total other financing sources	10,000	24,371	24,371	-
Net change in fund balance	(345,090)	105,319	78,745	(26,574)
Fund balance - beginning	576,750	576,750	576,750	-
Fund balance - ending	$ 231,660	$ 682,069	$ 655,495	$ (26,574)

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

		June 30,									
		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A.	School District's proportion of net pension liability (%)	0.03%									
B.	School District's proportionate share of net pension liability	$7,318,488									
C.	School District's covered-employee payroll	$2,857,221									
D.	School District's proportionate share of net pension liability as a percentage of its covered- employee payroll	256.14%									
E.	Plan fiduciary net position as a percentage of total pension liability	66.20%									

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

		For the Years Ended June 30,									
		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A.	Statutorily required contributions	$ 652,820									
B.	Contributions in relation to statutorily required contributions	652,820									
C.	Contribution deficiency (excess)	$ -									
D.	Reporting unit's covered-employee payroll	2,666,900									
E.	Contributions as a percentage of covered-employee payroll	24.48%									

OTHER SUPPLEMENTARY INFORMATION

Vestaburg Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2015

	Special Revenue Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	Food Service	2005 Debt Retirement	
Assets			
Cash	$ 108,625	$ 30,993	$ 139,618
Due from other funds	12	-	12
Due from other governmental units	1,635	-	1,635
Inventory	1,039	-	1,039
Total assets	$ 111,311	$ 30,993	$ 142,304
Liabilities and Fund Balance			
Liabilities			
Accounts payable	$ 821	$ -	$ 821
Unearned revenue	2,990	-	2,990
Total liabilities	3,811	-	3,811
Fund Balance			
Non-spendable			
Inventory	1,039	-	1,039
Restricted for			
Food service	106,461	-	106,461
Debt service	-	30,993	30,993
Total fund balance	107,500	30,993	138,493
Total liabilities and fund balance	$ 111,311	$ 30,993	$ 142,304

Vestaburg Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2015

	Special Revenue Fund	Debt Service Fund	
	Food Service	2005 Debt Retirement	Total Nonmajor Governmental Funds
Revenues			
Local sources	$ 65,934	$ 222,244	$ 288,178
State sources	9,712	-	9,712
Federal sources	213,954	-	213,954
Total revenues	289,600	222,244	511,844
Expenditures			
Current			
Food services	252,444	-	252,444
Capital outlay	41,650	-	41,650
Debt service			
Principal	-	205,000	205,000
Interest and other expenditures	-	100,589	100,589
Total expenditures	294,094	305,589	599,683
Deficiency of revenues over expenditures	(4,494)	(83,345)	(87,839)
Other Financing Sources (Uses)			
Proceeds from school bond loan fund	-	86,662	86,662
Transfers out	(20,384)	-	(20,384)
Total other financing sources (uses)	(20,384)	86,662	66,278
Net change in fund balance	(24,878)	3,317	(21,561)
Fund balance - beginning	132,378	27,676	160,054
Fund balance - ending	$ 107,500	$ 30,993	$ 138,493

Vestaburg Community Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2015

	2015	2014
Assets		
Cash	$ 1,004,094	$ 678,735
Due from other governmental units	1,010,642	933,197
Inventory	-	8,469
Total assets	$ 2,014,736	$ 1,620,401
Liabilities		
Accounts payable	$ 22,983	$ 83,283
State aid anticipation note payable	771,015	485,010
Due to other funds	12	-
Accrued expenditures	244,652	198,587
Accrued salaries payable	304,956	276,771
Total liabilities	1,343,618	1,043,651
Deferred Inflows of Resources		
Unavailable revenue		
Universal service funds	15,623	-
Fund Balance		
Non-spendable		
Inventory	-	8,469
Assigned		
Fiscal year 2015-2016 budget	197,764	345,090
Unassigned	457,731	223,191
Total fund balance	655,495	576,750
Total liabilities, deferred inflows of resources and fund balance	$ 2,014,736	$ 1,620,401

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	$ 407,294	$ 419,064	$ 419,051	$ (13)
Earnings on investments	1,500	998	1,002	4
Student activities	27,500	30,762	30,762	-
Community service activities	5,000	14,543	14,543	-
Other local revenues	1,700	4,028	4,128	100
Total revenues from local sources	442,994	469,395	469,486	91
Revenues from state sources				
Grants - unrestricted	3,761,746	3,829,305	3,836,382	7,077
Grants - restricted	577,843	931,193	925,325	(5,868)
Total revenues from state sources	4,339,589	4,760,498	4,761,707	1,209
Revenues from federal sources				
Grants	249,957	235,127	234,975	(152)
Interdistrict sources				
Transportation	7,500	-	-	-
ISD collected millage	-	48,645	48,645	-
Other	15,000	72,498	72,497	(1)
Total interdistrict sources	22,500	121,143	121,142	(1)
Other financing sources				
Proceeds from sale of capital assets	-	3,987	3,987	-
Transfers in	10,000	20,384	20,384	-
Total other financing sources	10,000	24,371	24,371	-
Total revenue and other financing sources	$ 5,065,040	$ 5,610,534	$ 5,611,681	$ 1,147

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	$ 705,050	$ 716,992	$ 716,992	$ -
Employee benefits	420,848	524,354	518,011	(6,343)
Purchased services	40,900	37,808	36,304	(1,504)
Supplies and materials	18,720	17,962	19,535	1,573
Total elementary	1,185,518	1,297,116	1,290,842	(6,274)
Basic program - high school				
Salaries	661,259	637,173	637,511	338
Employee benefits	409,794	420,333	420,282	(51)
Purchased services	48,500	113,944	112,440	(1,504)
Supplies and materials	13,700	13,420	13,431	11
Other	1,700	7,143	7,143	-
Total high school	1,134,953	1,192,013	1,190,807	(1,206)
Basic program - pre-school				
Salaries	148,551	197,419	197,419	-
Employee benefits	93,872	135,529	135,579	50
Purchased services	1,600	8,137	8,137	-
Supplies and materials	24,060	17,652	17,602	(50)
Total pre-school	268,083	358,737	358,737	-

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - summer school				
Salaries	$ 1,495	$ 1,440	$ 1,440	$ -
Employee benefits	499	460	460	-
Supplies and materials	-	465	465	-
Total summer school	1,994	2,365	2,365	-
Added needs - special education				
Salaries	194,540	209,068	209,621	553
Employee benefits	136,643	152,282	152,815	533
Purchased services	18,650	15,264	15,264	-
Supplies and materials	750	606	606	-
Other	-	13,832	13,832	-
Total special education	350,583	391,052	392,138	1,086
Added needs - compensatory education				
Salaries	116,392	116,392	116,392	-
Employee benefits	68,524	67,959	67,959	-
Supplies and materials	18,852	-	-	-
Total compensatory education	203,768	184,351	184,351	-
Pupil - guidance services				
Salaries	109,400	109,107	109,106	(1)
Employee benefits	74,684	78,114	78,112	(2)
Purchased services	500	150	150	-
Supplies and materials	-	-	298	298
Total guidance services	184,584	187,371	187,666	295

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - speech services				
Salaries	$ 32,427	$ 51,545	$ 51,545	$ -
Employee benefits	22,507	28,056	28,056	-
Purchased services	-	1,474	1,474	-
Other	-	1,096	1,096	-
Total speech services	54,934	82,171	82,171	-
Pupil - social work services				
Salaries	32,728	32,631	32,631	-
Employee benefits	22,372	16,818	16,820	2
Purchased services	-	1,004	1,004	-
Supplies and materials	-	-	298	298
Total social work services	55,100	50,453	50,753	300
Pupil - other support services				
Salaries	-	851	851	-
Employee benefits	-	357	357	-
Total other pupil support services	-	1,208	1,208	-
Instructional staff - improvement of education				
Salaries	-	150	150	-
Employee benefits	-	51	51	-
Purchased services	36,293	42,122	42,122	-
Supplies and materials	5,500	1,495	1,495	-
Total improvement of education	41,793	43,818	43,818	-

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - educational media services				
Salaries	$ 500	$ -	$ -	$ -
Employee benefits	190	-	-	-
Supplies and materials	333	333	333	-
Total educational media services	1,023	333	333	-
General administration - board of education				
Purchased services	52,100	35,332	35,123	(209)
Supplies and materials	2,000	320	320	-
Other	5,500	12,162	12,162	-
Total board of education	59,600	47,814	47,605	(209)
General administration - executive administration				
Salaries	82,388	82,113	82,113	-
Employee benefits	59,535	59,934	59,934	-
Purchased services	2,000	786	786	-
Supplies and materials	3,500	1,437	3,554	2,117
Other	3,000	4,488	4,488	-
Total executive administration	150,423	148,758	150,875	2,117
School administration - office of the principal				
Salaries	217,820	216,989	216,989	-
Employee benefits	130,260	130,157	130,396	239
Purchased services	5,300	3,275	3,274	(1)
Supplies and materials	500	898	5,132	4,234
Other	1,450	1,342	1,342	-
Total office of the principal	355,330	352,661	357,133	4,472

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Business - fiscal services				
Salaries	$ 38,672	$ 38,673	$ 38,673	$ -
Employee benefits	34,260	37,941	37,941	-
Purchased services	2,350	6,763	6,762	(1)
Supplies and materials	950	680	2,798	2,118
Other	2,600	2,694	2,694	-
Total fiscal services	78,832	86,751	88,868	2,117
Business - other				
Purchased services	12,515	12,515	12,515	-
Other	10,000	2,782	2,782	-
Total other business	22,515	15,297	15,297	-
Operations and maintenance - operating building services				
Salaries	59,410	52,250	52,250	-
Employee benefits	43,580	33,976	33,976	-
Purchased services	328,537	294,895	307,809	12,914
Supplies and materials	46,500	42,832	42,726	(106)
Other	4,400	4,650	4,650	-
Total operating building services	482,427	428,603	441,411	12,808

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil transportation services				
Salaries	$ 137,815	$ 126,271	$ 126,271	$ -
Employee benefits	85,222	51,008	50,676	(332)
Purchased services	25,250	19,002	19,002	-
Supplies and materials	87,550	60,425	58,588	(1,837)
Other	750	27,417	27,417	-
Total transportation services	336,587	284,123	281,954	(2,169)
Central - staff/personnel services				
Employee benefits	5,000	-	-	-
Purchased services	-	3,292	3,292	-
Total staff/personnel services	5,000	3,292	3,292	-
Central - support services technology				
Purchased services	65,300	62,233	76,634	14,401
Supplies and materials	21,800	22,344	22,342	(2)
Total support services technology	87,100	84,577	98,976	14,399
Athletic activities				
Salaries	25,633	28,377	28,377	-
Employee benefits	18,788	20,159	20,159	-
Purchased services	66,800	55,827	55,997	170
Supplies and materials	26,300	19,466	19,276	(190)
Other	13,500	11,799	11,804	5
Total athletic activities	151,021	135,628	135,613	(15)

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Community services - community activities				
Supplies and materials	$ -	$ 505	$ 505	$ -
Intergovernmental payments				
Payments to other public schools	85,100	-	-	-
Capital outlay				
Pupil transportation services	-	15,800	15,800	-
Central - support services technology	25,000	12,559	12,559	-
Total capital outlay	25,000	28,359	28,359	-
Debt service				
Principal	69,650	69,800	69,800	-
Interest and other expenditures	19,212	28,059	28,059	-
Total debt service	88,862	97,859	97,859	-
Total expenditures and financing uses	$ 5,410,130	$ 5,505,215	$ 5,532,936	$ 27,721

Vestaburg Community Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2015

Year Ending June 30,	2005 Refunding Bond	2008 Energy Bond	2009 Building Bond	Total
2016	$ 205,000	$ 65,000	$ 270,000	$ 540,000
2017	205,000	70,000	290,000	565,000
2018	205,000	70,000	315,000	590,000
2019	205,000	75,000	330,000	610,000
2020	205,000	-	330,000	535,000
2021	205,000	-	330,000	535,000
2022	205,000	-	335,000	540,000
2023	205,000	-	335,000	540,000
2024	205,000	-	340,000	545,000
2025	205,000	-	340,000	545,000
2026	205,000	-	340,000	545,000
2027	-	-	350,000	350,000
2028	-	-	350,000	350,000
2029	-	-	360,000	360,000
2030	-	-	360,000	360,000
2031	-	-	365,000	365,000
2032	-	-	365,000	365,000
2033	-	-	370,000	370,000
2034	-	-	370,000	370,000
2035	-	-	370,000	370,000
2036	-	-	375,000	375,000
2037	-	-	380,000	380,000
2038	-	-	380,000	380,000
2039	-	-	380,000	380,000
Total	$ 2,255,000	$ 280,000	$ 8,330,000	$ 10,865,000

Vestaburg Community Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2015

	2005 Refunding Bond	2008 Energy Bond	2009 Building Bond
Principal payments due the first day of	May 1st	May 1st	May 1st
Interest payments due the first day of	May 1st and November 1st	May 1st and November 1st	May 1st and November 1st
Interest rate	4.00% - 4.25%	4.75% - 5.20%	5.07% - 7.32%
Original issue	$ 3,920,000	$ 605,000	$ 9,180,000

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Education
Vestaburg Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vestaburg Community Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Vestaburg Community Schools' basic financial statements, and have issued our report thereon dated October 19, 2015.

Internal Control Over Financial Reporting

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

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

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

Purpose of this Report

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

Yeo & Yeo, P.C.

Alma, MI
October 19, 2015