

**Fulton Schools
Middleton, Michigan**

FINANCIAL STATEMENTS

June 30, 2016

Fulton Schools
Middleton, Michigan
June 30, 2016

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Fulton Schools
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Fulton Schools
Middleton, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Fulton Schools, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note N to the financial statements, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*, during the year. As a result, the District has applied fair value to certain investments and disclosures related to all fair value measurements. Our opinions are not modified with respect to this matter.

Also as discussed in Note N to the financial statements, the District implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, during the year. As a result, the District's external investment pool has measured all of its investments at amortized costs for financial reporting purposes. This statement also established additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Our opinions are not modified with respect to this matter.

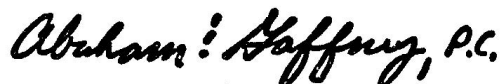
Other Matters

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 schedules of proportionate share of net pension liability and 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 7, 2016281

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

Fulton Schools, a K-12 school district located in Gratiot County, Michigan, issues its financial statements under the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Administration's Discussion and Analysis, a requirement of accounting principles generally accepted in the United States of America, is intended to be the Fulton Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2016.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Fulton Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and longer-term view of the finances. The *Fund Financial Statements* provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund individually; the Special Revenue Funds, Debt Service Funds, and Capital Project Fund collectively as other nonmajor governmental funds. The remaining statement, (the statement of fiduciary net position), presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the basic financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net position - the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, as reported in the Statement of Net Position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), State and Federal grants, and other local dollars finance most of these activities.

The District-wide financial statements are full accrual basis statements. They report all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Service Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the District-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on the modified accrual basis. Only those assets that are "measurable" and "available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Funds, the Special Revenue (School Service) Funds which are comprised of: Food Service and Athletics, Permanent Funds, and Capital Project Funds.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No capital assets are reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Position:

The following summarizes the net position as of June 30, 2016 and 2015:

Condensed Statement of Net Position
as of June 30, 2016 and 2015

	<u>Governmental Activities 2016</u>	<u>Governmental Activities 2015</u>
Assets		
Current Assets	\$ 3,290,799	\$ 3,561,709
Capital Assets	<u>3,994,871</u>	<u>3,628,907</u>
Total Assets	7,285,670	7,190,616
Deferred Outflows of Resources	1,721,409	1,201,961
Liabilities		
Current Liabilities	1,758,047	1,221,460
Long-Term Liabilities	<u>13,305,260</u>	<u>12,119,471</u>
Total Liabilities	15,063,307	13,340,931
Deferred Inflows of Resources	334,985	1,298,419
Net Position		
Net investment in capital assets	3,849,871	3,343,907
Restricted	243,011	606,577
Unrestricted	<u>(10,484,095)</u>	<u>(10,197,257)</u>
Total Net Position	<u>\$ (6,391,213)</u>	<u>\$ (6,246,773)</u>

Analysis of Financial Position:

As detailed above, the District shows a negative total net position value of \$6,391,213 for the fiscal year ended June 30, 2016. This statement has been affected by the following factors.

- A significant number of the District's capital assets are older but fortunately the debt related to the assets is also declining enough annually to show positive net investment in capital assets.
- The District is able to show positive net working capital of \$1,532,752 indicating that they can meet current obligations with current assets.
- By far the most significant portion of the District's net position is the negative unrestricted portion related to pensions. The unrestricted portion of net position declined significantly during the fiscal year as a result of the recording of the pension liability and correlating deferred outflows and inflows of resources that are required to be recorded through a change in accounting principles.

Results of Operations:

District-wide operating results for the fiscal years ended June 30, 2016 and 2015:

Condensed Statement of Net Position
as of June 30, 2016 and 2015

	Governmental Activities 2016	Governmental Activities 2015
Revenues		
Program Revenues		
Charges for Service	\$ 207,559	\$ 230,843
Operating and Capital Grants	2,001,639	1,779,709
General Revenues		
Property Taxes	982,372	911,818
State School Aid - unrestricted	5,190,414	5,781,001
Investment Earnings	1,823	736
Special Education county allocation	210,514	223,266
Other	33,492	52,806
Total Revenues	8,627,813	8,980,179
Functions/Program Expenses		
Instruction	5,212,646	5,693,383
Supporting services	2,670,153	2,841,503
Community services	223,114	283,100
Food service	321,271	337,445
Other transactions	48,169	92,253
Interest on long-term debt	5,681	4,968
Unallocated depreciation	291,219	298,938
Total Expenses	8,772,253	9,551,590
(Decrease) in Net Position	\$ (144,440)	\$ (571,411)

Analysis of Results of Operations:

During the fiscal year ended June 30, 2016, the District’s net position increased by \$144,440. Several factors which caused the decrease are discussed in the following sections.

A. Governmental Fund Operating Results

The District’s expenditures for governmental funds operations exceeded its revenues for the fiscal year ended June 30, 2016, mainly due to the expenditures over revenues in the General Fund. Further discussion of the District’s operating results is available in the section entitled “Results of 2015-2016 Operations” located on the following pages.

B. Depreciation Expense

The cost of capital assets is allocated over the useful lives of the assets as depreciation expense. During 2015-2016, district assets depreciated in the amount of \$291,219.

Results of 2015-2016 Operations

A. General Fund Operations

The General Fund is the main fund for the District and includes all the costs related to educating the students of the Fulton Schools such as: Salaries and benefits for Teachers, Classroom Parapros, Administrators, Secretaries, Custodians, Maintenance staff, Librarians, Counselors, Bus Drivers and other miscellaneous positions; teaching supplies, employee training, utilities, building maintenance supplies and other, as well as athletics activities.

The District’s expenditures for General Fund operations were greater than revenues by \$445,890 for the fiscal year ended June 30, 2016. The General Fund as of June 30, 2016, has a fund balance of \$1,524,027. State and federal revenues decreased about \$53,000 compared to the prior year due to a decrease in adult education program participants.

B. Debt Service Fund Operations

The Debt Service Funds consist of the 2013 Energy Conservation Improvement Bonds. The Debt Service Funds are set up to collect intergovernmental appropriations and taxes in order to satisfy annual debt payments.

The District made principal payments from the General Fund on long-term debt obligations that reduced the amount of the District’s long-term liabilities as follows:

	Principal Balance July 1, 2015	Principal Additions	Principal Deletions	Principal Balance June 30, 2016
2013 Energy Conservation Improvement Bonds	\$ 285,000	\$ -	\$ (140,000)	\$ 145,000

The District also had \$301,226 in accumulated sick pay for the year ended June 30, 2016. For more details on long-term debt see Note E in the financial statements.

C. School Service (Special Revenue) Funds

Fulton Schools also has school service funds that include a Food Service Fund.

The Food Service Fund is a fund that reports the food service program. In 2015-2016 the Food Service Fund had revenues of \$331,236 and expenditures of \$337,437. The Food Service Fund is supposed to be self-supporting and reimburses the General Fund for substantially all identified overhead costs associated with its operation. The Food Service Fund had a fund balance of \$0.

E. Net Investment in Capital Assets

The District's net investment in capital assets decreased by \$254,316 during the fiscal year. This can be summarized as follows:

	Balance July 1, 2015	Net Change	Balance June 30, 2016
Capital assets	\$ 11,034,340	\$ 36,903	\$ 11,071,243
Less: Accumulated depreciation	(7,405,433)	(291,219)	(7,696,652)
Net investment in capital outlay	\$ 3,628,907	\$ (254,316)	\$ 3,374,591

See Note C for more details related to capital assets.

IMPORTANT ECONOMIC FACTORS

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance.
- b. Student Enrollment - Blended at 90 percent of current year's fall count and 10 percent of prior year's winter count.
- c. The District's non-homestead property valuation.

B. Per Student Foundation Allowance

Annually, the State of Michigan establishes the per student foundation allowance. The Fulton Schools' foundation allowance was \$7,391 per student for the 2015-2016 school year.

C. Student Enrollment

The District's State aid membership count for 2015-2016 was 788 students. The following summarizes the membership amounts over the past three years:

Fiscal Year	Membership	Change from Prior Year
2015-2016	817	(48)
2014-2015	865	(164)
2013-2014	1,029	(28)

D. Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levied 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or five (5) percent, whichever is less. At the time of sales, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value. The District's non-homestead property tax revenue for the 2015-2016 fiscal year was approximately \$529,368.

E. Property Taxes levied for Sinking Fund activities

The District levied 3 mills of property taxes for sinking fund related activities in accordance with the millage extra request voted on and approved by District taxpayers. The millage is levied on all homestead and non-homestead parcels within the District and generated approximately \$441,643 in 2015-2016.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

Listed below is an analysis of the original budget and final budget to the final actual.

General Fund Revenues and Other Sources - Budgetary Comparison

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2015-2016	\$ 8,157,722	\$ 8,103,578	\$ 8,146,952	-0.1%	0.5%
2014-2015	8,307,593	8,043,424	8,221,017	-1.0%	2.2%

General Fund Expenditures and Other Uses - Budgetary Comparison

Fiscal Year	Original Budget	Final Budget	Actual	Variances	
				Actual & Original Budget	Actual & Final Budget
2015-2016	\$ 8,729,998	\$ 8,601,282	\$ 8,592,094	-1.6%	-0.1%
2014-2015	8,831,105	9,238,019	8,986,272	1.8%	-2.7%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Board of Education approve the original budget for the upcoming year prior to July 1, the start of the fiscal year.

As a matter of practice, Fulton Schools amends its budget periodically during the school year. The June 2016 budget amendment was the final budget for the fiscal year.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures and Other Uses - Original Budget	\$ 8,729,998
Total Expenditures and Other Uses - Final Budget	<u>8,601,282</u>
Decrease in Budgeted Expenditures and Other Uses	<u><u>\$ (128,716)</u></u>

The District's actual expenditures and other uses were less than the final budget by \$224,233.

Revenues and other sources Change from Original to Final Budget:

Total Revenues and Other Sources - Original Budget	\$ 8,157,722
Total Revenues and Other Sources - Final Budget	<u>8,103,578</u>
(Decrease) in Budgeted Revenues and Other Sources	<u>\$ (54,144)</u>

The District's final actual general fund revenues and other sources were greater than the final budget by \$43,374.

The final revenue and other sources budget reflected the following changes from the original budget.

- Final Tax collection higher due to change in taxable values.
- Athletic Receipts higher than expected.
- Miscellaneous Revenue higher than expected.
- State funding increased based on final adjustments.
- Received additional Adult Education participant funding.

Additional Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2017 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016 fiscal year was 10 percent and 90 percent of the February 2016 and September 2015 student counts, respectively. The 2017 fiscal year budget was adopted in June 2016, based on an estimate of students that will be enrolled in September 2016. Approximately 87 percent of total General Fund revenues are from State sources. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2016-2017 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2017 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State Funding and the status of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Fulton Schools, 8060 Ely Highway, Middleton, Michigan 48856.

BASIC FINANCIAL STATEMENTS

Fulton Schools

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 1,092,400
Investments	495,100
Due from other governmental units	1,694,652
Inventories	<u>8,647</u>
Total current assets	3,290,799
Noncurrent assets	
Capital assets not being depreciated	632,505
Capital assets, net of accumulated depreciation	<u>3,362,366</u>
Total noncurrent assets	<u>3,994,871</u>
TOTAL ASSETS	7,285,670
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflow of resources related to pensions	1,721,409
LIABILITIES	
Current liabilities	
Accounts payable	309,364
Accrued payroll	956,543
Due to other governmental units	7,854
Accrued interest payable	302
Short-term note payable	250,000
Current portion of compensated absences	88,984
Current portion of long-term debt	<u>145,000</u>
Total current liabilities	1,758,047
Noncurrent liabilities	
Noncurrent portion of compensated absences	212,242
Net pension liability	<u>13,093,018</u>
Total noncurrent liabilities	<u>13,305,260</u>
TOTAL LIABILITIES	15,063,307
DEFERRED INFLOWS OF RESOURCES	
Deferred inflow of resources related to pensions	<u>334,985</u>
NET POSITION	
Net investment in capital assets	3,849,871
Restricted for sinking fund activities	243,011
Unrestricted	<u>(10,484,095)</u>
TOTAL NET POSITION	<u>\$ (6,391,213)</u>

See accompanying notes to financial statements.

Fulton Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants	Revenues and Changes in Net Position
				Governmental Activities
Governmental activities				
Instruction	\$ 5,212,646	\$ 37,163	\$ 1,782,074	\$ (3,393,409)
Supporting services	2,670,153	59,488	-	(2,610,665)
Community services	223,114	-	-	(223,114)
Food service	321,271	110,908	219,565	9,202
Other transactions	48,169	-	-	(48,169)
Interest and fees on long-term debt	5,681	-	-	(5,681)
Unallocated depreciation	291,219	-	-	(291,219)
TOTAL EXPENSES	\$ 8,772,253	\$ 207,559	\$ 2,001,639	(6,563,055)
General Revenues				
				982,372
Property taxes				5,190,414
State aid unrestricted				210,514
Special education county allocation				1,823
Investment earnings				33,492
Miscellaneous				
				6,418,615
				CHANGE IN NET POSITION (144,440)
				Net position, beginning of year (6,246,773)
				Net position, end of year \$ (6,391,213)

See accompanying notes to financial statements.

Fulton Schools

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2016

	General	Sinking Fund	Nonmajor Governmental Fund (Food Service)	Total
ASSETS				
Cash	\$ 383,406	\$ 694,980	\$ 14,014	\$ 1,092,400
Investments	495,100	-	-	495,100
Due from other governmental units	1,692,551	-	2,101	1,694,652
Due from other funds	12,167	16,679	-	28,846
Inventories	3,431	-	5,216	8,647
	<u>3,431</u>	<u>-</u>	<u>5,216</u>	<u>8,647</u>
TOTAL ASSETS	<u>\$ 2,586,655</u>	<u>\$ 711,659</u>	<u>\$ 21,331</u>	<u>\$ 3,319,645</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 82,289	\$ 218,648	\$ 8,427	\$ 309,364
Accrued payroll	955,806	-	737	956,543
Due to other governmental units	7,854	-	-	7,854
Due to other funds	16,679	-	12,167	28,846
Short-term note payable	-	250,000	-	250,000
	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
TOTAL LIABILITIES	1,062,628	468,648	21,331	1,552,607
FUND BALANCES				
Nonspendable				
Inventories	3,431	-	-	3,431
Restricted				
Capital projects and major repairs	-	243,011	-	243,011
Assigned				
Subsequent year's expenditures	301,924	-	-	301,924
Unassigned	1,218,672	-	-	1,218,672
	<u>1,218,672</u>	<u>-</u>	<u>-</u>	<u>1,218,672</u>
TOTAL FUND BALANCES	<u>1,524,027</u>	<u>243,011</u>	<u>-0-</u>	<u>1,767,038</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2,586,655</u>	<u>\$ 711,659</u>	<u>\$ 21,331</u>	<u>\$ 3,319,645</u>

See accompanying notes to financial statements.

Fulton Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2016

Total fund balances - governmental funds **\$ 1,767,038**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 11,691,523	
Accumulated depreciation is	<u>(7,696,652)</u>	
Capital assets, net		3,994,871

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date, and State Aid related to pensions will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the government-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	1,721,409	
Deferred inflows of resources related to pensions	<u>(334,985)</u>	
		1,386,424

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds and loans payable	(145,000)	
Accrued interest payable	(302)	
Compensated absences	(301,226)	
Net pension liability	<u>(13,093,018)</u>	
		<u>(13,539,546)</u>

Net position of governmental activities **\$ (6,391,213)**

Fulton Schools

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

Year Ended June 30, 2016

	General	Sinking Fund	Nonmajor Governmental Fund (Food Service)	Total
REVENUES				
Local sources	\$ 672,332	\$ 441,990	\$ 110,923	\$ 1,225,245
State sources	6,879,292	-	12,148	6,891,440
Federal sources	359,614	-	207,417	567,031
TOTAL REVENUES	7,911,238	441,990	330,488	8,683,716
EXPENDITURES				
Current				
Instruction	5,500,690	-	-	5,500,690
Supporting services	2,808,862	-	-	2,808,862
Community services	234,373	-	-	234,373
Food service	-	-	337,437	337,437
Capital outlay	-	653,382	-	653,382
Debt service	-	145,973	-	145,973
TOTAL EXPENDITURES	8,543,925	799,355	337,437	9,680,717
EXCESS OF REVENUES (UNDER) EXPENDITURES	(632,687)	(357,365)	(6,949)	(997,001)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	748	748
Transfers to other funds	(748)	-	-	(748)
County special education allocation	235,714	-	-	235,714
Payments to other districts	(48,169)	-	-	(48,169)
TOTAL OTHER FINANCING SOURCES (USES)	186,797	-0-	748	187,545
NET CHANGE IN FUND BALANCES	(445,890)	(357,365)	(6,201)	(809,456)
Fund balances, beginning of year	1,969,917	600,376	6,201	2,576,494
Fund balances, end of year	<u>\$ 1,524,027</u>	<u>\$ 243,011</u>	<u>\$ -0-</u>	<u>\$ 1,767,038</u>

See accompanying notes to financial statements.

Fulton Schools

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ (809,456)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	657,183
Depreciation expense		<u>(291,219)</u>

Excess of capital outlay over depreciation expense	365,964
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Long-term debt principal retirements	140,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Change in deferred outflows of resources related to pensions		519,448
Change in deferred inflows of resources related to pensions		963,434
Decrease in accrued interest payable		292
Decrease in compensated absences		23,858
(Increase) in net pension liability		<u>(1,347,980)</u>

159,052

Change in net position of governmental activities \$ (144,440)

Fulton Schools

STATEMENT OF ASSETS AND LIABILITIES - FIDUCIARY FUND

June 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash	<u>\$ 68,174</u>
LIABILITIES	
Due to	
Elementary	\$ 33,162
Middle School/High School	23,707
Athletic Groups	<u>11,305</u>
TOTAL LIABILITIES	<u>\$ 68,174</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of Fulton Schools (primary government). The District has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the District contain all the funds controlled by the District.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities (the district-wide financial statements) present information for the district as a whole. All non-fiduciary activities of the District are included (i.e., fiduciary fund activities are not included in the district-wide financial statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District utilizes governmental and fiduciary funds.

The governmental fund financial statements present the District's individual major funds and aggregated nonmajor funds. A separate column is shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary fund is reported by type.

The District presents the following major governmental funds:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.
- b. Sinking Fund - The Sinking Fund is used to account for voter approved bond proceeds and property tax revenues used for addition to, repair, or renovation of an existing school buildings throughout the District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The district-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide financial statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet, when applicable. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Unearned revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty (60) days of the end of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

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

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types.

The District does not maintain a formalized encumbrance accounting system. All unexpended appropriations lapse at fiscal year end.

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

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted to the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.
- e. The Superintendent is authorized to transfer budgeted amounts for purposes of meeting emergency needs of the District; however, these transfers must be approved subsequently by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
- g. The budget, as presented, has been amended in a legally permissible manner. Four (4) supplemental appropriations were made during the year with the last approved June 27, 2016.

6. Cash and Investments

Cash and cash equivalents consist of checking and savings accounts.

Investments consist of a Michigan Liquid Asset Fund Plus (MILAF+) account which is reported at amortized cost, which approximates market value.

7. Interfund Receivables/Payables

During the course of operations, few transactions occurred between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The Food Services Fund inventory consists of food and miscellaneous paper goods. Inventory that will be sold, rather than used in providing services (i.e., food in the Food Service Fund), and for which the proceeds from the sales are restricted for food service activities are not classified as "nonspendable" but instead are reflected as a component of restricted fund balance in accordance with the GASB Statement No. 54.

9. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments for the fiscal year ended June 30, 2016 to be paid in July and August 2016. The total amount of \$1,694,652 due from other governmental units consists of \$1,184,472 and \$510,180 related to State Aid and grant and local programs, respectively.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Capital Assets

Capital assets are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an estimated useful life of more than one year.

Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	5 - 40 years
Equipment and furniture	5 - 20 years
Vehicles	8 years
Other capital equipment	5 - 20 years

11. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

12. Accrued Interest Payable

Accrued interest is presented for the long-term obligations in the district-wide financial statements as a current liability under the appropriate heading.

13. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied to the extent that they result in current revenue (collected as of year-end). Amounts received subsequent to June 30 are recognized as revenue when collected.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED14. Property Taxes - continued

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on most nonprimary residency exempt property and \$6.00 per \$1,000 of taxable valuation on commercial personal property for general governmental services and \$3.00 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for a sinking fund. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

15. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a statewide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on the average of pupil membership counts taken in September 2015 and February 2015. The average calculation was weighted 90% for the September count and 10% for the February count.

The State portion of the foundation is provided primarily by a State education property tax millage of 6 mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the fiscal year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

16. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received that are not expended by the close of the fiscal year are reported as deferred inflows of resources, when they are present.

17. Net Pension Liability

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

18. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Deferred Outflows/Inflows of Resources - continued

The District has several items that qualify for reporting in these categories and are reported in the district-wide financial statement of net position. These items correspond to the District's net pension liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, State aid related to pensions, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

19. Interfund Transactions

Interfund transactions are reported as loans, services provided reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers on the governmental fund financial statements. Transfers are netted as part of the reconciliation to the district-wide financial statements.

20. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

21. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or National bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or Federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B: CASH AND INVESTMENTS - CONTINUED

8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

As of June 30, 2016, the carrying amount of the District's deposits was \$1,160,574 and the bank balance was \$1,198,123 of which \$250,000 was insured by Federal depository insurance and the remaining \$948,123 was uninsured and uncollateralized.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. There are three (3) levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices in active markets for identical securities.
- Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk and others.
- Level 3: Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect the organization's own assumptions about the factors market participants would use in pricing an investment, and would be based on the best information available.

Investments

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

The District participates in the Michigan Liquid Asset Fund Plus (MILAF+), the portfolio securities are valued at amortized costs, which approximates market value. The amortized cost method involves valuing a security at its cost on the date of purchase and recording a constant amortization or accretion to maturity of any discount or premium. It is MILAF+'s policy to compare amortized cost and fair values of the securities periodically throughout each month and as of the last business day of each month. Fair value is determined by reference to quoted market prices. MILAF+'s annual financial statement may be obtained at www.milaf.org. As of June 30, 2016, the District has \$495,100 invested with MILAF+.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Investments - continued

MILAF+ portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Money market securities are valued using amortized cost, as outlined in GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Generally, amortized cost approximates the current fair value of a security, but since the value is not obtained from a quoted price in an active market, such securities held by the MILAF+ Portfolio are categorized as Level 2.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2016, the MILAF+ investments were rated AAAM by Standard and Poor's and had a weighted average maturity (WAM) of <60 days.

Interest rate risk

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

Concentration of credit risk

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

Custodial credit risk

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

As of June 30, 2016, the cash and investments referred to above have been reported in the cash and investments captions in the financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash	\$ 1,092,400	\$ 68,174	\$ 1,160,574
Investments	<u>495,100</u>	<u>-</u>	<u>495,100</u>
	<u>\$ 1,587,500</u>	<u>\$ 68,174</u>	<u>\$ 1,655,674</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated				
Land	\$ 12,225	\$ -	\$ -	\$ 12,225
Construction in progress	-	620,280	-	620,280
Subtotal	12,225	620,280	-0-	632,505
Capital assets being depreciated				
Buildings and improvements	6,228,395	-	-	6,228,395
Equipment and furniture	3,004,320	36,903	-	3,041,223
Vehicles	1,276,875	-	-	1,276,875
Other	512,525	-	-	512,525
Subtotal	11,022,115	36,903	-0-	11,059,018
Less accumulated depreciation for:				
Buildings and improvements	(3,476,348)	(143,591)	-	(3,619,939)
Equipment and furniture	(2,599,101)	(83,562)	-	(2,682,663)
Vehicles	(1,025,867)	(53,519)	-	(1,079,386)
Other	(304,117)	(10,547)	-	(314,664)
Subtotal	(7,405,433)	(291,219)	-0-	(7,696,652)
Net capital assets being depreciated	3,616,682	(254,316)	-0-	3,362,366
Capital assets, net	<u>\$ 3,628,907</u>	<u>\$ 365,964</u>	<u>\$ -0-</u>	<u>\$ 3,994,871</u>

Total depreciation expense of \$291,219 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2016, are as follows:

Due to General Fund from:	
Nonmajor governmental fund	<u>\$ 12,167</u>
Due to Sinking Fund from:	
General Fund	<u>\$ 16,679</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfer to nonmajor governmental funds from:	
General Fund	<u>\$ 748</u>

The transfer from the General Fund to the nonmajor governmental fund (Food Service Fund) was to cover a fund deficit.

NOTE F: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2016.

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Amounts Due Within One Year</u>
2013 Energy Conservation Improvement Bonds	\$ 285,000	\$ -	\$ (140,000)	\$ 145,000	\$ 145,000
Compensated Absences	<u>325,084</u>	<u>301,226</u>	<u>(325,084)</u>	<u>301,226</u>	<u>88,984</u>
	<u>\$ 610,084</u>	<u>\$ 301,226</u>	<u>\$ (465,084)</u>	<u>\$ 446,226</u>	<u>\$ 233,984</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Energy Conservation Improvement Bonds

\$550,000 2013 Energy Conservation Improvement Bonds; dated July 10, 2013; due in an annual installment of \$145,000 on May 1, 2017, with interest of 1.25%, payable semi-annually.

\$ 145,000

The annual requirements to pay the debt principal and interest outstanding are as follows:

<u>Year Ending June 30,</u>	<u>Energy Conservation Improvement Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2017	<u>\$ 145,000</u>	<u>\$ 1,812</u>

Compensated Absences

In recognition of services to the District, a severance payment will be made upon termination to eligible employees according to their respective employment contracts or past District practice as follows:

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F: LONG-TERM DEBT – CONTINUED

Teachers

Employees eligible for non-disability retirement through the Michigan Public Schools Employee Retirement System and having at least fifteen (15) years of consecutive service to the Board shall be paid a severance payment on the following schedule:

- After fifteen (15) years of service, five (5) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty (20) years of service, ten (10) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty-five (25) years of service, fifteen (15) days' salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

Support Staff - Fulton Adult Alternative Independent Employee Group (FAAIEG)

Employees completing ten (10) years of service to the District and reaching age fifty (50) or above shall be paid a severance payment on the following schedule:

- After ten (10) years of service, one (1) week salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After fifteen (15) years of service, two (2) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty (20) years of service, three (3) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty-five (25) years of service, four (4) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

Support Staff - Fulton Educational Support Personnel Association (FESPA)

Employees completing ten (10) years of service to the District and reaching age fifty (50) or above shall be paid a severance payment on the following schedule:

- After ten (10) years of service, one (1) week salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After fifteen (15) years of service, two (2) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty (20) years of service, three (3) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.
- After twenty-five (25) years of service, four (4) weeks salary plus fifteen percent (15%) of the bargaining unit member's unused sick leave.

District Administrators

Severance and longevity eligibility shall begin after 10 years of service as an administrator with the Fulton Schools.

- After ten (10) years of service, five (5) days of salary plus fifteen percent (15%) of unused sick leave.
- After fifteen (15) years of service, ten (10) days of salary plus fifteen percent (15%) of unused sick leave.
- After twenty (20) years of service, fifteen (15) days of salary plus fifteen percent (15%) of unused sick leave.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F: LONG-TERM DEBT – CONTINUED

Under GASB Statement No. 16 requirements, the District has elected to implement the “vesting” method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The sick leave amounts for employees who currently are not vested are calculated by using total unused sick leave amounts at June 30, 2016, for all nonvested employees. The terminal leave amounts for employees who currently are not vested are calculated by taking the sum of nonvested employees’ salaries for the year ended June 30, 2016, and multiplying it by the lowest years of service bracket applicable for the employee class. Both of these amounts are multiplied by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past.

A summary of the calculated amounts of accrued compensated absences and related payroll taxes as of June 30, 2016, which has been recorded in the District-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Compensated absences	\$ 236,987	\$ 42,842	\$ 279,829
Payroll taxes	18,120	3,277	21,397
	<u>\$ 255,107</u>	<u>\$ 46,119</u>	<u>\$ 301,226</u>

NOTE G: SHORT-TERM NOTE

On June 29, 2016, the District issued a Capital Improvement Tax Anticipation Note in the amount of \$250,000 for the purpose of funding sinking fund projects. This short-term note, which had a net outstanding balance of \$250,000 at June 30, 2016, was reported in the Sinking Fund and in the government-wide financial statements under the caption short-term notes payable. The balance is due on April 17, 2017.

NOTE H: RISK MANAGEMENT

The District participates in a pool, the MASB-SEG Property and Casualty Pool, with other school districts for property, liability, in-land marine, boiler and machinery, fleet, employee dishonesty, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. In the event the pool’s claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool’s policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessments being required.

The District is exposed to risks of loss related to the District’s workers’ compensation for which the District carries commercial insurance. There has been no indication of amounts of settlements that have exceeded insurance coverages for each of the past three years.

NOTE I: SINKING FUND ACTIVITY

The Capital Projects Fund of the District includes the capital projects activities funded by local millage for a sinking fund (the Sinking Fund Capital Projects Fund) and other local revenues in that fund. For the expenditures recorded within the Capital Projects Sinking Fund, the District has complied with the applicable provisions of Section 1212 (1) of the Revised School Code.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J: EMPLOYEE RETIREMENT SYSTEM

PLAN DESCRIPTION

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

The System's financial statements are available at www.michigan.gov/mpsers-cafr.

BENEFITS PROVIDED

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

CONTRIBUTIONS AND FUNDED STATUS

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015, valuation will be amortized over a 21 year period for ORS' 2015 fiscal year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

CONTRIBUTIONS AND FUNDED STATUS - CONTINUED

The schedule below summarizes pension contribution rates in effect for ORS' 2015 fiscal year.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	22.52 - 23.07%
Member Investment Plan	3.0 - 7.0%	22.52 - 23.07%
Pension Plus	3.0 - 6.4%	21.99%
Defined Contribution	0.00%	17.72 - 18.76%

Required contributions to the pension plan from the District were \$1,034,109 for the year ended September 30, 2015.

NET PENSION LIABILITY - NON-UNIVERSITY

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 - Non-University As of September 30, 2015	
Total Pension Liability	\$ 66,312,041,902
Plan Fiduciary Net Position	<u>41,887,015,147</u>
Net Pension Liability	<u>\$ 24,425,026,755</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.17%
Net Pension Liability as a percentage of Covered-Employee Payroll	292.61%

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

At June 30, 2016, the District reported a liability of \$13,093,018 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was 0.05360493 percent, which was an increase of 0.00028493 percent from its proportion measured as of September 30, 2014.

Fulton Schools

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

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

For the year ended June 30, 2016, the District recognized total pension expense of \$1,152,425. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 43,368
Changes of assumptions	322,378	-
Net difference between projected and actual earnings on pension plan investments	66,829	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	170,091	-
State Aid related to pensions	-	291,617
District's contributions subsequent to the measurement date	<u>1,162,111</u>	<u>-</u>
Total	<u>\$ 1,721,409</u>	<u>\$ 334,985</u>

\$1,162,111 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. \$291,617 reported as deferred inflows of resources under the caption State Aid related to pensions will be recognized as an increase to State Aid revenue in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 82,525
2017	82,525
2018	65,037
2019	285,843

Actuarial Assumptions

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

Actuarial Assumptions - continued

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid)	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projected scale BB. For Retirees, 100% of the table rates were used. For active members, 80% of the tables were used for males and 70% of the tables were used for females. This assumption was first used for the September 30, 2014, valuation of the System.

Long-Term Expected Return on Plan Assets

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate & Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short Term Investment Pools	<u>2.0%</u>	0.0%
Total	<u>100%</u>	

*Long-term rate of return does not include 2.1% inflation.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE J: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

NET PENSION LIABILITY - NON-UNIVERSITY - CONTINUED

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 provided through non-university employers only). 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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage 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%
District's proportionate share of the net pension liability	\$ 16,880,257	\$ 13,093,018	\$ 9,900,221

DEFINED CONTRIBUTION PLAN

Benefit provisions of MPSERS also requires the District to contribute to a defined contribution tax-deferred investment account for all eligible employees. The District is required to match 50% of an employee's contributions up to 1% of an employee's salary. The retirement benefits are determined by the final average compensation and years of service with disability and survivor benefits available to members. The District contribution for the year ended June 30, 2016, was \$5,751.

NOTE K: OTHER POST-EMPLOYMENT BENEFITS

PLAN DESCRIPTION

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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE K: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

PLAN DESCRIPTION – CONTINUED

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10.0 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate.

Contribution rates for the year ended June 30, 2016, are as follows:

	<u>Health Contribution Rate</u>	
	<u>Basic/MIP</u>	<u>Pension Plus</u>
July 1, 2015 - September 30, 2015	2.20 - 2.71%	2.20 - 2.71%
October 1, 2015 - June 30, 2016	6.40 - 6.83%	6.40 - 6.83%

The District's required and actual contributions to the various plans for the last three fiscal years are as follows:

Fiscal Year Ending June 30,	Defined Benefit Plan	Defined Contribution Plan	
	Employer Health Contributions	Employer Contributions	Employee Contributions
2016	\$ 293,115	\$ 16,833	\$ 16,833
2015	166,801	5,702	9,610
2014	285,274	18,007	20,654

NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard.

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors or laws, regulations or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision-making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE L: DETAILS OF FUND BALANCE CLASSIFICATIONS – CONTINUED

Unassigned - all other resources; the remaining fund balance after nonspendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the District's highest level of decision-making authority is the Board of Education. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is by vote and approval by the Board of Education.

For assigned fund balance, Fulton Schools has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the Board of Education.

For the classification of fund balances, the District considers restricted amounts to have been spent when expenditures are incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the District considers committed, assigned, or unassigned amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE M: CONTRACTUAL COMMITMENT

The District has entered into contracts related to renovation of the high school/middle school that was not completed at June 30, 2016. The total contractual commitments outstanding at June 30, 2016 totaled \$434,093. The District's Sinking Fund fund balance, along with future anticipated property taxes and other local revenues are expected to be sufficient to cover these commitments.

NOTE N: CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 72, *Fair Value Measurement and Application*, was implemented during the year. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, was implemented during the year. The Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was implemented during the year. The Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2016-2017 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The District is currently evaluating the impact this standard will have on the financial statement when adopted during the District's 2017-2018 fiscal year.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2016-2017 fiscal year.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments and requires the blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2016-2017 fiscal year.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017-2018 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

Fulton Schools

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Local sources	\$ 583,960	\$ 659,326	\$ 672,332	\$ 13,006
State sources	6,981,634	6,817,134	6,879,292	62,158
Federal sources	337,924	391,404	359,614	(31,790)
TOTAL REVENUES	7,903,518	7,867,864	7,911,238	43,374
EXPENDITURES				
Current				
Instruction				
Basic programs	3,877,085	3,820,923	3,959,234	(138,311)
Added needs	645,461	659,164	652,916	6,248
Adult and continuing education	1,036,149	888,493	888,540	(47)
Total instruction	5,558,695	5,368,580	5,500,690	(132,110)
Supporting services				
Student services	284,325	289,074	287,674	1,400
Instructional staff	139,769	143,737	112,998	30,739
General administration	281,082	300,972	290,061	10,911
School administration	477,707	485,481	463,251	22,230
Other business services	112,779	178,248	180,200	(1,952)
Operations and maintenance	672,020	680,083	665,627	14,456
Transportation	456,807	440,566	430,313	10,253
Central support	105,403	108,363	91,467	16,896
Athletics	293,884	298,617	287,271	11,346
Other	6,800	7,046	-	7,046
Total supporting services	2,830,576	2,932,187	2,808,862	123,325
Community services	249,027	244,515	234,373	10,142
TOTAL EXPENDITURES	8,638,298	8,545,282	8,543,925	1,357
EXCESS OF REVENUES (UNDER) EXPENDITURES	(734,780)	(677,418)	(632,687)	44,731

Fulton Schools

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	\$ -	\$ -	\$ (748)	\$ (748)
County special education allocation	254,204	235,714	235,714	-0-
Payments to other districts	(91,700)	(56,000)	(48,169)	7,831
TOTAL OTHER FINANCING SOURCES (USES)	162,504	179,714	186,797	7,083
NET CHANGE IN FUND BALANCE	(572,276)	(497,704)	(445,890)	51,814
Fund balance, beginning of year	1,969,917	1,969,917	1,969,917	-0-
Fund balance, end of year	\$ 1,397,641	\$ 1,472,213	\$ 1,524,027	\$ 51,814

Fulton Schools

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

Michigan Public School Employee Retirement Plan

Last Measurement Date (ultimately ten fiscal years will be displayed)
 (Amounts were determined as of 9/30 of each year)

	<u>2014</u>	<u>2015</u>
District's proportion of net pension liability (%)	0.05332%	0.05361%
District's proportionate share of net pension liability	\$ 11,745,038	\$ 13,093,018
District's covered employee payroll	\$ 4,358,138	\$ 4,178,385
District's proportionate share of net pension liability as a percentage of its covered employee payroll	269.50%	313.35%
Plan fiduciary net position as a percentage of total pension liability	66.20%	63.17%

Fulton Schools

SCHEDULE OF CONTRIBUTIONS

Michigan Public School Employees Retirement Plan

Last Two Fiscal Years (ultimately ten fiscal years will be displayed)
 (Amounts were determined as of 6/30 of each fiscal year)

	<u>2015</u>	<u>2016</u>
Statutorily required contributions	\$ 1,013,289	\$ 1,397,986
Contributions in relation to statutorily required contributions	<u>1,013,289</u>	<u>1,397,986</u>
Contribution deficiency (excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
District's covered employee payroll	\$ 4,346,221	\$ 4,334,595
Contributions as a percentage of covered employee payroll	23.31%	32.25%

Fulton Schools

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2016

NOTE A: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

The approved budgets of the District have been adopted at the functional level for the General Fund and the total expenditure level for the Food Service Fund.

During the year ended June 30, 2016, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Expenditures			
Instruction			
Basic programs	\$ 3,820,923	\$ 3,959,234	\$ 138,311
Adult and continuing education	888,493	888,540	47
Supporting services			
Other business service	178,248	180,200	1,952
Transfers to other funds	-	748	748

NOTE B: MICHIGAN PUBLIC SCHOOL EMPLOYEE RETIREMENT PLAN

Changes of benefit terms: There were no changes of benefit terms in 2015.

Changes of assumptions: Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in annual pension valuations beginning with the September 30, 2014, valuation, the effects of this change have impacted the deferred outflows of resources in these financial statements.

Principals

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INDEPENDENT AUDITOR'S REPORT ON AND INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Fulton Schools
Middleton, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Fulton Schools (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise District's basic financial statements and have issued our report thereon dated October 7, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described below to be a material weakness.

2016-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: A Material journal entry for the adjustment of short-term debt was proposed by the auditors.

Criteria: During our audit procedures, we noted the District had recorded a new debt issuance in their general ledger as a revenue instead of short-term liability as required by generally accepted accounting principles. Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (where applicable), including the recording of all appropriate journal entries so that the trial balances reflect amounts that are in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

2016-001 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS – CONTINUED

Cause: The District's internal controls over financial reporting failed to identify this misstatement.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the general ledger was materially misstated due to a one-time special accounting issue to record a debt issuance as a short-time liability in the governmental funds financial statements.

Recommendation: We recommend that the District take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: This was a one-time special accounting issue related to a short-term bond issuance and this will not happen again going forward.

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. We consider the following deficiencies in the District's internal control to be significant deficiencies:

2016-002 SEGREGATION OF DUTIES

Condition: During our analysis and testing of the internal control structures, we noted that the District may not have adequate separation of duties as one individual is capable of performing numerous accounting functions (i.e., the same person receipts in cash, creates deposits slip, takes the deposit to the bank, maintains the accounting records, and performs bank reconciliations). Also, currently there is no management review of bank reconciliations being completed by someone separate from the cash receipt and cash disbursement process.

Criteria: The main concept of an internal control structure is to assure that no one person handles all aspects of processing a transaction.

Cause: The District may not have enough administrative personnel to adequately separate duties.

Effect: The District is exposed to greater risk than may be present if adequate internal control systems were in place.

Recommendation: We recommend the District take steps to ensure that accounting duties are segregated to the greatest extent possible. This will increase efficiency in the processing of transactions and strengthen the internal control systems.

Corrective Action Response: The Superintendent will start initialing bank reconciliations, deposit tickets, and other accounting work to mitigate the risk.

2016-003 INTERNAL CONTROLS OVER DISBURSEMENTS

Condition: During our testing of internal controls over the disbursement process, we noted areas where the District failed to follow its established policies in the disbursement process. Specifically, we noted that there were no purchase orders present for three (3) of forty (40) transactions tested. A similar issue was noted and reported in our audit comments last year.

Criteria: Established District procedures require purchase orders to be completed by building administrators or the superintendent prior to ordering items.

Cause: The District failed to follow its established procedures related to disbursements.

Effect: By failing to follow established procedures, the District is at greater risk for error or fraud related to the disbursement process.

Recommendation: We recommend the District evaluate procedures related to disbursements to assure that established policies are followed consistently.

Corrective Action Response: The District will revise their procedures on purchasing orders and disbursements to ensure each disbursement has a purchase order attached to it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 the following instances of noncompliance or other matters:

2016-004 UNFAVORABLE BUDGET VARIANCES

Condition: During our review of the District's compliance with the budgeting act, we noted that expenditures had exceeded the amounts appropriated for various activities in the General Fund.

Criteria: The Uniform Budgeting and Accounting Act requires the District to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Cause: The District did not adequately monitor expenditures in relation to budgeted amounts

Effect: The District adopted the budget for the General Fund at the functional level and the Special Revenue funds at the fund level. Having unfavorable budget variances as described above, the District is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the District monitor expenditures against adopted budgets in all applicable funds and make appropriate budget amendments as needed.

Corrective Action Response: The District always wants to have a tighter reign over revenue and expenditures. We budget conservatively in order to stay solvent, though we will monitor finances closer in the next year to be certain we are as close to actual as we feel comfortable projecting.

2016-005 PENSION CENSUS DATA

Condition: During our pension census data testing, we noted various minor differences between the number of employees reported in the payroll system compared to the employees report to the Michigan Public School Employees' Retirement System but nothing that appeared to be materially in error that would cause a material misstatement.

Criteria: The District's payroll system should support the number of employees reported to the Michigan Public School Employees' Retirement System.

Cause: Unknown.

Effect: The District's proportionate share of the net pension liability could be overstated.

Recommendation: We recommend that the District maintain adequate supporting documentation in a readily accessible format for the census data information provided to the actuary, assure that it is accurate, and have that data available for audit purposes.

Corrective Action Response: The District will look into why the payroll system is not matching the Michigan Public School Employees' Retirement System report and get this issue fixed before the next audit.

Fulton Schools' Responses to Findings

Fulton Schools' responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 7, 2016