

Avondale School District

Financial Statements

June 30, 2016

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Avondale School District
Members of the Board of Education and Administration
June 30, 2016

Members of the Board of Education

Ken Hendrick	President
Sid Lockhart	Vice President
Terry Lang	Secretary
Scott Bittinger	Treasurer
Stephen Sucher	Trustee
Sean Johnson	Trustee
Cynthia Tischer	Trustee

Administration

Dr. James V. Schwarz	Superintendent
Frank E. Lams	Assistant Superintendent for Financial Services
Karen J. Olex	Assistant Superintendent for Student Services
Frederick J. Cromie	Assistant Superintendent for Administrative Services

Independent Auditors' Report

Management and the Board of Education
Avondale School District

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 Avondale School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB Statements No. 72, 76, 79, and 82, *Fair Value Measurement and Application*, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, *Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. 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, schedule of the school district's proportionate share of the net pension liability, and schedule of the school district's contributions, identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Prior Year Supplementary Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Avondale School District's basic financial statements as of and for the year ended June 30, 2015, which are not presented with the accompanying basic financial statements. In our report dated November 2, 2015, we expressed unmodified opinions on the respective basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Avondale School District's basic financial statements as a whole. The 2015 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 information in the comparative supplementary schedules is fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of Avondale School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Avondale School District's internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Saginaw, MI
October 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Avondale School District
Management's Discussion and Analysis
June 30, 2016

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

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 Avondale School District 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 a longer-term view of those 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 government-wide financial statements by providing information about the School District's most significant funds - the General Fund, and the 2015 Series A Refunding Debt Service Fund with all other funds presented in one column as nonmajor 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.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for General Fund

Other Supplemental Information

Reporting the School District as a Whole - Government-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 School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements 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.

Avondale School District
Management's Discussion and Analysis
June 30, 2016

These two statements report the School District's net position - the difference between assets, deferred outflows of resources and liabilities, 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 to 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 the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community education, athletics, and food services. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Community Services Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The School District uses the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Avondale School District
Management's Discussion and Analysis
June 30, 2016

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2016 and 2015.

Table 1	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Current and other assets	\$ 8,529,540	\$ 7,609,907
Capital assets	<u>111,156,370</u>	<u>112,441,453</u>
Total Assets	<u>119,685,910</u>	<u>120,051,360</u>
Deferred Outflows of Resources	<u>7,390,125</u>	<u>6,170,905</u>
Liabilities		
Current Liabilities	6,357,060	6,333,629
Long-term liabilities	<u>152,790,927</u>	<u>149,775,416</u>
Total Liabilities	<u>159,147,987</u>	<u>156,109,045</u>
Deferred Inflows of Resources	<u>1,618,738</u>	<u>5,417,129</u>
Net Position		
Net investment in capital assets	17,346,651	13,302,836
Restricted	436,312	759,275
Unrestricted	<u>(51,473,653)</u>	<u>(49,366,020)</u>
Total net position	<u><u>\$(33,690,690)</u></u>	<u><u>\$(35,303,909)</u></u>

Avondale School District
Management's Discussion and Analysis
June 30, 2016

The School District's net position was (\$33.69 million) and (\$35.30 million) at June 30, 2016 and 2015, respectively. Net investment in capital assets totaling \$17.35 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Net position restrictions are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use net position for day-to-day operations. The remaining amount of net position is an unrestricted deficit and totals \$51.47 million.

The (\$51.47 million) in unrestricted net position (deficit) of governmental activities represents the accumulated results of all past years' operations. A positive unrestricted net position balance would enable the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The School District's unrestricted net position balance is currently in deficit position, which signals we will experience difficulties with cash flow. There are minimal reserves available to handle large unexpected uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

During the 2014-15 year the School District implemented GASB 68 which resulted in a restatement of beginning net position. Beginning net position in the statement of activities was reduced by \$48.9 million, restating it from \$11 million to negative \$37.9 million. As of June 30, 2016, the estimated net pension liability for the school district is \$55.70 million. Additionally deferred inflows relating to net pension liability are \$1.62 million and deferred outflows relating to the net pension liability are \$7.39 million. These deferrals will be amortized through the plan year 2019.

The results of this year's operations for the School District as a whole are reported in the statement of activities, which shows the changes in net position for fiscal years 2016 and 2015 (see Table 2).

Avondale School District
Management's Discussion and Analysis
June 30, 2016

Table 2	Governmental Activities	
	2016	2015
Revenues		
Program revenues		
Charges for services	\$ 1,586,820	\$ 1,486,839
Operating grants and contributions	8,991,250	8,636,477
Capital grants and contributions	678,514	681,257
General revenues		
Property taxes	16,151,391	15,685,761
State aid-unrestricted	21,305,559	22,437,616
Other	408,227	384,918
Total revenues	49,121,761	49,312,868
Expenditures		
Instruction	28,579,604	26,758,809
Supporting services	13,463,421	13,886,478
Food services	1,257,485	1,165,586
Community services	748,978	973,760
Interest on long-term debt	3,459,054	3,920,637
Total expenditures	47,508,542	46,705,270
Change in net position	\$ 1,613,219	\$ 2,607,598

As reported in the statement of activities, the cost of all of our governmental activities this year was \$47.51 million. Certain activities were partially funded from those who benefited from the programs (\$1.59 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9.67 million). We paid for the remaining "public benefit" portion of our governmental activities with \$16.15 million in taxes, \$21.31 million in state foundation allowance, and \$.40 million with our other revenues, i.e., interest income and general entitlements.

The School District experienced an increase in net position of \$1.6 million, and total net position increased from (\$35.30 million) as restated, to (\$33.69 million).

Avondale School District
Management's Discussion and Analysis
June 30, 2016

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$2.39 million.

Our Special Revenue Funds (Food Services and Community Services Funds) had a combined increase in fund equity of approximately \$73,000. Food Services fund equity decreased approximately \$35,000 mainly due to higher food costs. Community Services fund equity increased approximately \$108,000 primarily due to increased student enrollment in our early learning and Busy Bee latchkey programs.

Combined, the Debt Service Funds showed a planned fund balance increase of approximately \$140,000. This increase was planned to offset future borrowing from the School Bond Loan Program (discussed below).

The Sinking Fund's fund balance decreased by approximately \$14,000. This increase was planned to provide financing for projects scheduled in fiscal year 2015-16.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were revisions made to the original 2015-2016 General Fund budget. Total budgeted revenues were increased approximately \$590,000 due mainly to an increase in state categoricals (\$362,000) compared with the original adopted budget. An additional increase in facility rentals of \$58,000 and activity fees of \$54,000 was also included versus the original budget. The variance from budget to actual for revenues was approximately (0.4) percent.

Avondale School District
Management's Discussion and Analysis
June 30, 2016

Budgeted expenditures were increased approximately \$724,000. Of this amount, Instructional costs increased \$895,000 due to retirement and other personnel expenditures. Operations and maintenance decreased \$110,000 primarily due to lower utility costs. The remainder of the expenditure variances were for other assorted known changes to expenditures. The variance from budget to actual for expenditures was approximately (1.3) percent.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the School District had \$111.2 million invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, furniture, and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of (\$1.3 million). This decrease was driven primarily by depreciation of buildings.

We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had \$94.275 million in bonds outstanding versus \$98.7 million in the previous year (a decrease of 4.5 percent). The decrease is due principal maturities and the refunding of the 2005 and 2006 Bonds occurring during 2015-16. The outstanding bonds consisted of the following:

2007 Refunding Bonds	\$17,700,000
2009 Refunding Bonds	8,175,000
2010 Building and Site Series A	4,000,000
2010 Building and Site Series B	21,700,000
2014 Refunding Series A Bonds	27,000,000
2014 Building and Site Series B	400,000
2015 Refunding Series A Bonds	13,345,000
2015 Building and Site Series B	1,955,000

The School District's general obligation bonds are qualified for participation by the State in the Michigan School Bond Loan Program. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries (\$171 million). If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. All of the School District's outstanding general obligation debt of \$94.275 million is qualified by the State.

Other obligations include accrued vacation pay, sick leave, early separation agreements, and accreted interest on capital appreciation bonds. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Avondale School District
Management's Discussion and Analysis
June 30, 2016

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's 2016-17 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 2016-17 fiscal year is 90 percent and 10 percent of October 2016 and February 2017 student counts, respectively. The 2016-2017 budget was adopted in June 2016, based on an estimate of students that will be enrolled in October 2016. Approximately 61 percent of total General Fund revenue is from the foundation allowance another 9.8 percent of revenues is derived from other state sources. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. The state's ability to adequately fund public education continues to diminish.

Based on the initial fall student count, the blended count to formulate the 2016-2017 budget is below the projected target. Once the final student count and related per pupil funding is validated, the School District will amend the budget to more accurately reflect the resources available and adjust original appropriations to reflect known changes in its operating obligations.

Since the School District's revenue is heavily dependent on state funding and the health 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. It is anticipated with the 2017 budget adoption the foundation allowance will be slightly higher as compared against the 2015-2016 foundation. Although the base foundation allowance will increase, higher costs for retirement and employee health care will effectively nullify this gain. During the summer of 2015, the legislature enacted legislation requiring school districts to achieve a minimum 5 percent General Fund fund equity to avoid state oversight. The District's fund equity at June 30, 2016 is approximately 2.6 percent of expenditures up from 1.9 percent at June 30, 2015. Although the District continues to trim expenditures, it is evident that additional budget reductions will be necessary for the District to maintain financial stability and independence. Inevitably these budget reductions will impact the instructional programs and services that are presently offered.

If the State's revenue budget falls short of projections, the legislature must then revise the appropriation or proration of state aid will occur. We received a proration of state aid in earlier fiscal years, it is not known at this time whether a mid-year proration will occur in 2016-2017 and what the impact will be on revenues.

Contacting the School District's Administration

This report is designed to give an overview of the financial condition of the Avondale School District. If there are additional questions or information needed, please contact the business office at (248) 537-6000.

BASIC FINANCIAL STATEMENTS

Avondale School District
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,682,577
Accounts receivable	120,409
Due from other governmental units	5,688,341
Interest receivable	225,310
Inventory	21,362
Investments	593,119
Prepaid items	198,422
Capital assets not being depreciated	3,467,033
Capital assets - net of accumulated depreciation	<u>107,689,337</u>
 Total assets	 119,685,910
 Deferred Outflows of Resources	
Deferred amount relating to net pension liability	7,302,833
Deferred amount on debt refunding	<u>87,292</u>
 Total deferred outflows of resources	 <u>7,390,125</u>
 Total assets and deferred outflows of resources	 <u>127,076,035</u>

See Accompanying Notes to the Financial Statements

Avondale School District
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 1,102,061
State aid anticipation note payable	257,298
Due to other governmental units	867,292
Payroll deductions and withholdings	35,025
Accrued expenditures	504,659
Accrued salaries payable	3,505,409
Unearned revenue	85,316
Noncurrent liabilities	
Net pension liability	55,698,711
Debt due within one year	15,980,000
Debt due in more than one year	<u>81,112,216</u>
 Total liabilities	 159,147,987
 Deferred Inflows of Resources	
Deferred amount on net pension liability	<u>1,618,738</u>
 Total liabilities and deferred inflows of resources	 <u>160,766,725</u>
 Net Position	
Net investment in capital assets	17,346,651
Restricted for	
Food service	244,335
Sinking fund	191,977
Unrestricted (deficit)	<u>(51,473,653)</u>
 Total net position	 <u><u>\$ (33,690,690)</u></u>

See Accompanying Notes to the Financial Statements

Avondale School District
Statement of Activities
For the Year Ended June 30, 2016

	Program Revenues				Net (Expense)
		Charges for	Operating	Capital	Revenue and
	Expenses	Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Assets
Functions/Programs					
Governmental activities					
Instruction	\$ 28,579,604	\$ 92,473	\$ 5,201,433	\$ -	\$ (23,285,698)
Supporting services	13,463,421	194,163	3,139,641	-	(10,129,617)
Food services	1,257,485	389,259	650,176	-	(218,050)
Community services	748,978	910,925	-	-	161,947
Interest and fiscal charges on long-term debt	3,459,054	-	-	678,514	(2,780,540)
Total governmental activities	\$ 47,508,542	\$ 1,586,820	\$ 8,991,250	\$ 678,514	(36,251,958)
General revenues					
Property taxes, levied for general purposes					6,934,334
Property taxes, levied for debt service					8,516,503
Property taxes, levied for sinking fund					700,554
State aid - unrestricted					21,305,559
Interest and investment earnings					3,235
Other					404,992
Total general revenues					37,865,177
Change in net position					1,613,219
Net position - beginning					(35,303,909)
Net position - ending					\$ (33,690,690)

See Accompanying Notes to the Financial Statements

Avondale School District
Governmental Funds
Balance Sheet
June 30, 2016

	General Fund	2015 Series A	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 765,200	\$ -	\$ 917,377	\$ 1,682,577
Accounts receivable	103,128	61	17,220	120,409
Due from other funds	-	4	500	504
Due from other governmental units	5,680,867	-	7,474	5,688,341
Inventory	-	-	21,362	21,362
Investments	-	116,257	476,862	593,119
Prepaid items	198,422	-	-	198,422
	<u>6,747,617</u>	<u>116,322</u>	<u>1,440,795</u>	<u>8,304,734</u>
Total assets	<u>\$ 6,747,617</u>	<u>\$ 116,322</u>	<u>\$ 1,440,795</u>	<u>\$ 8,304,734</u>
Liabilities				
Accounts payable	\$ 1,011,206	\$ -	\$ 90,855	\$ 1,102,061
State aid anticipation note payable	257,298	-	-	257,298
Due to other funds	-	-	504	504
Due to other governmental units	859,765	-	7,527	867,292
Payroll deductions and withholdings	35,015	-	10	35,025
Accrued salaries payable	3,490,779	-	14,630	3,505,409
Unearned revenue	63,070	-	22,246	85,316
	<u>5,717,133</u>	<u>-</u>	<u>135,772</u>	<u>5,852,905</u>
Total liabilities	<u>5,717,133</u>	<u>-</u>	<u>135,772</u>	<u>5,852,905</u>
Deferred Inflows of Resources				
Unavailable grant receivables	66,731	-	-	66,731
	<u>66,731</u>	<u>-</u>	<u>-</u>	<u>66,731</u>

See Accompanying Notes to the Financial Statements

Avondale School District
Governmental Funds
Balance Sheet
June 30, 2016

	<u>General Fund</u>	<u>2015 Series A</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance				
Nonspendable				
Inventory	\$ -	\$ -	\$ 21,362	\$ 21,362
Prepaid items	198,422	-	-	198,422
Restricted for				
Food service	-	-	222,973	222,973
Debt service	-	116,322	264,714	381,036
Capital projects	-	-	649,457	649,457
Committed for future dental claims	91,128	-	-	91,128
Assigned for				
Community services	-	-	146,517	146,517
Unassigned	<u>674,203</u>	<u>-</u>	<u>-</u>	<u>674,203</u>
 Total fund balance	 <u>963,753</u>	 <u>116,322</u>	 <u>1,305,023</u>	 <u>2,385,098</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u>\$ 6,747,617</u>	 <u>\$ 116,322</u>	 <u>\$ 1,440,795</u>	 <u>\$ 8,304,734</u>

See Accompanying Notes to the Financial Statements

Avondale School District
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Total fund balances for governmental funds	\$ 2,385,098
Total net assets for governmental activities in the statement of net assets is different because	
Certain receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Other governmental units	66,731
Receivables related to interest subsidy to offset the accrued interest payable	225,310
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	3,467,033
Capital assets - net of accumulated depreciation	107,689,337
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	87,292
Deferred inflows of resources resulting from net pension liability	(1,618,738)
Deferred outflows of resources resulting from net pension liability	7,302,833
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(504,659)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Net pension liability	(55,698,711)
Compensated absences	(68,713)
Employee severance pay	(1,460,000)
Bonds payable	<u>(95,563,503)</u>
Net assets of governmental activities	<u>\$ (33,690,690)</u>

See Accompanying Notes to the Financial Statements

Avondale School District
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	General Fund	2015 Series A	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 7,749,032	\$ 2,708,871	\$ 7,688,535	\$ 18,146,438
State sources	26,513,128	-	41,087	26,554,215
Federal sources	1,022,789	-	1,287,603	2,310,392
Interdistrict sources	<u>2,043,985</u>	<u>-</u>	<u>-</u>	<u>2,043,985</u>
 Total revenues	 <u>37,328,934</u>	 <u>2,708,871</u>	 <u>9,017,225</u>	 <u>49,055,030</u>
Expenditures				
Current				
Education				
Instruction	24,760,522	-	-	24,760,522
Supporting services	12,353,751	-	-	12,353,751
Food services	-	-	1,084,050	1,084,050
Community services	13,772	-	673,180	686,952
Capital outlay	1,510	-	2,692,004	2,693,514
Debt service				
Principal	-	2,095,000	3,160,000	5,255,000
Interest and other expenditures	-	541,309	3,153,869	3,695,178
Bond issuance costs	-	82,938	10,316	93,254
Payment to bond refunding escrow agent	<u>-</u>	<u>16,942,200</u>	<u>-</u>	<u>16,942,200</u>
 Total expenditures	 <u>37,129,555</u>	 <u>19,661,447</u>	 <u>10,773,419</u>	 <u>67,564,421</u>
 Excess (deficiency) of revenues over expenditures	 <u>199,379</u>	 <u>(16,952,576)</u>	 <u>(1,756,194)</u>	 <u>(18,509,391)</u>

See Accompanying Notes to the Financial Statements

Avondale School District
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	<u>General Fund</u>	<u>2015 Series A</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Other financing sources (uses)				
Proceeds from refinancing debt	\$ -	\$ 15,440,000	\$ 1,955,000	\$ 17,395,000
Premium on issuance of bonds	-	1,589,040	216,343	1,805,383
Proceeds from sale of capital assets	22,525	-	-	22,525
Transfers in	-	32,600	-	32,600
Transfers out	-	-	(32,600)	(32,600)
	<u>22,525</u>	<u>17,061,640</u>	<u>2,138,743</u>	<u>19,222,908</u>
Total other financing sources (uses)				
	221,904	109,064	382,549	713,517
Net change in fund balance				
	<u>741,849</u>	<u>7,258</u>	<u>922,474</u>	<u>1,671,581</u>
Fund balance - beginning				
	<u>\$ 963,753</u>	<u>\$ 116,322</u>	<u>\$ 1,305,023</u>	<u>\$ 2,385,098</u>
Fund balance - ending				

See Accompanying Notes to the Financial Statements

Avondale School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Net change in fund balances - Total governmental funds	\$ 713,517
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Total change in net position reported for governmental activities in the statement of activities is different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.

Operating grants	66,731
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(3,511,083)
Capital outlay	2,249,315
Sale of capital assets (net book value)	(23,315)

Expenses are recorded when incurred in the statement of activities.

Interest	110,162
Unemployment claims	5,792
Special termination benefits	129,000
Compensated absences	(22,357)

The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded in the governmental funds equals actual pension contributions.

Net change in net pension liability	(6,697,268)
Net change in the deferral of resources related to the net pension liability	6,108,059
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	(731,367)

Avondale School District
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.

Debt issued	\$ (19,200,383)
Repayments of long-term debt	22,197,200
Amortization of premiums	332,542
Amortization of amount on refunding	(90,681)
Amortization of bond discount	<u>(22,645)</u>
Change in net position of governmental activities	<u>\$ 1,613,219</u>

Avondale School District
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2016

	Private Purpose Trust Funds	Agency Funds
Assets		
Cash	\$ 7,315	\$ 496,125
Prepaid items	<u>-</u>	<u>525</u>
Total assets	<u>7,315</u>	<u>\$ 496,650</u>
Liabilities		
Accounts payable	-	\$ 87,897
Due to agency fund activities	<u>-</u>	<u>408,753</u>
Total liabilities	<u>-</u>	<u>\$ 496,650</u>
Net position		
Assets held for scholarships and loans	<u>\$ 7,315</u>	

See Accompanying Notes to the Financial Statements

Avondale School District
Fiduciary Funds
Private Purpose Trust Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016

	<u>Private Purpose Trust Funds</u>
Additions	\$ 19,155
Deductions	<u>26,633</u>
Change in net position	(7,478)
Net Position - beginning	<u>14,793</u>
Net Position - ending	<u><u>\$ 7,315</u></u>

See Accompanying Notes to the Financial Statements

Avondale School District
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

District-wide Financial Statements

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

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

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

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

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

Avondale School District
Notes to the Financial Statements
June 30, 2016

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

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

The School District reports the following major governmental funds:

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

2015 Series A Debt Service Fund – This Debt Service Fund is used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt related to the 2015 Series A Debt Service.

Additionally, the School District reports the following fund types:

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

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

Sinking Fund – The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction or repair of school buildings.

Capital Projects Fund – The Capital Projects Funds are used to record bond proceeds or other revenue and the disbursement of invoices specifically for acquiring new school sites, buildings, equipment, and for remodeling and repairs. The fund is kept open until the purpose for which the fund was created has been accomplished.

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

Assets, Liabilities and Net Position or Equity

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

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

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2016, the rates are as follows per \$1,000 of assessed value.

Avondale School District
Notes to the Financial Statements
June 30, 2016

General Fund	
Non principal residence	18.0000
Commercial personal property	6.0000
Debt Service Funds	
All property	7.3000
Sinking Fund	
All property	0.6000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. 100% of the School District's tax roll lies within Oakland County.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Oakland and remitted to the School District by May 15.

Investments – Investments are stated at fair value. Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed, although significant amounts of inventory are capitalized at year end.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

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

Buildings and additions	50 years
Furniture	20 years
Equipment	5 - 10 years
Buses and other vehicles	8 years

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. Deferred amounts on bond refundings are included in the district-wide financial statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan is expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

Avondale School District
Notes to the Financial Statements
June 30, 2016

Compensated Absences – The liability for compensated absences reported in the district-wide statements consist of earned but unused accumulated vacation day balances. A liability for these amounts is reported in the governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

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

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

Pension – 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.

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan is expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

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

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

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

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

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

Avondale School District
Notes to the Financial Statements
June 30, 2016

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

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

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

The Board of Education recognizes that sound fiscal management comprises the foundational support of the entire School District. To make that support as effective as possible the Board shall establish, by its second meeting of November, a fund equity goal not lower than five percent (5%) nor higher than fifteen percent (15%) for use during the annual budget development process for the subsequent school year. The purpose of fund equity is to protect the cash flow position of the School District, reduce the need to borrow funds, and ensure adequate financial resources are being applied to educational programs. The rationale for any fund equity goal outside of this range will be documented and recorded in the minutes of a regular Board meeting.

Use of Estimates

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

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

The Governmental Accounting Standards Board ("The GASB") has issued Statement 72, *Fair Value Measurements and Applications*. Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. Statement 72 is effective for the year ending June 30, 2016.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This 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. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement 76 is effective for the year ending June 30, 2016.

Avondale School District
Notes to the Financial Statements
June 30, 2016

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. Also, it establishes additional disclosure requirements for qualifying external investment pools that make that election and for governments that participate in such external investment pools. Statement 79 is effective for the year ending June 30, 2016.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this 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. Statement 82 is effective for the year ending June 30, 2016.

Upcoming Accounting and Reporting Changes

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

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

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact that the above GASBs will have on its financial reporting.

Avondale School District
Notes to the Financial Statements
June 30, 2016

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

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

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

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

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Function</u>	<u>Final Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variances</u>
General Fund			
Pupil	\$2,806,239	\$ 2,825,101	\$ 18,862
School administration	2,240,622	2,323,196	82,574
Business	584,840	597,367	12,527
Athletic activities	565,800	596,192	30,392
Capital outlay	-	1,510	1,510
Food Service Fund	1,031,300	1,084,050	52,750

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of (\$51,473,653) as of June 30, 2015. There are no other governmental funds with a deficit.

Compliance - Bond Proceeds

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, management believes the School District has complied, in all material respects, with the applicable provisions of Section 1351a of the Revised School Code. The following is a summary of the revenue and expenditures in the 2014 and 2015 Series B Capital Project Funds from the inception of the funds through the current fiscal year:

	<u>2014B Building and Site Fund</u>	<u>2015B Building and Site Fund</u>
Revenues	\$ 408,864	\$ 2,171,343
Expenditures	349,977	1,772,750

Avondale School District
Notes to the Financial Statements
June 30, 2016

Compliance - Sinking Funds

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, management believes the School District has complied, in all material respects, with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

Note 3 - Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 1,682,577	\$ 503,440	\$ 2,186,017
Investments	<u>593,119</u>	<u>-</u>	<u>593,119</u>
	<u>\$ 2,275,696</u>	<u>\$ 503,440</u>	<u>\$ 2,779,136</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 2,183,978
Investments in securities, mutual funds, and similar vehicles	593,119
Petty cash and cash on hand	<u>2,039</u>
Total	<u>\$ 2,779,136</u>

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

Investment	Fair Value	Maturities	Rating	Rating Organization
Fidelity Institutional Money Market	\$ 381,345	N/A	AAAm	Standard & Poor's
Bank of America Money Market	<u>211,774</u>	Daily	AAAm	Standard & Poor's
	<u>\$ 593,119</u>			

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. The School District's policy minimizes interest rate risk 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 School District's cash requirements.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Avondale School District
Notes to the Financial Statements
June 30, 2016

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer. The School District's policy minimizes concentration of credit risk by requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$2,014,003 of the School District's bank balance of \$2,514,003 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

Note 4 - Fair Value Measurements

The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The School District has the following recurring fair value measurements as of June 30, 2016:

- U.S. Treasury securities of \$593,119 are valued using quoted market prices (Level 1 inputs)

Note 5 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,467,033	\$ -	\$ -	\$ 3,467,033
Capital assets being depreciated				
Buildings and additions	149,596,355	508,029	278,140	149,826,244
Equipment and furniture	3,510,414	391,346	394,435	3,507,325
Buses and other vehicles	591,872	1,349,940	410,878	1,530,934
Total capital assets being depreciated	153,698,641	2,249,315	1,083,453	154,864,503
Less accumulated depreciation for				
Buildings and additions	41,363,381	3,204,595	254,825	44,313,151
Equipment and furniture	2,800,033	157,622	394,435	2,563,220
Buses and other vehicles	560,807	148,866	410,878	298,795
Total accumulated depreciation	44,724,221	3,511,083	1,060,138	47,175,166
Net capital assets being depreciated	108,974,420	(1,261,768)	23,315	107,689,337
Net capital assets	\$ 112,441,453	\$ (1,261,768)	\$ 23,315	\$ 111,156,370

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

Governmental activities	
Instruction	\$ 2,235,712
Support services	1,115,462
Food services	97,883
Community services	62,026
Total governmental activities	<u>\$ 3,511,083</u>

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Notes to the Financial Statements
June 30, 2016

Note 6 - Interfund Receivables, Payables, and Transfers

An interfund transfer was made during the year, between the 2005 and 2006 Debt Service Funds to the 2015 Series A Debt Service Fund totaling \$32,600. This transfer was made to close out the 2005 and 2006 Debt Service Funds.

Note 7 - Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the unearned revenue related to grant and categorical aid payments received prior to meeting all eligibility requirements was \$85,316.

Note 8 - Due to Other Governments

Due to other governments is made up of the following as of June 30, 2016:

Unfunded Accrued Actuarial Liability	\$ 398,640
Recapture of TIFA	118,034
Other payables	<u>350,618</u>
	<u>\$ 867,292</u>

During fiscal year 2013, the School District was notified that an audit of tax years 1994 through 2001 was conducted and it was found that the City of Auburn Hills had reported that it was keeping 100% of the captures under a Taxable Increment Financing Authority, when it was actually sharing 50% of the capture to affected districts. This resulted in an overstatement of the capture and an overpayment of State School Aid for those years to the affected districts. Based on the changes in captured value, a liability was recorded as of June 30, 2012 in the amount of \$499,374 and the amount still outstanding was \$118,034 as of June 30, 2016.

Avondale has entered into a repayment agreement where amounts will be repaid during the following fiscal years:

2017	\$ 99,875
2018	<u>18,159</u>
	<u>\$ 118,034</u>

Note 9 - Leases

Operating Leases

The School District leases buses under non-cancelable operating leases. The total costs for such leases were \$96,962 for the year. The School District has one payment remaining in 2017 for \$96,932.

Note 10 - State Aid Anticipation Note

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

Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	<u>\$ 328,678</u>	<u>\$ 1,800,000</u>	<u>\$ 1,871,380</u>	<u>\$257,298</u>

The state aid anticipation note agreement includes an irrevocable set-aside of \$1,551,376 at year end that is considered defeased debt and not included in the ending balance.

Avondale School District
Notes to the Financial Statements
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Note 11 - Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Within One Year
Government obligation bonds	\$ 98,745,000	\$ 17,395,000	\$ 21,865,000	\$ 94,275,000	\$ 15,980,000
Compensated absences	46,356	22,357	-	68,713	-
Employee severance pay	1,589,000	-	129,000	1,460,000	-
Premium on bonds	14,655	1,805,383	332,542	1,487,496	-
Discount on bonds	(221,638)	-	(22,645)	(198,993)	-
Total	\$ 100,173,373	\$ 19,222,740	\$ 22,303,897	\$ 97,092,216	\$ 15,980,000

For governmental activities, compensated absences and retirement incentives are primarily liquidated by the General Fund.

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

2007 Refunding Bonds - \$18,240,000 issued, due in annual installments of \$70,000 to \$2,500,000 through May 1, 2029, interest at 4.00% to 4.25%	\$ 17,700,000
2009 Refunding Bonds - \$18,470,000 issued, due in annual installments of \$1,340,000 to \$1,535,000 through May 1, 2022, interest at 3.00% to 4.50%	8,175,000
2010 Building and Site Series A Bonds - \$4,000,000 issued, due in annual installments of \$1,325,000 to \$1,340,000 through May 1, 2029, interest at 5.50%	4,000,000
2010 Building and Site Series B Bonds - \$23,270,000 issued, due in annual installments of \$500,000 to \$1,950,000 through May 1, 2035, interest at 2.30% to 5.875%	21,700,000
2014 Refunding Series A Bonds - \$28,610,000 issued, due in annual installments of \$550,000 to \$11,730,000 through May 1, 2018, interest at .50% to 2.35%	27,000,000
2014 Building and Site Series B Bonds - \$400,000 issued, due in one installment of \$400,000 on November 1, 2017 with interest payable annually at 2.00%	400,000
2015 Refunding Series A Bonds - \$15,440,000 issued, due in annual installments of \$1,890,000 to \$6,670,000 through May 1, 2022, interest at 5%.	13,345,000
2015 Building and Site Series B Bonds - \$1,955,000 issued, due in annual installments of \$595,000 to \$1,360,000 through November 1, 2020, interest at 5%.	1,955,000
Total general obligation bonded debt	\$ 94,275,000

Avondale School District
Notes to the Financial Statements
June 30, 2016

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

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 15,980,000	\$ 3,748,971	\$ 19,728,971
2018	15,785,000	3,431,174	19,216,174
2019	10,285,000	2,988,618	13,273,618
2020	5,640,000	2,503,432	8,143,432
2021	4,705,000	2,259,283	6,964,283
2022-2026	19,660,000	8,442,207	28,102,207
2027-2031	14,720,000	4,143,287	18,863,287
2032-2035	<u>7,500,000</u>	<u>1,114,000</u>	<u>8,614,000</u>
Total	<u>\$ 94,275,000</u>	<u>\$28,630,972</u>	<u>\$ 122,905,972</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$381,036 to pay this debt. Future debt and interest will be payable from future tax levies.

Compensated Absences

Accrued compensated absences at year end, consist of \$68,713 of vacation hours earned and vested. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by vacation time earned for the year.

Employee Severance Pay

The School District's employee severance pay liability recorded on the district-wide financial statements at June 30, 2016 was approximately \$1,460,000.

Note 12 - Risk Management

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

The School District is self-insured for dental insurance. According to the provisions of this program, the School District is limited to the contractual amount of \$243,000 for dental claims.

No accrual has been recorded as of the end of the prior three fiscal years, due to the School District reaching the maximum contractual amounts. The year end claims liability and activity for the year is a follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Claims incurred	\$ 230,851	\$ 205,423	\$ 213,503
Claim payments	<u>(230,851)</u>	<u>(205,423)</u>	<u>(213,503)</u>
Liability end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Avondale School District
Notes to the Financial Statements
June 30, 2016

Note 13 - Pension Plans and Post-Employment Benefits

Organization

The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), originally created under Public Act 136 of 1945, recodified, and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. 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 DB plan members are determined by final average compensation and 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 or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Contributions and Funding 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 the plan's 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
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	0.0	17.72 - 18.76

Required contributions to the pension plan from the School District were \$4,399,178 for the year ending September 30, 2015.

Avondale School District
Notes to the Financial Statements
June 30, 2016

Net Pension Liability

At June 30, 2016, the School District reported a liability of \$55,698,711 for its proportionate share of the 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 30, 2014. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2015, the School District's proportionate share percent was 0.2280 percent, which was an increase of .0056 percent since the prior measurement date.

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

For the year ended June 30, 2016, the School District recognized total pension expense of \$4,984,327. The School District's actual contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$3,622,000, \$4,201,000, and \$3,541,000, respectively.

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ (184,490)
Changes in assumptions	1,371,420	-
Net difference between projected and actual earnings on pension plan investments	284,297	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,038,601	(10,848)
Employer contributions subsequent to the measurement date	<u>4,608,515</u>	<u>(1,423,400)</u>
	<u>\$ 7,302,833</u>	<u>\$ (1,618,738)</u>

\$4,608,515 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. \$1,423,400 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2017 when the related payments reduce the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Avondale School District
Notes to the Financial Statements
June 30, 2016

<u>Plan Year Ending September 30</u>	<u>Amount:</u>
2016	\$ 432,889
2017	432,888
2018	358,527
2019	<u>1,274,676</u>
Total	<u>\$ 2,498,980</u>

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.

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 returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025

using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation, and rolled forward using generally accepted actuarial procedures, including the experience study. The recognition period for liabilities is the average of the expected remaining service lives of all employees in years: (4.7158 for non-university employers). The recognition period for assets in years is 5.0000. Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (CAFR) (www.michigan.gov/mpsers-cafr).

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:

Avondale School District
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June 30, 2016

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
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 and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
	<u>100.0%</u>	

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

Discount Rate

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

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the School District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the School District's proportionate share of the net pension liability would be if it were

calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
<u>\$ 71,809,917</u>	<u>\$ 55,698,711</u>	<u>\$ 42,116,305</u>

*Non-university employers, the Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 MPERS CAFR (www.michigan.gov/mpers-cafr).

Payables to the Pension Plan

There were no significant payables to the pension plan that are not ordinary accruals to the district.

Post-Employment Benefits

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

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

Avondale School District
Notes to the Financial Statements
June 30, 2016

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

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

For the periods July 1, 2015 through September 30, 2015, and October 1, 2015 through June 30, 2016, the employer contribution rate ranged from 2.20% to 2.71% and 6.40% to 6.83%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$1,239,000, \$642,000, and \$1,435,000, respectively.

Unfunded Accrued Liability

During the year ending June 30, 2016, the School District had contributions in the amount of \$2,191,532 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 10.53% for the year ending June 30, 2016.

Note 14 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Avondale School District
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 7,417,299	\$ 7,565,303	\$ 7,749,032	\$ 183,729
State sources	26,158,780	26,521,374	26,513,128	(8,246)
Federal sources	1,215,574	1,368,401	1,022,789	(345,612)
Interdistrict sources	2,085,500	2,013,850	2,043,985	30,135
Total revenues	36,877,153	37,468,928	37,328,934	(139,994)
Expenditures				
Instruction				
Basic programs	19,362,199	19,917,290	19,760,102	(157,188)
Added needs	4,762,055	5,102,076	5,000,420	(101,656)
Supporting services				
Pupil	2,788,828	2,806,239	2,825,101	18,862
Instructional staff	872,300	913,271	818,359	(94,912)
General administration	529,402	466,195	437,512	(28,683)
School administration	2,244,919	2,240,622	2,323,196	82,574
Business	657,392	584,840	597,367	12,527
Operations and maintenance	2,925,553	2,815,489	2,764,515	(50,974)
Pupil transportation services	1,170,892	1,129,171	1,105,376	(23,795)
Central	1,023,544	1,066,065	886,133	(179,932)
Athletic activities	565,800	565,800	596,192	30,392
Community services	4,988	25,057	13,772	(11,285)
Capital outlay	-	-	1,510	1,510
Total expenditures	36,907,872	37,632,115	37,129,555	(502,560)
Excess of revenues over expenditures	(30,719)	(163,187)	199,379	362,566

Avondale School District
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Other financing sources (uses)				
Proceeds from sale of capital assets	\$ 2,000	\$ 22,525	\$ 22,525	\$ -
Transfers out	<u>(3,000)</u>	<u>(3,000)</u>	<u>-</u>	<u>(3,000)</u>
Total other financing sources (uses)	<u>(1,000)</u>	<u>19,525</u>	<u>22,525</u>	<u>(3,000)</u>
Net change in fund balance	(31,719)	(143,662)	221,904	359,566
Fund balance - beginning	<u>741,849</u>	<u>741,849</u>	<u>741,849</u>	<u>-</u>
Fund balance - ending	<u>\$ 710,130</u>	<u>\$ 598,187</u>	<u>\$ 963,753</u>	<u>\$ 359,566</u>

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

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. School District's proportion of net pension liability (%)	0.2280%	0.2225%								
B. School District's proportionate share of net pension liability	\$ 55,698,711	\$ 49,001,443								
C. School District's covered-employee payroll	19,143,660	19,735,345								
D. School District's proportionate share of net pension liability as a percentage of its covered- employee payroll	290.95%	248.29%								
E. Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%								

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

	For the Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Statutorily required contributions	\$ 3,622,235	\$ 4,201,269								
B. Contributions in relation to statutorily required contributions	<u>3,622,235</u>	<u>4,201,269</u>								
C. Contribution deficiency (excess)	\$ -	\$ -								
D. School District's covered-employee payroll	18,486,725	19,498,632								
E. Contributions as a percentage of covered-employee payroll	19.59%	21.55%								

Notes: Benefit Changes - There were no changes of benefit terms in 2016.

Changes in Assumptions - There were no changes of benefit assumptions in 2016.

OTHER SUPPLEMENTARY INFORMATION

Avondale School District
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

	Special Revenue Funds		Debt Service Funds					
	Food Service	Community Services	2005	2006	2007	2009	2010 Series A	2010 Series B
Assets								
Cash	\$ 262,075	\$ 183,324	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts receivable	-	17,074	-	-	19	41	2	29
Due from other funds	-	-	-	-	-	-	-	-
Due from other governmental units	7,474	-	-	-	-	-	-	-
Inventory	21,362	-	-	-	-	-	-	-
Investments	-	-	-	-	52,420	43,984	37,696	44,982
Total assets	\$ 290,911	\$ 200,398	\$ -	\$ -	\$ 52,439	\$ 44,025	\$ 37,698	\$ 45,011
Liabilities								
Accounts payable	\$ 46,576	\$ 9,468	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-	-
Due to other governmental units	-	7,527	-	-	-	-	-	-
Payroll deductions and withholdings	-	10	-	-	-	-	-	-
Accrued salaries payable	-	14,630	-	-	-	-	-	-
Unearned revenue	-	22,246	-	-	-	-	-	-
Total liabilities	46,576	53,881	-	-	-	-	-	-
Fund balance								
Nonspendable								
Inventory	21,362	-	-	-	-	-	-	-
Restricted for								
Food service	222,973	-	-	-	-	-	-	-
Debt service	-	-	-	-	52,439	44,025	37,698	45,011
Capital projects	-	-	-	-	-	-	-	-
Assigned for								
Community services	-	146,517	-	-	-	-	-	-
Total fund balance	244,335	146,517	-	-	52,439	44,025	37,698	45,011
Total liabilities and fund balance	\$ 290,911	\$ 200,398	\$ -	\$ -	\$ 52,439	\$ 44,025	\$ 37,698	\$ 45,011

Avondale School District
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

	Debt Service Funds			Capital Project Funds		Total Nonmajor Governmental Funds	
	2014 Series A	2014 Series B	2015 Series B	Sinking	2014 Series B	2015 Series B	
Assets							
Cash	\$ -	\$ -	\$ -	\$ 6,209	\$ 67,176	\$ 398,593	\$ 917,377
Accounts receivable	37	-	2	16	-	-	17,220
Due from other funds	-	-	-	-	500	-	500
Due from other governmental units	-	-	-	-	-	-	7,474
Inventory	-	-	-	-	-	-	21,362
Investments	57,795	5,457	22,754	211,774	-	-	476,862
Total assets	<u>\$ 57,832</u>	<u>\$ 5,457</u>	<u>\$ 22,756</u>	<u>\$ 217,999</u>	<u>\$ 67,676</u>	<u>\$ 398,593</u>	<u>\$ 1,440,795</u>
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ 26,022	\$ 8,789	\$ -	\$ 90,855
Due to other funds	-	504	-	-	-	-	504
Due to other governmental units	-	-	-	-	-	-	7,527
Payroll deductions and withholdings	-	-	-	-	-	-	10
Accrued salaries payable	-	-	-	-	-	-	14,630
Unearned revenue	-	-	-	-	-	-	22,246
Total liabilities	<u>-</u>	<u>504</u>	<u>-</u>	<u>26,022</u>	<u>8,789</u>	<u>-</u>	<u>135,772</u>
Fund balance							
Nonspendable							
Inventory	-	-	-	-	-	-	21,362
Restricted for							
Food service	-	-	-	-	-	-	222,973
Debt service	57,832	4,953	22,756	-	-	-	264,714
Capital projects	-	-	-	191,977	58,887	398,593	649,457
Assigned for							
Community services	-	-	-	-	-	-	146,517
Total fund balance	<u>57,832</u>	<u>4,953</u>	<u>22,756</u>	<u>191,977</u>	<u>58,887</u>	<u>398,593</u>	<u>1,305,023</u>
Total liabilities and fund balance	<u>\$ 57,832</u>	<u>\$ 5,457</u>	<u>\$ 22,756</u>	<u>\$ 217,999</u>	<u>\$ 67,676</u>	<u>\$ 398,593</u>	<u>\$ 1,440,795</u>

Avondale School District
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	Special Revenue Funds		Debt Service Funds					
	Food Service	Community Services	2005	2006	2007	2009	2010 Series A	2010 Series B
Revenues								
Local sources	\$ 398,562	\$ 781,289	\$ 5	\$ -	\$ 852,938	\$ 1,820,131	\$ 69,867	\$ 1,305,715
State sources	41,087	-	-	-	-	-	-	-
Federal sources	609,089	-	-	-	-	-	183,790	494,724
Total revenues	1,048,738	781,289	5	-	852,938	1,820,131	253,657	1,800,439
Expenditures								
Current								
Education								
Food services	1,084,050	-	-	-	-	-	-	-
Community services	-	673,180	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-
Principal	-	-	-	-	75,000	1,425,000	-	600,000
Interest and other expenditures	-	-	150	150	747,062	381,803	221,145	1,182,353
Bond issuance costs	-	-	-	-	-	-	-	-
Total expenditures	1,084,050	673,180	150	150	822,062	1,806,803	221,145	1,782,353
Excess (deficiency) of revenues over expenditures	(35,312)	108,109	(145)	(150)	30,876	13,328	32,512	18,086
Other financing sources (uses)								
Proceeds from refinancing debt	-	-	-	-	-	-	-	-
Premium on issuance of bonds	-	-	-	-	-	-	-	-
Transfers out	-	-	(14,720)	(17,880)	-	-	-	-
Total other financing sources (uses)	-	-	(14,720)	(17,880)	-	-	-	-
Net change in fund balance	(35,312)	108,109	(14,865)	(18,030)	30,876	13,328	32,512	18,086
Fund balance - beginning	279,647	38,408	14,865	18,030	21,563	30,697	5,186	26,925
Fund balance - ending	\$ 244,335	\$ 146,517	\$ -	\$ -	\$ 52,439	\$ 44,025	\$ 37,698	\$ 45,011

Avondale School District
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	Debt Service Funds			Capital Project Funds		Total Nonmajor Governmental Funds
	2014 Series A	2014 Series B	2015 Series B	Sinking	2014 Series B	2015 Series B
Revenues						
Local sources	\$ 1,652,171	\$ 13,969	\$ 93,082	\$ 700,806	\$ -	\$ -
State sources	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-
	<u>1,652,171</u>	<u>13,969</u>	<u>93,082</u>	<u>700,806</u>	<u>-</u>	<u>-</u>
Total revenues						9,017,225
Expenditures						
Current						
Education						
Food services	-	-	-	-	-	-
Community services	-	-	-	-	-	-
Capital outlay	-	-	-	714,624	214,946	1,762,434
Principal	1,060,000	-	-	-	-	-
Interest and other expenditures	541,864	9,016	70,326	-	-	-
Bond issuance costs	-	-	-	-	-	10,316
	<u>1,601,864</u>	<u>9,016</u>	<u>70,326</u>	<u>714,624</u>	<u>214,946</u>	<u>1,772,750</u>
Total expenditures						10,773,419
Excess (deficiency) of revenues over expenditures	<u>50,307</u>	<u>4,953</u>	<u>22,756</u>	<u>(13,818)</u>	<u>(214,946)</u>	<u>(1,772,750)</u>
						(1,756,194)
Other financing sources (uses)						
Proceeds from refinancing debt	-	-	-	-	-	1,955,000
Premium on issuance of bonds	-	-	-	-	-	216,343
Transfers out	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)						2,171,343
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,138,743</u>
Net change in fund balance	50,307	4,953	22,756	(13,818)	(214,946)	398,593
Fund balance - beginning	<u>7,525</u>	<u>-</u>	<u>-</u>	<u>205,795</u>	<u>273,833</u>	<u>-</u>
						922,474
Fund balance - ending	<u>\$ 57,832</u>	<u>\$ 4,953</u>	<u>\$ 22,756</u>	<u>\$ 191,977</u>	<u>\$ 58,887</u>	<u>\$ 398,593</u>
						\$ 1,305,023

Avondale School District
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2016

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 765,200	\$ 1,402,568
Taxes receivable	-	7,472
Accounts receivable	103,128	97,411
Due from other funds	-	27,492
Due from other governmental units	5,680,867	5,143,280
Prepaid items	<u>198,422</u>	<u>15,181</u>
 Total assets	 <u><u>\$ 6,747,617</u></u>	 <u><u>\$ 6,693,404</u></u>
Liabilities		
Accounts payable	\$ 1,011,206	\$ 802,176
State aid anticipation note payable	257,298	328,678
Due to other funds	-	358,028
Due to other governmental units	859,765	942,182
Due to agency fund activities	-	2,523
Payroll deductions and withholdings	35,015	21,700
Accrued salaries payable	3,490,779	3,496,268
Unearned revenue	<u>63,070</u>	<u>-</u>
 Total liabilities	 <u><u>5,717,133</u></u>	 <u><u>5,951,555</u></u>
Deferred Inflows of Resources		
Unavailable grant receivables	<u>66,731</u>	<u>-</u>

Avondale School District
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2016

	<u>2016</u>	<u>2015</u>
Fund Balance		
Nonspendable		
Prepaid items	\$ 198,422	\$ 15,181
Committed for future dental claims	91,128	78,980
Unassigned	<u>674,203</u>	<u>647,688</u>
 Total fund balance	 <u>963,753</u>	 <u>741,849</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u><u>\$ 6,747,617</u></u>	 <u><u>\$ 6,693,404</u></u>

Avondale School District
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2016

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2007 Refunding Bonds					
2017	4.00	\$ 369,244	\$ 369,244	\$ 80,000	\$ 818,488
2018	4.00	367,643	367,644	80,000	815,287
2019	4.00	366,044	366,044	85,000	817,088
2020	4.00	364,343	364,344	90,000	818,687
2021	4.00	362,544	362,544	90,000	815,088
2022	4.00	360,743	360,744	95,000	816,487
2023	4.00	358,844	358,844	2,500,000	3,217,688
2024	4.00	308,843	308,844	2,485,000	3,102,687
2025	4.25	259,144	259,144	2,470,000	2,988,288
2026	4.25	206,656	206,656	2,455,000	2,868,312
2027	4.25	154,487	154,488	2,440,000	2,748,975
2028	4.25	102,637	102,638	2,425,000	2,630,275
2029	4.25	51,106	51,106	2,405,000	2,507,212
		<u>\$ 3,632,278</u>	<u>\$ 3,632,284</u>	<u>\$ 17,700,000</u>	<u>\$ 24,964,562</u>
2009 Refunding Bonds					
2017	3.50	\$ 166,798	\$ 166,797	\$ 1,390,000	\$ 1,723,595
2018	4.50	142,473	142,472	1,365,000	1,649,945
2019	4.00	111,760	111,760	1,370,000	1,593,520
2020	4.00	84,360	84,360	1,360,000	1,528,720
2021	4.20	57,160	57,160	1,350,000	1,464,320
2022	4.30	28,810	28,810	1,340,000	1,397,620
		<u>\$ 591,361</u>	<u>\$ 591,359</u>	<u>\$ 8,175,000</u>	<u>\$ 9,357,720</u>

Avondale School District
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2016

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2010 Building & Site Series A Bonds					
2017	5.50	\$ 110,000	\$ 110,000	\$ -	\$ 220,000
2018	5.50	110,000	110,000	-	220,000
2019	5.50	110,000	110,000	-	220,000
2020	5.50	110,000	110,000	-	220,000
2021	5.50	110,000	110,000	-	220,000
2022	5.50	110,000	110,000	-	220,000
2023	5.50	110,000	110,000	-	220,000
2024	5.50	110,000	110,000	-	220,000
2025	5.50	110,000	110,000	-	220,000
2026	5.50	110,000	110,000	-	220,000
2027	5.50	110,000	110,000	1,325,000	1,545,000
2028	5.50	73,563	73,563	1,335,000	1,482,125
2029	5.50	36,850	36,850	1,340,000	1,413,700
		\$ 1,320,413	\$ 1,320,413	\$ 4,000,000	\$ 6,640,825

Avondale School District
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2016

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2010 Building & Site Series B Bonds					
2017	3.40	\$ 580,950	\$ 580,950	\$ 700,000	\$ 1,861,900
2018	4.00	569,050	569,050	750,000	1,888,100
2019	4.15	554,050	554,050	800,000	1,908,100
2020	4.35	537,450	537,450	900,000	1,974,900
2021	5.25	517,875	517,875	1,175,000	2,210,750
2022	5.25	487,031	487,031	1,175,000	2,149,063
2023	5.25	456,188	456,188	1,225,000	2,137,375
2024	5.25	424,031	424,031	1,250,000	2,098,063
2025	5.25	391,219	391,219	1,300,000	2,082,438
2026	5.25	357,094	357,094	1,475,000	2,189,188
2027	5.75	318,375	318,375	-	636,750
2028	5.75	318,375	318,375	-	636,750
2029	5.75	318,375	318,375	-	636,750
2030	5.75	318,375	318,375	1,700,000	2,336,750
2031	5.75	269,500	269,500	1,750,000	2,289,000
2032	5.75	219,188	219,188	1,800,000	2,238,375
2033	5.875	167,438	167,438	1,850,000	2,184,875
2034	5.875	113,094	113,094	1,900,000	2,126,188
2035	5.875	57,281	57,281	1,950,000	2,064,563
		<u>\$ 6,974,938</u>	<u>\$ 6,974,938</u>	<u>\$ 21,700,000</u>	<u>\$ 35,649,875</u>
2014 Refunding Series A Bonds					
2017	1.75	\$ 267,754	\$ 254,234	\$ 13,810,000	\$ 14,331,988
2018	2.35	<u>151,596</u>	<u>132,246</u>	<u>13,190,000</u>	<u>13,473,843</u>
		<u>\$ 419,350</u>	<u>\$ 386,480</u>	<u>\$ 27,000,000</u>	<u>\$ 27,805,830</u>

Avondale School District
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2016

Year Ending June 30	Interest Rate (Percent)	Interest Due		Principal Due May 1	Total Debt Service Cost
		November 1	May 1		
2014 Building & Site Series B Bonds					
2017	-	\$ 4,000	\$ 4,000	\$ -	\$ 8,000
2018	2.00	4,000	-	400,000	404,000
		<u>\$ 8,000</u>	<u>\$ 4,000</u>	<u>\$ 400,000</u>	<u>\$ 412,000</u>
2015 Refunding Series A Bonds					
2017	5.00	\$ 333,625	\$ 333,625	\$ -	\$ 667,250
2018	5.00	333,625	333,625	-	667,250
2019	5.00	333,625	273,625	6,670,000	7,277,250
2020	5.00	166,875	129,375	2,695,000	2,991,250
2021	5.00	99,500	64,625	2,090,000	2,254,125
2022	5.00	47,250	17,750	1,890,000	1,955,000
		<u>\$ 1,314,500</u>	<u>\$ 1,152,625</u>	<u>\$ 13,345,000</u>	<u>\$ 15,812,125</u>
2015 Building & Site Series B Bonds					
2017	5.00	\$ 48,875	\$ 48,875	\$ -	\$ 97,750
2018	5.00	48,875	48,875	-	97,750
2019	5.00	48,875	48,875	1,360,000	1,457,750
2020	5.00	14,875	-	595,000	609,875
		<u>\$ 161,500</u>	<u>\$ 146,625</u>	<u>\$ 1,955,000</u>	<u>\$ 2,263,125</u>



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October 31, 2016

Management and the Board of Education
Avondale School District
2940 Waukegan Street
Auburn Hills, MI 48326

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Avondale School District as of and for the year ended June 30, 2016, and have issued our report dated October 31, 2016. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and have already met with management. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 5, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted Governmental Accounting Standards Statement (GASB) No. 72, 76, 79, and 82, *Fair Value Measurement and Application*, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, *Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. GASB No. 72, 76, and 79 are effective July 1, 2015, and GASB 82 is effective for years beginning July 1, 2016, however, early implementation is encouraged. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. Statement 76 identifies the hierarchy of generally accepted accounting principles. Statement 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Statement 82 amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the School District's financial statements was were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service. We have evaluated management's estimates in these areas and the process used for making the accounting estimates, the risk of material misstatement, and the indication of possible bias and disclosure and uncertainty in the financial statements. We noted no bias in the calculation of the estimate.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report. We noted no bias in the calculation of the estimate.
- Management's estimate of the retirement severance liability, which is based on language obtained within the union contracts and a five year historical average of actual payouts. We noted no bias in the calculation of the estimate.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole and free from bias.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

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

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

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Cybersecurity and data backup best practices

The School District's data is critically important. There are millions of ways data can be compromised. It is vitally important that all employees have proper knowledge on what is safe to click on and what is not. It is equally important that a proper data backup solution is in place in the event a School District's information is targeted by malware or a phishing attack. A School District's vital information is always a moment away from being compromised. Encouraging and educating employees to pay attention to what they click on and what they do is the first step in keeping information safe.

Having a proper data backup solution in place can mean the difference between a School District surviving a cyber-attack or losing valuable data and time. Every School District should know the answer to two questions when looking at data backup solutions.

1. How long can my District survive a network outage?

Many School Districts assume that they are properly backing up their network but how often are those backups tested? Internally managed backups are more susceptible to lack of testing. Management often believes they have successful backups but in the moment of a disaster, they find out that their last successful backup was months ago. Test backups often to make sure files can be recovered when needed.

2. Does our District understand the difference between a backup and disaster recovery?

Management often assumes that simply backing up files is “good enough”. Backing up files is something all School Districts should do. However, it’s important to remember that restoring files and emails is one thing, but recovering and restoring all company data in the event of a disaster is another.

Audit and FID Submission Deadline

Beginning in the previous year, the deadline to submit the Financial Information Database (FID) and the school district financial audits will be November 1st. This will continue to be the deadline for future fiscal years.

Uniform Grant Guidance (Super Circular)

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. Districts implemented the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR is the source for guidance that school districts will follow. Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>
- MDE http://www.michigan.gov/mde/0,4615,7-140-5236_76204---,00.html

Fiscal Year (FY) 2017 School Aid

- The Omnibus Education Bill (Senate Bill 801) for FY 2017 has been passed by the legislature. It has been presented to the Governor for signature. There is always the possibility of vetoes. Following are some highlights of the bill:
- The per pupil Foundation Grants for FY 2017 will increase by a range of \$60 to \$120 using the “2X formula.” The increase will be added to the FY 2016 foundation grant resulting in the lowest foundation for FY 2017 being \$7,511 and the maximum state guaranteed foundation being \$8,229.
- A new Section 20m would provide hold harmless districts with the difference in per pupil funding between \$60 and the increase in their foundation which is limited to the rate of inflation (.1% in this case).
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at \$389,685,500.
- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2015-16.
- ISD General Operation funding under Section 81 will remain at \$67.1 million.
- An additional \$90 million is appropriated in Section 147c to reflect the actuarially estimated costs of the required state share of the MPSERS Unfunded Accrued Liability (UAL) and maintain the UAL cap at 20.96%.

Other School Aid “Boilerplate” Changes

- Section 18 has been amended to require that the FID data and audited financial statements must be consistent or school aid must be withheld.
- Section 51a(15) has been amended to state that there will be a 10% state school aid penalty for a district or ISD that does not comply with the language in Section 51a(14) that requires the pupil’s resident district and/or ISD to provide special education services and cover special education added costs for pupils educated in a Public School Academy who reside outside of the ISD in which the academy is located.
- The Section 101 Instructional Day requirement will go from a minimum of 175 days to a minimum of 180 days beginning with the 2016-17 school year.

Early Warning

Pursuant to Public Act 109 of 2015, each school district and public school academy that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2013-2014 or 2014-2015 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)

The UBAA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UBAA, including but not limited to general fund deficits, should be reported as financial statement findings in the audit report. UBAA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the general fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Management has determined that the effects of the uncorrected misstatements below are immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

- In the prior year, the liability for employee severance pay was incorrectly calculated due to an error in the worksheet it was prepared on. As a result, beginning net position on the statement of activities is overstated by \$211,000 and current year expenses are overstated by the same amount.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors’ report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

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

Other Audit Findings or Issues

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

Emphasis of Matters in Independent Auditors' Report

The School District adopted a new accounting standard, and our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB No. 72, 76, 79, and 82, *Fair Value Measurement and Application, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, Certain External Investment Pools and Pool Participants, and Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*; Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs and Responses. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of school district's proportionate share of the net pension liability, schedule of school district's contributions, and budgetary comparison information, we 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 regarding 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.

Report on Other Supplementary Information

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

Appendix II

Matters for Management's Consideration

In planning and performing our audit of the financial statements of Avondale School District as of and for the year ended June 30, 2016, we considered Avondale School District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of several matters for management's consideration that are opportunities for strengthening internal controls. This letter does not affect our report dated October 31, 2016, on the financial statements of Avondale School District. Our comments and recommendations regarding those matters are:

Facility Rentals

In both the current and prior year, we noted that the software currently being utilized for facility rentals is unreliable for invoicing purposes. Furthermore, in the current year we noted several internal control deficiencies such as invoices not always being created, board approved rates being discounted, deposits not being received prior to the issuance of a permit, and contracts/permits rarely being endorsed by the renter. It appears that the facility software can be easily manipulated by cancelling permits or deeming events "no-shows." It is currently not possible for the business office to track the revenue generated by the rentals other than relying on the cash given directly to them. We recommend that the facility rental software be used for only scheduling and that all invoicing be done out of the business office accounting software. This will allow more accurate recordkeeping and provide additional controls to ensure all revenue is being properly recognized. We further recommend that internal control policies are developed and followed to fit the needs of the School District.

Outstanding Checks and Deposits in Transit

During our review of the bank reconciliations in both the current and prior year, we noted several old outstanding checks. Upon further review, we noted that the School District does not have procedures in place in regards to old outstanding checks. We recommend that the School District comply with the State of Michigan escheat requirements regarding unclaimed property and develop a policy to be used. Also, in the current year we noted deposits in transit at year end that did not clear the bank statement until two weeks later. We recommend that all bank deposits are made in a timely manner and that cash receipts are not recorded in the accounting system until they are ready to be deposited. This will avoid large reconciling items on the bank statements and provide a more accurate representation of revenue and cash balances at year end.

Adult Meal Pricing

The School District's current adult meal price is not meeting the federal standards. Adult lunch prices must equal at least the price charged to paying students plus the current value of federal cash and commodity assistance for full price meals and 6% sales tax. In the current year, the School District under-charged for meals in the amount of \$.02 for each adult lunch served at the elementary level and \$.04 at the secondary level. We recommended that the School District raise their adult meal price to meet the minimum amount. We further recommended that the School District review the adult meal price on an annual basis. This will ensure that they are in compliance with the updated standards. This comment was also noted in the prior year.

Student Lunch Pricing

Each year the School District is required to evaluate the price of student lunches based on a weight average price calculator provided by the Michigan Department of Education (MDE). Based on weighted average for the 2014-15 school year, the lunch price for students should have increased by \$.06 for the 2015-16 school year. This increase did not occur, thus the School District is not in compliance with the requirement. We recommend that the School District raise the student lunch prices to match the calculation. We further recommend that the School District review this calculation on an annual basis. This will ensure that they are in compliance with the updated standards.

Application Verification Procedures

Each year MDE requires the School District to select a sample of free and reduced price school meals applications and complete the School Food Authority Verification Collection Report (SFA-VCR). The deadline for completion of the selection and verification of the sample of free and reduced price applications is November 15 and SFA-VCR must be submitted to MDE by February 1. Furthermore, the School District must retain copies of the reported verification information with all supporting documents on file. In the current year, we noted that the verification was completed prior to November 15, however, the SFA-VCR was not submitted to MDE until March 21. Also, the copies of the verification information could not be located. This was due to transition to a new food service director. We noted that for fiscal year 2017, the process is currently taking place and food service director will retain all necessary supporting documentation. We recommend that the School District follow the requirements provided by MDE to ensure compliance.

Budget Monitoring

During our audit, we noted that a final line item budget detail was not imported into the financial accounting software for all accounts. This was largely due to time constraints and an unfamiliarity with the new accounting system. The grant budgets were closely monitored and a handful of other financial statements items were imported to monitor, however, not all. As noted in the notes to the financial statements, the School District had some budget violations in the current year. While the total of these overages is immaterial to the financial statements, we recommend that, in the future, a line item budget detail is prepared and imported for more active monitoring. If used appropriately, a budget provides the school board and administration with the ability to control and evaluate the use of the district's funds. Using the accounting system to keep track of the approved budget along with the subsequent revenue collection and expenditure of funds will enable them to monitor that funds are being expended in accordance with the purposes authorized by the school board.