

Elk Rapids Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2015

CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	3
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	6
STATEMENT OF ACTIVITIES.....	7
BALANCE SHEET - GOVERNMENTAL FUNDS.....	8
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	9
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES.....	10
STATEMENT OF FIDUCIARY NET POSITION.....	11
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION.....	12
NOTES TO FINANCIAL STATEMENTS.....	13
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND.....	35
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
BALANCE SHEET.....	37
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES.....	38
INDEPENDENT AUDITORS' 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.....	39

Management's Discussion and Analysis

As management of Elk Rapids Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the most recent fiscal year by (\$4,548,436) resulting in a negative *net position*. Of this amount, *unrestricted net position* had a negative balance of (\$16,534,153.) This amount is primarily impacted by the District's \$16,709,766 proportionate share of the MPERS net pension obligation. This liability recognition is now required by GASB 68 as explained in Note B of the financial statements.
- The government's total net position increased by \$387,971 from the restated June 30, 2014 net position.
- As of the close of the current fiscal year, the District's *governmental funds* reported combined ending fund balances of \$1,759,737, a decrease of \$408,144 in comparison with the prior year. This net decrease is mainly attributable to the spend-down of bond proceeds from the 2012 School Improvement Bond. See pages 8, 9, and 38 for the exact composition of this net decrease. Of the \$1,759,737, approximately 53 percent, or \$939,746 is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$939,746 or 8.1 percent of total general fund expenditures.
- Investments for the future were made by the spending of \$544,970 on equipment and infrastructural improvements. Of this, the 2012 School Improvement Fund invested \$435,001 in new computers, furniture, buses, renovations and equipment upgrades.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying

event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, support services, food service, and athletics. The District has no business-type activities as of and for the year ended June 30, 2015.

The government-wide financial statements can be found on pages 6 - 7 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and 2012 Capital Projects Fund which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided for the General Fund herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 8 - 10 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 11 - 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 - 33 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the notes to the financial statements. Combining fund statements can be found on pages 37-38 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by (\$4,548,436) at the close of the most recent fiscal year.

The District's net position, apart from the net pension obligation, is primarily comprised of its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net position

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014*</u>
Assets		
Current and other assets	\$ 3,173,435	\$ 3,653,035
Capital assets, net	<u>12,638,658</u>	<u>13,150,573</u>
Total assets	15,812,093	16,803,608
Deferred outflows of resources	<u>1,750,517</u>	<u>0</u>
Total assets and deferred outflows of resources	\$ 17,562,610	\$ 16,803,608
Liabilities		
Long-term outstanding	17,367,397	2,009,665
Other liabilities	<u>2,896,378</u>	<u>2,890,026</u>
Total liabilities	20,263,775	4,899,691
Deferred inflows of resources	<u>1,847,271</u>	<u>0</u>
Total liabilities and deferred inflows of resources	\$ 22,111,046	\$ 4,899,691
Net position		
Invested in capital assets, net of related debt	11,791,048	11,414,631
Restricted	194,669	246,788
Unrestricted	<u>(16,534,153)</u>	<u>242,498</u>
Total net position	<u>\$ (4,548,436)</u>	<u>\$ 11,903,917</u>

Other components of the District's net position include \$156,059 for Debt service, \$9,171 for capital projects and \$29,439 for food service. These represent resources that are subject to external restrictions on how they may be used. The component consisting of (\$4,548,436) represents *unrestricted net position*.

The government's net position increased by \$387,971 during the current fiscal year. See subsequent page for the major components of this increase.

Included in the current fiscal year was foundation allowance funding, set by the State of Michigan, of \$7,251 (\$7,126 base plus \$125 equity) per student.

Within the past decade, the District's enrollment has ranged between 1,300 and 1,600 students.

District's Changes in Net position

	Governmental Activities	
	2015	2014*
Revenue		
Program revenue		
Charges for services	\$ 570,859	\$ 598,829
Operating grants/contributions	963,446	1,013,790
Capital grants/contributions	74,510	16,621
General revenue		
Property taxes	8,959,729	9,267,986
State school aid	2,930,632	2,346,564
Unrestricted investment earnings and other	585,370	472,943
Total Revenue	14,084,546	13,716,733
Expenses		
Instruction	\$ 7,468,131	\$ 7,323,618
Supporting services	4,122,589	4,083,298
Community services	247,147	256,848
Food services	477,912	569,058
Athletics	266,399	240,796
Depreciation – unallocated	1,055,813	1,079,668
Interest on long-term debt	52,534	80,200
Other	6,050	37,418
Total Expenses	13,696,575	13,670,904
Increase in net position	387,971	45,829
Net position, beginning of year	(4,936,407)	11,858,088
Net position, end of year	\$ (4,548,436)	\$ 11,903,917

*The District implemented GASB 68 during the year ended June 30, 2015. The impact on the statement of net position and expenses for the year ended June 30, 2014 is unknown and, therefore, balances for 2015 and 2014 are not comparable.

Governmental activities. Net position increased by \$387,971. Three key elements of this net increase are as follows:

- The \$1,345,000 *reduction* of Bonded debt outstanding offset \$1,055,813 of depreciation expense incurred from capital assets by \$289,187. This provided a direct increase in the equity attributable to the District's capital assets.
- Net position (excluding the effect of \$66,334 in capitalized outlays) related to the general and special revenue funds increased by \$198,232 due to operating surpluses for the year.
- Net position decreased by \$97,130 due to the net increase in accrued compensated absences.

Financial Analysis of the Government's Funds

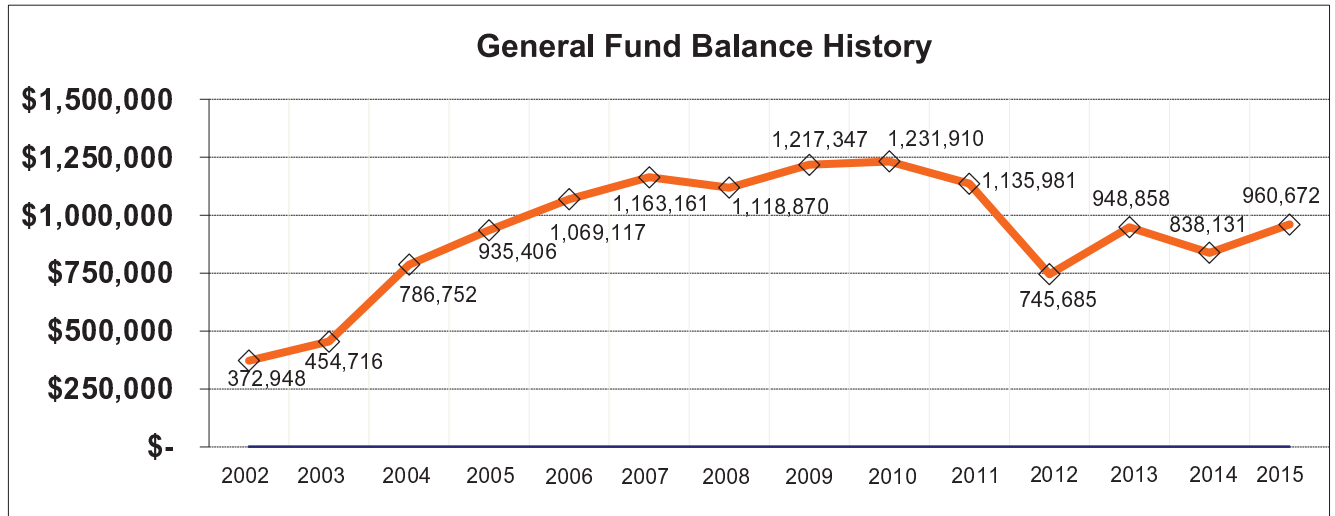
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,759,737, a decrease of \$408,144 in comparison with the prior year. Approximately 53 percent of this total amount (\$939,746) constitutes *unassigned fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *non-spendable, restricted* or *assigned* to indicate that it is not available for new spending because the underlying assets are not available for current expenditures. This is because they are included as capital projects, school-based services and debt service fund accounts.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$939,746. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 8.1 percent of total general fund expenditures.

The fund balance of the District’s general fund increased by \$122,541 during the current fiscal year.



The Food Service Fund has a total fund balance of \$29,439, which increased by \$4,899.

The Athletics Fund has a total fund balance of \$3,004, which decreased by \$8,470.

The Preschool & Kid’s Club Fund has a total fund balance of \$23,003, which increased by \$12,928.

The combined debt service funds have a total fund balance of \$160,726, which decreased by \$62,051.

The Athletics Complex Fund has a total fund balance of \$6,294, which decreased by \$130.

The 2012 School Improvement capital project fund has a total fund balance of \$576,478, which decreased by \$477,861. This fund was created to account for the voter-approved improvements to technology, energy efficiency, learning environment and the bus fleet.

The Yuba School capital project fund has a total fund balance of \$121. This fund was created to account for monetary and in-kind donations directed at restoring the district-owned Yuba School in Acme Township.

General Fund Budgetary Highlights

Significant differences between the original and final amended budgets were partly due to actual enrollments coming in below projections. Additionally, taxable valuation changes occurring throughout the year caused revenue originally budgeted as State source to be reclassified as local revenues.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2015, amounted to \$12,638,658 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was 3.9 percent.

The major capital asset events during the current fiscal year were the following:

- \$125,730 for technology, equipment, and energy efficiency upgrades. Funding was supported with bond proceeds from the 2012 School Improvement Fund.
- \$147,683 for building renovations, site improvements, and furniture replacement. Funding was supported with bond proceeds from the 2012 School Improvement Fund.
- \$161,588 for new buses. Funding was supported with bond proceeds from the 2012 School Improvement Fund.
- \$ 74,510 for improvements to Mill Creek Elementary's pond pavilion, the Yuba School and the athletics complex (pole vault pit and runway.) Funding was provided entirely with fundraising and in-kind contributions.

	District's Capital Assets (net of depreciation) June 30, 2015
	<u>Governmental</u> <u>Activities</u>
Land	\$ 94,249
Buildings and building improvements	10,328,369
Machinery and equipment	1,041,050
Furniture and fixtures	591,097
Vehicles	529,291
Construction-in-progress	<u>54,602</u>
Total net position	<u>\$ 12,638,658</u>

Additional information on the District's capital assets can be found in Note F on pages 21-22 of this report.

Long-term debt. At the end of the current fiscal year, the District had 2012 School Improvement debt outstanding of \$1,400,000. This bond issue is a general obligation-unlimited tax liability of the District. These bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, levied without limitation as to rate or amount, on all taxable property within the District.

The District's total general obligation bonds payable decreased by \$1,345,000 (49 percent) during the current fiscal year.

Additional information on the District's long-term debt can be found in Note F on pages 22 - 23 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2015-16 fiscal year:

- The prolonged economic downswing of Michigan's economy has been a continuing concern. Although currently approved, the State Aid Bill could be subject to adverse revisions later in the year. The ultimate State Aid Bill is expected to provide the District with per pupil funding that is materially close to the budget projection.
- Uncertainties related to enrollment counts continue to present budgeting challenges for all Michigan school districts. Careful attention to official pupil counts and interim tallies is undertaken to assist with trending projections needed for budget forecasting.
- The continued economic uncertainty affecting the State of Michigan could result in insufficient per-pupil increases in 2016-17. The impact from a funding freeze from 2015-16 levels would present very serious budgetary challenges for all districts. Spending decisions for 2015-16 are being made with consideration of potential 2016-17 funding issues.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, 707 E. Third Street, Elk Rapids, Michigan 49629.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Elk Rapids Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

Accounting Changes

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *viii*, and budgetary comparison information on page 35, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 21, 2015

Elk Rapids Schools

STATEMENT OF NET POSITION

June 30, 2015

Governmental
Activities

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Assets

Current assets

Cash and cash equivalents	\$ 2,383,515
Due from other governments	717,835
Accounts receivables	40,235
Inventory	10,924
Deposits	6,190
Prepays	<u>14,736</u>

Total current assets 3,173,435

Capital assets, net of accumulated depreciation 12,638,658

Total assets 15,812,093

DEFERRED OUTFLOWS OF RESOURCES

1,750,517

Total assets and deferred outflows of resources \$ 17,562,610

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

LIABILITIES

Current liabilities

Accounts payable	\$ 95,060
Salaries payable and related liabilities	1,159,376
Accrued expenses	61,792
Unearned revenue	102,137
Current portion of long-term liabilities	<u>1,478,013</u>

Total current liabilities 2,896,378

Non-current portion of long-term obligations 657,631

Net pension obligation 16,709,766

Total liabilities 20,263,775

DEFERRED INFLOWS OF RESOURCES

1,847,271

NET POSITION

Invested in capital assets, net of related debt 11,791,048

Restricted for

Capital Projects 9,171

Debt Service 156,059

Food Service 29,439

Unrestricted (Deficit) (16,534,153)

Total net position (4,548,436)

Total liabilities, deferred inflows of resources and net position \$ 17,562,610

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

Elk Rapids Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Functions/Program	Expenses	Program Revenues			Net (Expense)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes Net Position Governmental Activities
Governmental activities					
Instruction	\$ 7,468,131	\$ 5,830	\$ 433,482	\$ -	\$ (7,028,819)
Supporting Services	4,122,589	17,216	210,625	74,510	(3,820,238)
Community Services	17,433	-	16,530	-	(903)
Food Service	477,912	196,081	266,605	-	(15,226)
Athletics	266,399	122,607	36,204	-	(107,588)
Preschool and Kid's Club	229,714	229,125	-	-	(589)
Other	6,050	-	-	-	(6,050)
Interest on long-term debt	52,534	-	-	-	(52,534)
Depreciation-unallocated	<u>1,055,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,055,813)</u>
Total governmental activities	<u>\$ 13,696,575</u>	<u>\$ 570,859</u>	<u>\$ 963,446</u>	<u>\$ 74,510</u>	<u>(12,087,760)</u>
General purpose revenues					
Property taxes					
Levied for general purposes					7,615,995
Levied for Debt Service					1,343,734
State school aid - unrestricted					2,930,632
Investment and other					<u>585,370</u>
Total general purpose revenues					<u>12,475,731</u>
Change in net position					387,971
Net position, beginning of year, as restated					<u>(4,936,407)</u>
Net position, end of year					<u>\$ (4,548,436)</u>

-7- The accompanying notes are an integral part of these financial statements.

Elk Rapids Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	2012 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,514,673	\$ 637,094	\$ 231,748	\$ 2,383,515
Due from other governments	709,918	-	7,917	717,835
Taxes receivable	-	-	6,662	6,662
Accounts receivables	27,031	-	6,542	33,573
Due from other funds	5,077	-	4,464	9,541
Inventory	-	-	10,924	10,924
Deposits	6,190	-	-	6,190
Prepaid	14,736	-	-	14,736
	\$ 2,277,625	\$ 637,094	\$ 268,257	\$ 3,182,976
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenditures	\$ 1,241,196	\$ 57,125	\$ 13,240	\$ 1,311,561
Unearned revenue	72,346	-	29,791	102,137
Due to other funds	3,411	3,491	2,639	9,541
	1,316,953	60,616	45,670	1,423,239
FUND BALANCES				
Non-spendable for inventory, prepaids and deposits	20,926	-	10,924	31,850
Restricted for debt retirement	-	-	160,726	160,726
Restricted for capital projects	-	576,478	6,415	582,893
Restricted for food service	-	-	18,515	18,515
Assigned - reported in special revenue funds	-	-	26,007	26,007
Unassigned	939,746	-	-	939,746
	960,672	576,478	222,587	1,759,737
	\$ 2,277,625	\$ 637,094	\$ 268,257	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$26,191,288 and the accumulated depreciation is \$(13,552,630). 12,638,658

Deferred outflows of resources for pension obligation is not a financial resource and, therefore, is not reported as an asset in governmental funds. 1,750,517

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

Bonds payable	\$ (1,400,000)	
Accrued interest on bonds	(4,667)	
Accumulated leave liability	(714,312)	
Unamortized bond premium	(21,332)	
Net pension obligation	(16,709,766)	(18,850,077)

Deferred inflow of resources for pension obligation is not a claim against a current financial resource and, therefore, is not reported as a liability in the governmental funds. (1,847,271)

Total net position - governmental activities \$ (4,548,436)

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

Elk Rapids Schools

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

Year Ended June 30, 2015

	General Fund	2012 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Property taxes	\$ 7,615,995	\$ -	\$ 1,343,734	\$ 8,959,729
Interest	2,587	256	442	3,285
State revenues	3,183,022	-	64,497	3,247,519
Federal revenues	235,902	-	227,140	463,042
Other	749,371	-	633,150	1,382,521
Total revenues	11,786,877	256	2,268,963	14,056,096
Expenditures				
Instruction	7,384,063	-	-	7,384,063
Supporting Services	4,089,091	-	-	4,089,091
Community Services	17,413	-	229,714	247,127
Food Service	-	-	477,912	477,912
Athletics	-	-	266,399	266,399
Other	1,271	40	133	1,444
Debt Service				
Principal	-	-	1,345,000	1,345,000
Interest and fees	-	-	60,974	60,974
Capital outlay	53,498	478,077	60,655	592,230
Total expenditures	11,545,336	478,117	2,440,787	14,464,240
REVENUES OVER (UNDER) EXPENDITURES	241,541	(477,861)	(171,824)	(408,144)
Other financing sources (uses)				
Operating transfers in	-	-	130,895	130,895
Operating transfers out	(119,000)	-	(11,895)	(130,895)
Total other financing sources (uses)	(119,000)	-	119,000	-
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	122,541	(477,861)	(52,824)	(408,144)
Fund balances, beginning of year	838,131	1,054,339	275,411	2,167,881
Fund balances, end of year	\$ 960,672	\$ 576,478	\$ 222,587	\$ 1,759,737

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

Elk Rapids Schools

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

Year Ended June 30, 2015

Total Net Change in Fund Balances - Governmental Funds \$ (408,144)

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation expense exceeds capitalized outlays in the period.

Capitalized outlays	\$ 544,970	
Depreciation expense	<u>(1,055,813)</u>	(510,843)

In the statement of activities, certain operating expenses (unused sick days) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was more than the amounts used by \$97,130. (97,130)

Change in deferred outflows of resources for pension obligation 1,750,517

Repayment of bond and notes principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 1,345,000

Amortization of bond premium 21,450

Proceeds from the sale of assets are revenues in the governmental funds, but it reduces capital assets, net of accumulated depreciation, in the statement of net position and does not affect the statement of activities. (1,072)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The lower interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds and notes payable. 4,906

Change in net pension obligation 130,558

Change in deferred inflows of resources for pension obligation (1,847,271)

Changes in Net Position of Governmental Activities \$ 387,971

Elk Rapids Schools

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2015

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds Student Activities</u>
ASSETS		
Cash and cash equivalents	<u>\$ 9,302</u>	<u>\$ 186,160</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
Due to student groups	<u>\$ -</u>	<u>\$ 186,160</u>
NET POSITION		
Reserved for scholarships	3,764	-
Reserved for auditorium maintenance	1,112	-
Reserved for alumni activities	<u>4,426</u>	<u>-</u>
Total liabilities and net position	<u>\$ 9,302</u>	<u>\$ 186,160</u>

Elk Rapids Schools

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2015

	<u>Private Purpose Trust Funds</u>
Additions	
Private donations and interest	\$ 2
Deductions	
Auditorium maintenance	<u>-</u>
Change in net position	2
Net position, beginning of year	<u>9,300</u>
Net position, end of year	<u><u>\$ 9,302</u></u>

Elk Rapids Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Elk Rapids Schools (the "School District") is a Michigan public school district consisting of two elementary buildings, one middle school, one high school building and one alternative high school building. The School District primarily serves the Elk Rapids community. As of June 30, 2015, the School District employed 80 professional staff and 65 non-professional staff and had 1,325 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

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

Financial Reporting Entity

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses.

NOTES TO FINANCIAL STATEMENTS - Continued

Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

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

Fund Types and Major Funds

Activities in Major Funds

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

The 2012 Capital Projects Fund is used to account for activity related to construction, equipping and furnishing additions to and remodeling, re-equipping and refurnishing School District buildings, including educational technology improvements.

NOTES TO FINANCIAL STATEMENTS - Continued

Other Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund, the Athletics Fund and the Preschool and Kid's Club Fund.

The School District has two Debt Service Funds, which are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The School District has two non-major Capital Project Funds, which are used to account for financial resources to be used for the athletic infrastructure and Yuba School renovation projects. Both funds acquire resources from fundraising sources only.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Private Purpose Trust Funds account for contributions earmarked for scholarships available to qualifying students of the School District, the maintenance of a community auditorium and alumni activities.

Cash and Cash Equivalents

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

Investments

Investments are stated at market value.

Inventories

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

Capital Assets

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

Buildings	25-50 years
Vehicles	10-12 years
Furniture and equipment	5-20 years

Long-term Debt and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as a liability. Bond discounts and premiums are deferred and amortized over the life of the bonds. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School District Board through approval of resolutions. Assigned fund balances is a limitation imposed by a designee of the School District Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

Spending Policy

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Program Revenues

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

The School District's most significant program revenues are International Baccalaureate Kellogg, Title I, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

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

The School District has elected to not allocate indirect expenses.

Pension Plan

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

Use of Estimates in the Preparation of Financial Statements

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

NOTE B - ACCOUNTING CHANGES

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

Net position at June 30, 2014, <i>as originally stated</i>	\$ 11,903,917
Record net pension liability at June 30, 2014	<u>(16,840,324)</u>
Net position at June 30, 2014, <i>as restated</i>	<u>\$ (4,936,407)</u>

NOTE C - BUDGETARY POLICY AND PRACTICE

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2015, the School District was out of compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction	\$ 7,382,016	\$ 7,393,362	\$ (11,346)
Supporting Services	\$ 4,119,141	\$ 4,133,291	\$ (14,150)

NOTE D - CASH AND EQUIVALENTS

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

	<u>Total</u>
Cash on hand	\$ 508
Bank deposits	1,271,374
Investments	<u>1,307,095</u>
	<u><u>\$ 2,578,977</u></u>

Bank Deposits

	<u>Carrying Value</u>	<u>Uncollateralized Bank Balances</u>		<u>Total</u>
		<u>Insured</u>	<u>Uninsured</u>	
Bank deposits	<u>\$ 1,271,374</u>	<u>\$ 1,234,879</u>	<u>\$ 52,429</u>	<u>\$ 1,287,308</u>

Custodial Credit Risk - Deposits

In the event of a bank failure, the School District's bank deposits may not be returned to it. As of June 30, 2015, \$1,234,879 of the School District's deposits were insured. The remaining balance of \$52,429 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds, bills or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States or the State of Michigan.
2. Certificates of deposit issued by financial institutions organized and authorized to operate in Michigan.
3. Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.

NOTES TO FINANCIAL STATEMENTS - Continued

4. Securities issued or guaranteed by agencies or instrumentalities of the United States government or Federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the Federal deposit insurance corporation.
5. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
6. Michigan Investment Liquid Asset Fund Plus ("MILAF").

Investments at June 30, 2015 consisted of the following:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
MILAF	\$ 1,307,095	\$ 1,307,095	\$ -	\$ -	\$ -

Interest Rate Risk

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities or MILAF and limiting the average maturity in accordance with the School District's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District's investment policy further limits its investment choices as described above. The School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

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

NOTES TO FINANCIAL STATEMENTS - Continued

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value of \$417.7 million and \$6 per \$1,000 of equalized commercial personal property value of \$3.5 million was levied for general operating purposes. For debt service purposes, \$1.48 per \$1,000 of equalized principal, non-principal residence property and commercial property value of \$902.6 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues are deferred in the governmental fund financial statements included in unearned revenue.

Amounts due from other governments at June 30, 2015 are as follows:

Due from the Federal Government		
Federal revenue	\$	21,719
Due from the State of Michigan		
State Aid		515,156
MPSERS pension payment receivable		102,650
Other		<u>78,310</u>
	\$	<u><u>717,835</u></u>

NOTE F - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2015</u>
Buildings	\$ 5,004,949	\$ -	\$ -	\$ 5,004,949
Building improvements	15,532,501	156,606	-	15,689,107
Machinery and equipment	2,551,565	143,497	(15,815)	2,679,247
Software	17,882	-	-	17,882
Furniture and fixtures	1,301,721	39,644	-	1,341,365
Vehicles	1,251,989	161,588	(103,690)	1,309,887
Construction in progress	<u>10,967</u>	<u>43,635</u>	<u>-</u>	<u>54,602</u>
Total depreciable assets	25,671,574	544,970	(119,505)	26,097,039
Less accumulated depreciation	(12,615,250)	(1,055,813)	118,433	(13,552,630)
Land	<u>94,249</u>	<u>-</u>	<u>-</u>	<u>94,249</u>
Total capital assets, net	<u>\$ 13,150,573</u>	<u>\$ (510,843)</u>	<u>\$ (1,072)</u>	<u>\$ 12,638,658</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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

Unallocated \$ 1,055,813

NOTE G - LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 2,745,000	\$ -	\$ 1,345,000	\$ 1,400,000	\$ 1,400,000
Unamortized bond premium	42,782	-	21,450	21,332	21,332
Accumulated leave liability	<u>617,182</u>	<u>97,130</u>	<u>-</u>	<u>714,312</u>	<u>56,681</u>
Long-term debt at June 30, 2015	<u>\$ 3,404,964</u>	<u>\$ 97,130</u>	<u>\$ 1,366,450</u>	<u>\$ 2,135,644</u>	<u>\$ 1,478,013</u>

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability will be liquidated primarily by the General Fund.

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

2012 School Improvement Bonds ; due in an annual installment of \$1,428,000 in May 2016; interest rate of 2.00%.	<u>\$ 1,400,000</u>
Total general obligation bonds payable	1,400,000
Unamortized bond premium	21,332
Accumulated leave liability	<u>714,312</u>
Total long-term debt	<u>\$ 2,135,644</u>

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,400,000	\$ 28,000

Interest expense for the year ended June 30, 2015 was \$52,534, and interest paid for the year ended June 30, 2015 was \$57,440.

Accumulated Leave Liability

Employees of the School District accumulate earned but unused compensated sick leave days, as specified by the bargaining units' contract. 50% of sick leave is accrued when incurred for non-teachers and 40% for teachers. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

NOTE H - OPERATING LEASES

The School District leases copiers which qualify as operating leases under generally accepted accounting principles. Net rental expense on operating leases for the year ended June 30, 2015, was \$13,165.

The following is a schedule of annual future minimum lease payments required as of June 30, 2015.

<u>Years Ending June 30,</u>	<u>Amount</u>
2016	\$ 5,727

NOTE I - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipient benefits, this amount is billed to the School District. At June 30, 2015 there were no significant claims known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review, and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE J - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 5,077	\$ 3,411
2012 Capital Projects Fund	-	3,491
Other Governmental Funds		
Athletics	1,000	-
Food Service	1,053	1,586
Preschool and Kid's Club Fund	<u>2,411</u>	<u>1,053</u>
	<u>\$ 9,541</u>	<u>\$ 9,541</u>

Transfers and Payments

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

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

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

	<u>Transfers in</u>	<u>Transfers out</u>
Major Governmental Funds		
General Fund	\$ -	\$ 119,000
Other Governmental Funds		
Athletics	99,000	-
Food Service Fund	20,000	-
2007 School Bus Facilities Bond	-	11,895
2012 School Improvement Bond	<u>11,895</u>	<u>-</u>
	<u>\$ 130,895</u>	<u>\$ 130,895</u>

NOTE K - PENSION PLAN AND POST EMPLOYMENT BENEFITS

Plan Description

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

Benefits Provided

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

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

Pension Reform 2010

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

Pension Reform 2012

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

Regular Retirement

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

There is no mandatory retirement age.

Non-Duty and Duty Disability Benefit

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

Survivor Benefit

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

Funding Policy

Defined Benefit Plan

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

Defined Contribution Plan

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

Employee Contributions

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

NOTES TO FINANCIAL STATEMENTS - Continued

Employer Contributions

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

The School District's contributions to the MPSERS Defined Benefit Plan for the year ended June 30, 2015 was \$1,377,283, which is equal to the required contribution for the year. The covered payroll for the year ended June 30, 2015 was \$6,286,625.

The School District's contributions to the MPSERS Defined Contribution Plan were \$14,734, for the year ended June 30, 2015, which is equal to the pension expense recognized by the School District for the year.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. The School District's required contributions for post-employment health care benefits to the MPSERS Plan discussed above for the year ended June 30, 2015 were \$218,610.

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

Pension Liabilities

At June 30, 2015, the School District reported a liability of \$16,709,766 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At September 30, 2014, the School District's proportion was 0.07586%.

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

For the year ended June 30, 2015, the School District recognized pension expense of \$1,353,546. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	616,555	-
Net difference between projected and actual earnings on pension plan investments	-	1,847,271
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	31	-
Reporting Unit contributions subsequent to the measurement date	<u>1,133,931</u>	<u>-</u>
Total	<u>\$ 1,750,517</u>	<u>\$ 1,847,271</u>

NOTES TO FINANCIAL STATEMENTS - Continued

From the above table, \$1,133,931 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2016	\$ (301,487)
2017	(301,487)
2018	(301,487)
2019	(326,224)

10-Year Trend Information - Defined Benefit Plan

<u>Schedule of School District's Proportionate Share of Net Pension Liability</u>	
	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.07586 %
School District's proportionate share of collective net pension liability	\$ 16,709,766
School District's covered-employee payroll	\$ 6,464,270
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	258.4942 %
Plan fiduciary net position as a percentage of total pension liability	66.20 %

<u>Schedule of School District's Contributions</u>	
	<u>6/30/2015</u>
Contractually required employer contributions	\$ 1,377,283
School District contributions recognized by the Plan	<u>1,377,283</u>
Contributions difference	-
Contributions difference as a percentage of contractually required employer contributions	- %
School District's covered-employee payroll	\$ 6,286,625
Contributions as a percentage of covered-employee payroll	21.91 %

Actuarial Assumptions

Valuation Assumptions

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

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

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

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

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

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

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

Mortality Assumptions

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

NOTES TO FINANCIAL STATEMENTS - Continued

Experience Study

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

Long-Term Expected Rate of Return on Investments

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

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

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

	1% Lower (7.0%)	Discount Rate (8.0%)	1% Higher (9.0%)
School District's proportionate share of net pension liability	\$ 22,030,371	\$ 16,709,766	\$ 12,227,077

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2013 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

Payables to the Pension Plan

The School District reported \$167,075 and \$755 payable to the plan at June 30, 2015 for legally required defined benefit and defined contribution plan contributions, respectively.

NOTE L - COMMITMENTS AND CONTINGENCIES

School Improvement Commitment

The School District began work on a 2012 school improvement capital project during the year ended June 30, 2012. The School District has committed to a total project cost of approximately \$4,314,000. Of this amount, the School District issued bonds in the amount \$4,290,000, plus an underwriter's discount of approximately \$21,000. The remaining balance of approximately \$3,000 will be received in the form of interest income. As of June 30, 2015, \$3,737,560 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$576,440. The 2012 School Improvement Fund balance was \$576,478 at June 30, 2015. The expected completion date is August 2016.

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the School District Education Association. The Board of Education and the School District Education Association had a contract for the period September 1, 2014 through August 1, 2015. The contract is currently in negotiations or draft form. Contract completion dates cannot be determined at this time.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association have a contract for the period August 1, 2014 through June 30, 2016.

The transportation personnel at the School District are organized under the Elk Rapids Schools Transportation Association. The Board of Education and the Elk Rapids Schools Transportation Association have a contract for September 1, 2015 through August 31, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Elk Rapids Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
Revenues					
Local and intermediate sources	\$ 7,829,330	\$ 7,866,792	\$ 7,844,864	\$ 37,462	\$ (21,928)
State revenues	3,202,445	3,115,957	3,183,022	(86,488)	67,065
Federal revenues	269,911	242,135	235,902	(27,776)	(6,233)
Other	433,314	525,116	523,089	91,802	(2,027)
Total revenues	<u>11,735,000</u>	<u>11,750,000</u>	<u>11,786,877</u>	<u>15,000</u>	<u>36,877</u>
Expenditures					
Current					
Instruction	7,396,094	7,382,016	7,393,362	14,078	(11,346)
Supporting Services	4,217,609	4,119,141	4,133,291	98,468	(14,150)
Other	31,297	18,843	18,683	12,454	160
Total expenditures	<u>11,645,000</u>	<u>11,520,000</u>	<u>11,545,336</u>	<u>125,000</u>	<u>(25,336)</u>
EXCESS OF REVENUES OVER EXPENDITURES	90,000	230,000	241,541	140,000	11,541
Other financing uses					
Operating transfers out	<u>(90,000)</u>	<u>(118,000)</u>	<u>(119,000)</u>	<u>(28,000)</u>	<u>(1,000)</u>
REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	-	112,000	122,541	112,000	10,541
Fund balance, beginning of year	<u>838,131</u>	<u>838,131</u>	<u>838,131</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u>\$ 838,131</u>	<u>\$ 950,131</u>	<u>\$ 960,672</u>	<u>\$ 112,000</u>	<u>\$ 10,541</u>

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

Elk Rapids Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Special Revenue Funds			Debt Service Funds		Capital Projects		Total Non-Major Governmental
	Food Service	Athletics	Preschool and Kid's Club Fund	2007 School Bus Facilities Bond	2012 School Improvement Bond	Athletic Complex Fund	Yuba Capital Projects Fund	
ASSETS								
Cash and cash equivalents	\$ 12,309	\$ 8,071	\$ 36,479	\$ -	\$ 160,725	\$ 14,043	\$ 121	\$ 231,748
Due from other governments	7,917	-	-	-	-	-	-	7,917
Taxes receivable	-	-	-	-	6,662	-	-	6,662
Accounts receivables	6,542	-	-	-	-	-	-	6,542
Due from other funds	1,053	1,000	2,411	-	-	-	-	4,464
Inventory	10,924	-	-	-	-	-	-	10,924
	<u>\$ 38,745</u>	<u>\$ 9,071</u>	<u>\$ 38,890</u>	<u>\$ -</u>	<u>\$ 167,387</u>	<u>\$ 14,043</u>	<u>\$ 121</u>	<u>\$ 268,257</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable and accrued expenditures	\$ 7,720	\$ -	\$ 5,520	\$ -	\$ -	\$ -	\$ -	\$ 13,240
Unearned revenue	-	6,067	9,314	-	6,661	7,749	-	29,791
Due to other funds	1,586	-	1,053	-	-	-	-	2,639
	<u>9,306</u>	<u>6,067</u>	<u>15,887</u>	<u>-</u>	<u>6,661</u>	<u>7,749</u>	<u>-</u>	<u>45,670</u>
FUND BALANCES								
Nonspendable	10,924	-	-	-	-	-	-	10,924
Restricted for Debt Service	-	-	-	-	160,726	-	-	160,726
Restricted for Capital Projects	-	-	-	-	-	6,294	121	6,415
Restricted for Food Service	18,515	-	-	-	-	-	-	18,515
Assigned for fund use	-	3,004	23,003	-	-	-	-	26,007
	<u>29,439</u>	<u>3,004</u>	<u>23,003</u>	<u>-</u>	<u>160,726</u>	<u>6,294</u>	<u>121</u>	<u>222,587</u>
Total liabilities and fund balances	<u>\$ 38,745</u>	<u>\$ 9,071</u>	<u>\$ 38,890</u>	<u>\$ -</u>	<u>\$ 167,387</u>	<u>\$ 14,043</u>	<u>\$ 121</u>	<u>\$ 268,257</u>

Elk Rapids Schools

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

Year Ended June 30, 2015

	Special Revenue Funds			Debt Service Funds		Capital Projects		Total Non-Major Governmental
	Food Service	Athletics	Preschool and Kid's Club Fund	2007 School Bus Facilities Bond	2012 School Improvement Bond	Athletic Complex Fund	Yuba Capital Projects Fund	
Revenues								
Property taxes	\$ -	\$ -	\$ -	\$ 99,872	\$ 1,243,862	\$ -	\$ -	\$ 1,343,734
Interest	125	118	7	14	175	3	-	442
State revenues	39,465	11,502	13,530	-	-	-	-	64,497
Federal revenues	227,140	-	-	-	-	-	-	227,140
Other	196,081	147,309	229,125	-	-	17,000	43,635	633,150
Total revenues	462,811	158,929	242,662	99,886	1,244,037	17,003	43,635	2,268,963
Expenditures								
Food Service	477,912	-	-	-	-	-	-	477,912
Athletics	-	266,399	-	-	-	-	-	266,399
Preschool and Kid's Club	-	-	229,714	-	-	-	-	229,714
Debt Service								
Principal	-	-	-	100,000	1,245,000	-	-	1,345,000
Interest	-	-	-	4,540	52,900	-	-	57,440
Other	-	-	-	718	2,816	-	-	3,534
Capital outlay	-	-	20	-	-	17,000	43,635	60,655
Other	-	-	-	-	-	133	-	133
Total expenditures	477,912	266,399	229,734	105,258	1,300,716	17,133	43,635	2,440,787
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(15,101)	(107,470)	12,928	(5,372)	(56,679)	(130)	-	(171,824)
Operating transfers in	20,000	99,000	-	-	11,895	-	-	130,895
Operating transfers out	-	-	-	11,895	-	-	-	11,895
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	4,899	(8,470)	12,928	(17,267)	(44,784)	(130)	-	(52,824)
Fund balance, beginning of year	24,540	11,474	10,075	17,267	205,510	6,424	121	275,411
Fund balance, end of year	\$ 29,439	\$ 3,004	\$ 23,003	\$ -	\$ 160,726	\$ 6,294	\$ 121	\$ 222,587



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

Board of Education
Elk Rapids Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Elk Rapids Schools* (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 21, 2015.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct,

misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness:

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Compliance and Other Matters

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

Purpose of this Report

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

Dennis, Gartland & Niergarth

October 21, 2015