

Marcellus Community Schools

Financial Statements

June 30, 2016

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Marcellus Community Schools
Members of the Board of Education and Administration
June 30, 2016

Members of the Board of Education

Timothy Henry – President

Jeff Steinkraus – Vice President

Jane Butchbaker – Secretary

Darcie Walden – Treasurer

Joe Tone – Trustee

Nicki Hackenberg – Trustee

Doug Reed – Trustee

Administration

Nanette Pauley – Superintendent

Laura Schug – Financial Analyst

Independent Auditors' Report

To Management and the Board of Education
Marcellus Community Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Adoption of New Accounting Standards

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

Other Matters:

Required Supplementary Information

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

Other Information

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

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

Prior Year Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2016 on our consideration of Marcellus Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Marcellus Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
October 20, 2016

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2016

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

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Marcellus Community School District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund and the Capital Projects Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

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

Basic Financial Statements

District-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

Required Supplementary Information

Other Supplementary Information

Reporting the School District as a Whole – Government-wide Financial Statements

The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information about the School District as a whole using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. The statement of net position includes all of the School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2016

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

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

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

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

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

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

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

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2016

The School District as a Whole

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

TABLE 1	Governmental Activities	
	2016	2015
Assets		
Current and other assets	\$ 6,484,675	\$ 14,156,100
Property and equipment	13,763,005	5,887,758
Total assets	20,247,680	20,043,858
Deferred outflows of resources	1,268,969	912,189
Total assets and deferred outflows of resources	21,516,649	20,956,047
Liabilities		
Current liabilities	2,085,109	2,092,100
Long-term liabilities	23,855,286	23,452,017
Total liabilities	25,940,395	25,544,117
Deferred inflows of resources	257,299	867,362
Total liabilities and deferred inflows of resources	26,197,694	26,411,479
Net position		
Net investment in capital assets	1,371,449	889,894
Restricted	942,856	529,588
Unrestricted	(6,995,350)	(6,874,914)
Total net position	\$ (4,681,045)	\$ (5,455,432)

Current and other assets decreased \$7,671,425 and property and equipment increased \$7,875,247 as dollars in the Capital Projects Fund were spent on approved projects, and then capitalized for financial reporting purposes.

Total liabilities increased \$396,278. The majority of this increase was the result of an increase in the net pension liability of \$1,105,759 which was offset by a decrease in the government obligation bonds and other notes payable of \$632,645, and amortization of the premium on the bonds of \$82,659.

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2016

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the sources of revenue for the fiscal year 2015/16 and fiscal year 2014/15.

TABLE 2	Governmental Activities	
	2016	2015
Revenue		
Program Revenue		
Charges for services	\$ 130,039	\$ 191,884
Operating grants	1,258,663	1,107,250
General revenue		
Property taxes	2,684,847	2,425,426
State aid - unrestricted	4,349,116	4,522,540
Other	87,333	88,915
Total revenue	8,535,978	8,336,015
Functions/Program Expenses		
Instruction	4,016,329	3,685,950
Support services	2,831,757	2,536,163
Food services	342,023	329,111
Interest on long-term debt	571,482	745,094
Total expenses	7,761,591	7,296,318
Increase in net position	\$ 774,387	\$ 1,039,697

Property taxes for operations and debt service, and unrestricted State aid constitute the vast majority of School District operating revenue sources. The Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2016

The School District's Funds

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

The General Fund increased fund balance by \$406,071 for a total fund balance at June 30, 2016 of \$1,130,865. This is the result of the district's continued efforts to increase efficiencies and reduce spending while maintaining quality academic programming.

The other major fund, the Capital Projects Fund, decreased fund balance by \$8,108,996 for a total fund balance at June 30, 2016 of \$2,320,297. This was a planned decrease as the School District was spending down the proceeds from a prior bond issue in accordance with the projects approved under the bond.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June of 2016. A schedule showing the School District's original and final budget amounts compared with actual revenues and expenditure is provided in the required supplementary information of these financial statements.

Total budgeted revenues increased \$363,162 from the original to the final budget. This increase was necessary because the actual pupil count was 20 pupils higher than the original estimate. In addition, over \$100,000 was received in unexpected delinquent property taxes. Actual revenues exceeded the final budget by \$75,748 mostly because the funding received for the State foundation allowance exceeded the School District's estimate.

Total budgeted expenditures increased \$142,473 from the original to the final budget. Additional funds were allocated to various educational programs after the School District realized additional funding would be received. Actual expenditures exceeded the final budget by \$31,797 because the School District had not budgeted for the payroll accrual necessary at year end for hourly employees.

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2016

Capital Assets and Debt Administration

Capital Assets

At June 30, 2016, the School District had \$13,763,005 invested in capital assets, including land, buildings, and furniture and equipment.

	2016	2015
Land	\$ 100,000	\$ 100,000
Construction in progress	9,736,495	1,911,086
Building and building improvements	9,353,205	7,185,597
Furniture and equipment	1,054,244	2,960,507
Buses and other vehicles	803,603	1,076,206
Total capital assets	21,047,547	13,233,396
Less: accumulated depreciation	(7,284,542)	(7,345,638)
Net capital assets	\$ 13,763,005	\$ 5,887,758

Capital assets increased significantly as a result of the bond project currently underway within the School District. As the dollars in the Capital Projects Fund are spent, most of those expenditures are capitalized for the district-wide financial statements.

Long Term Debt and Other Obligations

At the end of this year, the School District had \$13,640,000 in General Obligation Bonds outstanding versus \$14,260,000 last year. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "Qualified Debt," that is debt backed by the State of Michigan, such obligations are not subject to this debt limit.

Other obligations include note payables and compensated absences. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Basic foundation revenues will increase to \$7,511 per FTE and will help minimize the impact of declining enrollment. Cautious and conservative planning and spending have allowed for the adoption of a balanced budget and a decrease in state aid borrowing for the 2016/17 fiscal year.

Marcellus Community Schools
Management's Discussion and Analysis
June 30, 2016

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's office at 305 W. Arbor, Marcellus, Michigan 49067.

Marcellus Community Schools
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Assets	
Cash	\$ 5,535,421
Due from other governmental units	944,459
Inventory	4,795
Capital assets not being depreciated	9,836,495
Capital assets - net of accumulated depreciation	<u>3,926,510</u>
 Total assets	 <u>20,247,680</u>
Deferred Outflows of Resources	
Deferred amount relating to net pension liability	1,235,945
Deferred amount on debt refunding	<u>33,024</u>
 Total deferred outflows of resources	 <u>1,268,969</u>
 Total assets and deferred outflows of resources	 <u>21,516,649</u>

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Statement of Net Position
June 30, 2016

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 1,323,580
State aid anticipation note payable	103,593
Accrued expenditures	344,079
Accrued salaries payable	313,857
Noncurrent liabilities	
Net pension liability	8,951,606
Due within one year	630,646
Due in more than one year	<u>14,273,034</u>
 Total liabilities	 25,940,395
Deferred Inflows of Resources	
Deferred amount relating to net pension liability	<u>257,299</u>
 Total liabilities and deferred inflows of resources	 <u>26,197,694</u>
Net Position	
Net investment in capital assets	1,371,449
Restricted for:	
Debt service	491,823
Sinking fund	451,033
Unrestricted	<u>(6,995,350)</u>
 Total net position	 <u>\$ (4,681,045)</u>

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Statement of Activities
For the Year Ended June 30, 2016

	Program Revenues				
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
Functions/Programs					
Governmental activities					
Instruction	\$ 4,016,329	\$ -	\$ 6,810	\$ -	\$ (4,009,519)
Supporting services	2,831,757	71,587	986,957	-	(1,773,213)
Food services	342,023	58,452	264,896	-	(18,675)
Interest on long-term debt	571,482	-	-	-	(571,482)
Total governmental activities	\$ 7,761,591	\$ 130,039	\$ 1,258,663	\$ -	(6,372,889)
General revenues					
Property taxes, levied for general purposes					1,353,223
Property taxes, levied for debt service					1,331,624
State aid - unrestricted					4,349,116
Interest and investment earnings					25,980
Gain on sale of capital assets					11,450
Other					66,325
Extraordinary item, insurance recoveries					9,558
Total general revenues and extraordinary item					7,147,276
Change in net position					774,387
Net position - beginning					(5,455,432)
Net position - ending					\$ (4,681,045)

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Governmental Funds
Balance Sheet
June 30, 2016

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 958,821	\$ 3,543,606	\$ 1,032,994	\$ 5,535,421
Due from other funds	-	-	35,540	35,540
Due from other governmental units	936,037	-	8,422	944,459
Inventory	-	-	4,795	4,795
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,894,858</u>	<u>\$ 3,543,606</u>	<u>\$ 1,081,751</u>	<u>\$ 6,520,215</u>
Liabilities				
Accounts payable	\$ 66,348	\$ 1,223,309	\$ 33,923	\$ 1,323,580
State aid anticipation note payable	103,593	-	-	103,593
Due to other funds	35,540	-	-	35,540
Accrued expenditures	244,655	-	-	244,655
Accrued salaries payable	313,857	-	-	313,857
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>763,993</u>	<u>1,223,309</u>	<u>33,923</u>	<u>2,021,225</u>
Fund Balance				
Non-spendable				
Inventory	-	-	4,795	4,795
Restricted for				
Food service	-	-	753	753
Debt service	-	-	591,247	591,247
Capital projects	-	2,320,297	451,033	2,771,330
Assigned for future capital outlay	200,000	-	-	200,000
Unassigned	930,865	-	-	930,865
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>1,130,865</u>	<u>2,320,297</u>	<u>1,047,828</u>	<u>4,498,990</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 1,894,858</u>	<u>\$ 3,543,606</u>	<u>\$ 1,081,751</u>	<u>\$ 6,520,215</u>

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Total fund balances for governmental funds	\$ 4,498,990
Total net position for governmental activities in the statement of net position is different because	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets not being depreciated	9,836,495
Capital assets - net of accumulated depreciation	3,926,510
Deferred outflows (inflows) of resources	
Deferred outflows of resources resulting from debt refunding	33,024
Deferred inflows of resources resulting from net pension liability	(257,299)
Deferred outflows of resources resulting from net pension liability	1,235,945
Certain liabilities are not due and payable in the current period and are not reported in the funds	
Accrued interest	(99,424)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities	
Net pension liability	(8,951,606)
Compensated absences	(158,803)
Bonds payable	(14,729,979)
Other loans payable and liabilities	<u>(14,898)</u>
Net position of governmental activities	<u>\$ (4,681,045)</u>

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 1,461,022	\$ 20,046	\$ 1,393,554	\$ 2,874,622
State sources	5,131,446	-	11,851	5,143,297
Federal sources	211,437	-	253,045	464,482
Interdistrict sources	32,569	-	-	32,569
Total revenues	<u>6,836,474</u>	<u>20,046</u>	<u>1,658,450</u>	<u>8,514,970</u>
Expenditures				
Current				
Education				
Instruction	3,781,844	-	-	3,781,844
Supporting services	2,568,699	-	-	2,568,699
Food services	-	-	324,618	324,618
Capital outlay	78,016	8,120,624	39,825	8,238,465
Debt service				
Principal	12,645	-	620,000	632,645
Interest and other expenditures	10,207	8,418	643,150	661,775
Total expenditures	<u>6,451,411</u>	<u>8,129,042</u>	<u>1,627,593</u>	<u>16,208,046</u>
Excess (deficiency) of revenues over expenditures	<u>385,063</u>	<u>(8,108,996)</u>	<u>30,857</u>	<u>(7,693,076)</u>
Other Financing Sources				
Insurance recoveries	9,558	-	-	9,558
Proceeds from sale of capital assets	11,450	-	-	11,450
Total other financing sources	<u>21,008</u>	<u>-</u>	<u>-</u>	<u>21,008</u>
Net change in fund balance	406,071	(8,108,996)	30,857	(7,672,068)
Fund balance - beginning	<u>724,794</u>	<u>10,429,293</u>	<u>1,016,971</u>	<u>12,171,058</u>
Fund balance - ending	<u>\$ 1,130,865</u>	<u>\$ 2,320,297</u>	<u>\$ 1,047,828</u>	<u>\$ 4,498,990</u>

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

Net change in fund balances - Total governmental funds	\$ (7,672,068)
Total change in net position reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(218,997)
Capital outlay	8,094,244
Expenses are recorded when incurred in the statement of activities.	
Interest	7,634
Compensated absences	(12,814)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	(1,105,759)
Net change in the deferrals of resources related to the net pension liability	913,053
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	53,790
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Repayments of long-term debt	632,645
Amortization of premiums	82,659
Change in net position of governmental activities	\$ 774,387

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2016

	<u>Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash	\$ 72,182	\$ <u>84,651</u>
Liabilities		
Due to agency fund activities	<u>-</u>	<u>\$ 84,651</u>
Net Position		
Assets held for scholarships and loans	<u>\$ 72,182</u>	

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016

	<u>Private Purpose Trust Funds</u>
Additions	
Local sources	\$ 21,500
Interest and investment earnings	<u>27</u>
Total additions	<u>21,527</u>
Deductions	
Scholarships	<u>4,500</u>
Change in net position	17,027
Net position - beginning	<u>55,155</u>
Net position - ending	<u><u>\$ 72,182</u></u>

See Accompanying Notes to the Financial Statements

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

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

Reporting Entity

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

District-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

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

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

The School District reports the following major governmental funds:

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

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

Additionally, the School District reports the following fund types:

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

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

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

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

Assets, Liabilities and Equity

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

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

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

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

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

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

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

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

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

Buildings and improvements	15 – 50 years
Equipment and furniture	5 – 50 years
Buses and other vehicles	5 – 10 years

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

For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

Deferred amounts on bond refundings are included in the district-wide financials statements. The amounts represent the difference between the reacquisition price and the net carrying amount of the prior debt.

Compensated Absences – Sick days are earned by teachers and administrators. Retiring employees who meet certain years of service requirements are paid for accumulated sick days up to a maximum numbers of days and at a rate determined by their contracts. There is no contractual provision for payment of unused vacation. They may be used for vacation only.

The liability for compensated absences reported in the district-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments. The amount reported is salary-related and includes fringe benefits.

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

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

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

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

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

For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in

pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

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

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

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

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

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

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

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

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

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

Use of Estimates

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

Eliminations and Reclassifications

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

Adoption of New Accounting Standards

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

GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this

Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement 76 is effective for the year ending June 30, 2016.

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

GASB No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement 82 is effective for the year ending June 30, 2016.

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

Upcoming Accounting and Reporting Changes

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

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

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

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit

incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

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

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

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

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

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

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

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

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

Excess of Expenditures over Appropriations

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

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	\$ 3,116,224	\$ 3,128,724	\$ 12,500
Added needs	650,282	653,120	2,838
Pupil	229,825	231,881	2,056
General administration	220,232	221,632	1,400
School administration	535,268	542,529	7,261
Pupil transportation services	367,220	377,543	10,323
Central	156,262	156,682	420
Athletic activities	185,245	186,559	1,314
Capital outlay	77,551	78,016	465

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$6,544,317 as of June 30, 2016. There are no governmental funds with a deficit.

Compliance – Sinking Funds

The Sinking Fund records capital project activities funded with the Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of section 1212 of the Revised School Code.

Compliance – Bond Proceeds

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

	<u>2014 Capital Projects Fund</u>
Revenues	\$ 12,806,533
Expenditures	<u>10,486,236</u>
	<u>\$ 2,320,297</u>

Note 3 - Deposits and Investments

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

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash	<u>\$ 5,535,421</u>	<u>\$ 156,833</u>	<u>\$ 5,692,254</u>

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 2,223,365
Investments in securities, mutual funds, and similar vehicles	3,468,889
Total	\$ 5,692,254

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

Investment	Fair Value	Maturities	Rating	Rating Organization
MILAF + MAX Class	\$ 3,468,889	6 months	AAAm	Standard & Poor's

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District’s investment policy restricts investment maturities to within four years of the date of purchase. In addition, the policy restricts investments in commercial paper, which can only be purchased with a 270-day maturity. The School District’s policy does not address other ways to minimize interest rate risk.

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

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$1,878,572 of the School District’s bank balance of \$2,378,572 exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2016, none of the School District’s investments were exposed to custodial credit risk.

Note 4 - Fair Value Measurements

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

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

Amounts invested in MILAF + Portfolio of \$3,468,889. The MILAF + Portfolio is not registered under Rule 2a-7 under the Investment Company Act of 1940. The money market securities are valued using amortized cost, which generally approximates the current fair value of the security. However, the value is not obtained from a quoted price in an active market. (Level 2 inputs)

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

Note 5 - Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Construction-in-progress	1,911,086	7,825,409	-	9,736,495
Total capital assets not being depreciated	<u>2,011,086</u>	<u>7,825,409</u>	<u>-</u>	<u>9,836,495</u>
Capital assets being depreciated				
Buildings and improvements	9,194,120	159,085	-	9,353,205
Equipment and furniture	951,984	109,750	7,490	1,054,244
Buses and other vehicles	1,076,206	-	272,603	803,603
Total capital assets being depreciated	<u>11,222,310</u>	<u>268,835</u>	<u>280,093</u>	<u>11,211,052</u>
Less accumulated depreciation for				
Buildings and improvements	5,914,362	115,587	-	6,029,949
Equipment and furniture	752,146	47,016	7,490	791,672
Buses and other vehicles	679,130	56,394	272,603	462,921
Total accumulated depreciation	<u>7,345,638</u>	<u>218,997</u>	<u>280,093</u>	<u>7,284,542</u>
Net capital assets being depreciated	<u>3,876,672</u>	<u>49,838</u>	<u>-</u>	<u>3,926,510</u>
Net capital assets	<u>\$ 5,887,758</u>	<u>\$ 7,875,247</u>	<u>\$ -</u>	<u>\$ 13,763,005</u>

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

Governmental activities	
Instruction	\$ 124,075
Supporting services	84,273
Food services	10,649
Total governmental activities	<u>\$ 218,997</u>

Construction Contracts

As of year-end, the School District had the following construction contracts in progress:

Project	Total Contract	Remaining Construction Commitment at Year End	Contract Payable at Year End
Building Project	\$ 10,448,780	\$ 1,946,772	\$ 1,188,681

Note 6 - Interfund Receivable and Payable

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General Fund	Nonmajor Governmental Funds	<u>\$ 35,540</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds were made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

Note 7 - State Aid Anticipation Note

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

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

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	\$ 426,090	\$ 750,000	\$ 1,072,497	\$ 103,593

Note 8 - Long-Term Debt

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

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 14,260,000	\$ -	\$ 620,000	\$ 13,640,000	\$ 620,000
Other notes payable	27,543	-	12,645	14,898	10,646
Compensated absences	145,989	12,814	-	158,803	-
Premium on bonds	1,172,638	-	82,659	1,089,979	-
Total	\$ 15,606,170	\$ 12,814	\$ 715,304	\$ 14,903,680	\$ 630,646

For governmental activities, compensated absences and other notes payable are primarily liquidated by the General Fund.

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

\$2,915,000 serial bond due in annual installments of \$615,000 to \$620,000 through May 2019, interest at 4.00% to 5.25%	\$ 1,855,000
\$11,785,000 building and site bond due in annual installments of \$25,000 to \$1,105,000 through May 2032, interest at 4.00% to 5.00%	<u>11,785,000</u>
Total general obligation bonded debt	<u>\$ 13,640,000</u>

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

	Principal	Interest	Total
Year Ending June 30,			
2017	\$ 620,000	\$ 609,800	\$ 1,229,800
2018	645,000	577,250	1,222,250
2019	665,000	551,200	1,216,200
2020	695,000	524,100	1,219,100
2021	725,000	489,350	1,214,350
2022 – 2026	4,150,000	1,868,000	6,018,000
2027 – 2031	5,035,000	838,600	5,873,600
2032	1,105,000	44,200	1,149,200
Total	<u>\$ 13,640,000</u>	<u>\$ 5,502,500</u>	<u>\$ 19,142,500</u>

The general obligation bonds are payable from the Debt Service Funds. As of year-end, the fund had a balance of \$591,247 to pay this debt. Future debt and interest will be payable from future tax levies.

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

Notes Payable

Installment notes payable at June 30, 2016 consist of the following:

\$44,255 Technology installment note payable due bi-annual installments of \$4,289 through October 1, 2017, interest at 2.50%	\$	12,569
\$13,458 GW Jones Lawn Mower installment note payable due bi-annual installments of \$2,367 through October 1, 2016, interest at 3.25%		2,329
Total notes payable	\$	14,898

Future principal and interest requirements for installment notes are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2017	\$ 10,646	\$ 300	\$ 10,946
2018	4,252	53	4,305
Total	\$ 14,898	\$ 353	\$ 15,251

Compensated Absences

Accrued compensated absences at year-end consist of \$158,803 of accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year

Note 9 - Risk Management

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

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had no unemployment compensation expense for the year ended June 30, 2016. No provision has been made for possible future claims.

Note 10 - Pension Plans and Post-Employment Benefits

Organization

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

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

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

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected,

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

member retirement benefits for DB plan members are determined by final average compensation and years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Contributions and Funding Status

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

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

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

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

Required contributions to the pension plan from the School District were \$707,013 for the year ending September 30, 2015.

Net Pension Liability

June 30, 2016, the School District reported a liability of \$8,951,606 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2015, the School District's proportionate share percent was 0.0366 percent, which was an increase of 0.0010 percent since the prior measurement date.

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

For the year ended June 30, 2016, the School District recognized total pension expense of \$808,249. The School District's actual contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$577,800, \$711,000, and \$542,200, respectively.

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 29,650
Changes in assumptions	220,408	-
Net difference between projected and actual earnings on pension plan investments	45,691	-
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	191,888	-
Reporting Unit contributions subsequent to the measurement date	777,958	227,649
	<u>\$ 1,235,945</u>	<u>\$ 257,299</u>

\$777,958 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. \$227,649 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2017 when the related payments reduce the net pension liability.

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

Plan Year Ended September 30	Amount
2016	\$ 76,765
2017	76,765
2018	64,813
2019	209,994
Total	<u>\$ 428,337</u>

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2014
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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

Long-Term Expected Return on Plan Assets

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
Alternative Investment Pools	18.0%	9.2%
International Equity	16.0%	7.2%
Fixed Income Pools	10.5%	0.9%
Real Estate and Infrastructure Pools	10.0%	4.3%
Absolute Return Pools	15.5%	6.0%
Short-Term Investment Pools	2.0%	0.0%
	100.0%	

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

Discount Rate

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

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

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

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 11,540,915	\$ 8,951,606	\$ 6,768,713

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

Fiduciary Net Position

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

Payables to the Pension Plan

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

Post-Employment Benefits

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

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

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

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

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

The School District's actual contributions match the required contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$201,900, \$110,900, and \$219,700, respectively.

Marcellus Community Schools
Notes to the Financial Statements
June 30, 2016

Unfunded Accrued Liability

During the year ending June 30, 2016, the School District had contributions in the amount of \$350,499 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 10.53% for the year ending June 30, 2016.

Note 11 - Contingent Liabilities

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

Marcellus Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

	Budgeted Amounts			Over (Under) Budget
	Original	Final	Actual	
Revenues				
Local sources	\$ 1,078,374	\$ 1,462,430	\$ 1,461,022	\$ (1,408)
State sources	5,065,342	5,054,290	5,131,446	77,156
Federal sources	196,856	211,437	211,437	-
Interdistrict sources	78,000	32,569	32,569	-
Total revenues	<u>6,418,572</u>	<u>6,760,726</u>	<u>6,836,474</u>	<u>75,748</u>
Expenditures				
Instruction				
Basic programs	3,002,466	3,116,224	3,128,724	12,500
Added needs	660,155	650,282	653,120	2,838
Supporting services				
Pupil	213,692	229,825	231,881	2,056
Instructional staff	22,444	31,111	31,111	-
General administration	203,873	220,232	221,632	1,400
School administration	586,717	535,268	542,529	7,261
Business	136,424	175,283	174,566	(717)
Operations and maintenance	693,870	651,373	646,196	(5,177)
Pupil transportation services	422,024	367,220	377,543	10,323
Central	124,178	156,262	156,682	420
Athletic activities	165,119	185,245	186,559	1,314
Capital outlay	28,364	77,551	78,016	465
Debt service				
Principal	12,318	12,645	12,645	-
Interest and fiscal charges	5,497	11,093	10,207	(886)
Total expenditures	<u>6,277,141</u>	<u>6,419,614</u>	<u>6,451,411</u>	<u>31,797</u>
Excess of revenues over expenditures	<u>141,431</u>	<u>341,112</u>	<u>385,063</u>	<u>43,951</u>
Other Financing Sources				
Insurance recoveries	-	9,558	9,558	-
Proceeds from sale of capital assets	-	11,450	11,450	-
Total other financing sources	<u>-</u>	<u>21,008</u>	<u>21,008</u>	<u>-</u>
Net change in fund balance	141,431	362,120	406,071	43,951
Fund balance - beginning	<u>724,794</u>	<u>724,794</u>	<u>724,794</u>	<u>-</u>
Fund balance - ending	<u>\$ 866,225</u>	<u>\$ 1,086,914</u>	<u>\$ 1,130,865</u>	<u>\$ 43,951</u>

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

	June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Reporting unit's proportion of net pension liability (%)	0.03560%	0.03562%								
B. Reporting unit's proportionate share of net pension liability	\$ 8,951,606	\$ 7,845,847								
C. Reporting unit's covered-employee payroll	\$ 2,982,638	\$ 3,037,513								
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	300.12%	258.30%								
E. Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%								

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

	For the Years Ended June 30,									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
A. Statutorily required contributions	\$ 577,808	\$ 710,987								
B. Contributions in relation to statutorily required contributions	<u>577,808</u>	<u>710,987</u>								
C. Contribution deficiency (excess)	\$ -	\$ -								
D. Reporting unit's covered-employee payroll	\$ 3,029,366	\$ 3,231,954								
E. Contributions as a percentage of covered-employee payroll	19.07%	22.00%								

Notes:

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

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

Marcellus Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

	Food Service Fund	Debt Service Funds		Sinking Fund	Total Nonmajor Governmental Funds
		2007 Refunding Debt Fund	2014 Debt Fund		
Assets					
Cash	\$ 5,866	\$ 210,999	\$ 365,096	\$ 451,033	\$ 1,032,994
Due from other funds	20,388	12,221	2,931	-	35,540
Due from other governmental units	8,422	-	-	-	8,422
Inventory	4,795	-	-	-	4,795
Total assets	\$ 39,471	\$ 223,220	\$ 368,027	\$ 451,033	\$ 1,081,751
Liabilities					
Accounts payable	\$ 33,923	\$ -	\$ -	\$ -	\$ 33,923
Fund Balance					
Non-spendable					
Inventory	4,795	-	-	-	4,795
Restricted for					
Food service	753	-	-	-	753
Debt service	-	223,220	368,027	-	591,247
Capital projects	-	-	-	451,033	451,033
Total fund balance	5,548	223,220	368,027	451,033	1,047,828
Total liabilities and fund balance	\$ 39,471	\$ 223,220	\$ 368,027	\$ 451,033	\$ 1,081,751

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

	Food Service Fund	Debt Service Funds		Sinking Fund	Total Nonmajor Governmental Funds
		2007 Refunding Debt Fund	2014 Debt Fund		
Revenues					
Local sources	\$ 58,455	\$ 789,121	\$ 542,503	\$ 3,475	\$ 1,393,554
State sources	11,851	-	-	-	11,851
Federal sources	253,045	-	-	-	253,045
Total revenues	<u>323,351</u>	<u>789,121</u>	<u>542,503</u>	<u>3,475</u>	<u>1,658,450</u>
Expenditures					
Current					
Education					
Food services	324,618	-	-	-	324,618
Capital outlay	-	-	-	39,825	39,825
Debt service					
Principal	-	620,000	-	-	620,000
Interest and other expenditures	-	115,000	528,150	-	643,150
Total expenditures	<u>324,618</u>	<u>735,000</u>	<u>528,150</u>	<u>39,825</u>	<u>1,627,593</u>
Net change in fund balance	(1,267)	54,121	14,353	(36,350)	30,857
Fund balance - beginning	<u>6,815</u>	<u>169,099</u>	<u>353,674</u>	<u>487,383</u>	<u>1,016,971</u>
Fund balance - ending	<u>\$ 5,548</u>	<u>\$ 223,220</u>	<u>\$ 368,027</u>	<u>\$ 451,033</u>	<u>\$ 1,047,828</u>

Marcellus Community Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2016

	2016	2015
Assets		
Cash	\$ 958,821	\$ 763,859
Due from other governmental units	936,037	970,461
Total assets	\$ 1,894,858	\$ 1,734,320
Liabilities		
Accounts payable	\$ 66,348	\$ 116,051
State aid anticipation note payable	103,593	426,090
Due to other funds	35,540	-
Accrued expenditures	244,655	159,985
Accrued salaries payable	313,857	307,400
Total liabilities	763,993	1,009,526
Fund Balance		
Assigned - capital expenditures	200,000	-
Unassigned	930,865	724,794
Total fund balance	1,130,865	724,794
Total liabilities and fund balance	\$ 1,894,858	\$ 1,734,320

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 971,886	\$ 1,356,599	\$ 1,353,223	\$ (3,376)
Tuition	3,525	1,100	1,350	250
Transportation fees	1,972	8,658	10,431	1,773
Earnings on investments	1,900	2,274	2,456	182
Student activities	47,131	40,523	40,524	1
Other local revenues	51,960	53,276	53,038	(238)
Total revenues from local sources	<u>1,078,374</u>	<u>1,462,430</u>	<u>1,461,022</u>	<u>(1,408)</u>
Revenues from state sources				
Grants - unrestricted	4,375,832	4,314,507	4,391,831	77,324
Grants - restricted	689,510	739,783	739,615	(168)
Total revenues from state sources	<u>5,065,342</u>	<u>5,054,290</u>	<u>5,131,446</u>	<u>77,156</u>
Revenues from federal sources				
Grants	196,856	211,437	211,437	-
Interdistrict sources				
Other	78,000	32,569	32,569	-
Other financing sources				
Insurance recoveries	-	9,558	9,558	-
Proceeds from sale of capital assets	-	11,450	11,450	-
Total other financing sources	<u>-</u>	<u>21,008</u>	<u>21,008</u>	<u>-</u>
Total revenue and other financing sources	<u>\$ 6,418,572</u>	<u>\$ 6,781,734</u>	<u>\$ 6,857,482</u>	<u>\$ 75,748</u>

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 906,920	\$ 944,665	\$ 944,665	\$ -
Employee benefits	632,051	607,643	615,051	7,408
Purchased services	19,809	32,574	32,574	-
Supplies and materials	64,700	84,710	86,338	1,628
Other	4,500	2,100	2,931	831
Total elementary	<u>1,627,980</u>	<u>1,671,692</u>	<u>1,681,559</u>	<u>9,867</u>
Basic program - middle school				
Salaries	37,433	37,521	37,521	-
Employee benefits	33,720	34,217	34,217	-
Purchased services	219,784	261,152	261,152	-
Total middle school	<u>290,937</u>	<u>332,890</u>	<u>332,890</u>	<u>-</u>
Basic program - high school				
Salaries	628,678	652,359	652,359	-
Employee benefits	400,940	413,847	415,844	1,997
Purchased services	36,784	33,364	33,261	(103)
Supplies and materials	13,000	9,442	9,442	-
Other	4,147	2,630	3,369	739
Total high school	<u>1,083,549</u>	<u>1,111,642</u>	<u>1,114,275</u>	<u>2,633</u>

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - special education				
Salaries	90,761	95,930	95,930	-
Employee benefits	62,506	66,761	67,759	998
Purchased services	1,491	2,319	2,319	-
Supplies and materials	300	-	-	-
Total special education	<u>155,058</u>	<u>165,010</u>	<u>166,008</u>	<u>998</u>
Added needs - compensatory education				
Salaries	224,989	207,740	207,740	-
Employee benefits	157,088	145,528	147,527	1,999
Purchased services	1,607	14,890	14,714	(176)
Supplies and materials	8,798	595	612	17
Other	325	246	246	-
Total compensatory education	<u>392,807</u>	<u>368,999</u>	<u>370,839</u>	<u>1,840</u>
Added needs - career and technical education				
Salaries	38,024	38,568	38,568	-
Employee benefits	33,971	37,242	37,242	-
Purchased services	1,605	1,133	1,133	-
Supplies and materials	1,070	-	-	-
Other	37,620	39,330	39,330	-
Total career and technical education	<u>112,290</u>	<u>116,273</u>	<u>116,273</u>	<u>-</u>

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	35,968	36,794	36,794	-
Employee benefits	22,384	24,967	25,974	1,007
Supplies and materials	1,999	1,999	1,999	-
Total guidance services	<u>60,351</u>	<u>63,760</u>	<u>64,767</u>	<u>1,007</u>
Pupil - speech services				
Purchased services	<u>32,000</u>	<u>36,869</u>	<u>36,868</u>	<u>(1)</u>
Pupil - social work services				
Salaries	50,731	51,387	52,187	800
Employee benefits	41,517	44,536	44,786	250
Total social work services	<u>92,248</u>	<u>95,923</u>	<u>96,973</u>	<u>1,050</u>
Pupil - other support services				
Salaries	21,500	22,015	22,015	-
Employee benefits	7,593	11,258	11,258	-
Total other pupil support services	<u>29,093</u>	<u>33,273</u>	<u>33,273</u>	<u>-</u>
Instructional staff - improvement of education				
Salaries	2,781	1,390	1,390	-
Employee benefits	930	461	461	-
Purchased services	2,706	2,195	2,195	-
Total improvement of education	<u>6,417</u>	<u>4,046</u>	<u>4,046</u>	<u>-</u>

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - educational media services				
Salaries	7,220	20,351	20,351	-
Employee benefits	3,090	5,277	5,277	-
Supplies and materials	17	218	218	-
Total educational media services	<u>10,327</u>	<u>25,846</u>	<u>25,846</u>	<u>-</u>
Instructional staff - technology assisted instruction				
Purchased services	<u>5,700</u>	<u>1,219</u>	<u>1,219</u>	<u>-</u>
General administration - board of education				
Purchased services	33,918	40,032	40,032	-
Supplies and materials	13	120	120	-
Other	2,807	7,052	7,145	93
Total board of education	<u>36,738</u>	<u>47,204</u>	<u>47,297</u>	<u>93</u>
General administration - executive administration				
Salaries	89,620	90,146	91,542	1,396
Employee benefits	50,985	47,986	48,404	418
Purchased services	17,705	18,865	18,932	67
Supplies and materials	950	1,765	1,096	(669)
Other	7,875	14,266	14,361	95
Total executive administration	<u>167,135</u>	<u>173,028</u>	<u>174,335</u>	<u>1,307</u>

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
School administration - office of the principal				
Salaries	308,166	297,328	303,907	6,579
Employee benefits	220,893	217,739	219,870	2,131
Purchased services	51,908	15,928	14,479	(1,449)
Supplies and materials	4,400	2,388	2,388	-
Other	1,350	1,885	1,885	-
Total office of the principal	<u>586,717</u>	<u>535,268</u>	<u>542,529</u>	<u>7,261</u>
Business - fiscal services				
Salaries	72,657	88,530	89,499	969
Employee benefits	50,693	64,481	64,789	308
Total fiscal services	<u>123,350</u>	<u>153,011</u>	<u>154,288</u>	<u>1,277</u>
Business - other				
Purchased services	1,500	1,513	1,513	-
Other	11,574	20,759	18,765	(1,994)
Total other business	<u>13,074</u>	<u>22,272</u>	<u>20,278</u>	<u>(1,994)</u>
Operations and maintenance - operating building services				
Salaries	216,730	201,773	204,626	2,853
Employee benefits	172,755	139,237	140,157	920
Purchased services	61,285	57,803	57,803	-
Supplies and materials	235,600	239,601	230,333	(9,268)
Other	7,500	12,959	13,277	318
Total operating building services	<u>693,870</u>	<u>651,373</u>	<u>646,196</u>	<u>(5,177)</u>

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil transportation services				
Salaries	183,762	170,260	171,332	1,072
Employee benefits	113,326	113,010	113,353	343
Purchased services	17,124	14,357	14,568	211
Supplies and materials	107,812	69,593	78,290	8,697
Total transportation services	<u>422,024</u>	<u>367,220</u>	<u>377,543</u>	<u>10,323</u>
Central - support services technology				
Salaries	36,200	41,069	41,386	317
Employee benefits	30,588	32,568	32,671	103
Purchased services	54,890	80,283	80,283	-
Other	2,500	2,342	2,342	-
Total support services technology	<u>124,178</u>	<u>156,262</u>	<u>156,682</u>	<u>420</u>
Athletic activities				
Salaries	75,029	76,224	76,371	147
Employee benefits	30,286	59,490	59,486	(4)
Purchased services	70	25	25	-
Supplies and materials	20,000	12,748	13,839	1,091
Other	39,734	36,758	36,838	80
Total athletic activities	<u>165,119</u>	<u>185,245</u>	<u>186,559</u>	<u>1,314</u>

Marcellus Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Capital outlay				
Basic program - elementary	322	18,893	18,893	-
Added needs - career and technical education	200	-	-	-
General administration - executive administration	1,723	-	465	465
Operations and maintenance - operating building services	-	1,600	1,600	-
Pupil transportation services	15,000	32,693	32,693	-
Central - support services technology	-	18,379	18,379	-
Athletic activities	11,119	5,986	5,986	-
	<u>28,364</u>	<u>77,551</u>	<u>78,016</u>	<u>465</u>
Total capital outlay				
Debt service				
Principal	12,318	12,645	12,645	-
Interest and other expenditures	5,497	11,093	10,207	(886)
	<u>17,815</u>	<u>23,738</u>	<u>22,852</u>	<u>(886)</u>
Total debt service				
Total expenditures and financing uses	<u>\$ 6,277,141</u>	<u>\$ 6,419,614</u>	<u>\$ 6,451,411</u>	<u>\$ 31,797</u>

Marcellus Community Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2016

Year Ending June 30,	2007 Refunding Principal	2014 Debt Principal	Total
2017	\$ 620,000	\$ -	\$ 620,000
2018	620,000	-	620,000
2019	615,000	25,000	640,000
2020	-	50,000	50,000
2021	-	695,000	695,000
2022	-	725,000	725,000
2023	-	760,000	760,000
2024	-	795,000	795,000
2025	-	830,000	830,000
2026	-	865,000	865,000
2027	-	900,000	900,000
2028	-	940,000	940,000
2029	-	975,000	975,000
2030	-	1,005,000	1,005,000
2031	-	1,040,000	1,040,000
2032	-	1,075,000	1,075,000
2033	-	1,105,000	1,105,000
Total	<u>\$ 1,855,000</u>	<u>\$ 11,785,000</u>	<u>\$ 13,640,000</u>

Principal payments due the first day of

May

May

Interest payments due the first day of

May and November

May and November

Interest rate

4.00% - 5.25%

4.00% - 5.00%

Original issue

\$ 2,915,000

\$ 11,785,000

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

Independent Auditors' Report

Management and the Board of Education
Marcellus Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marcellus Community Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Marcellus Community Schools' basic financial statements, and have issued our report thereon dated October 20, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2016-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Marcellus Community Schools' Response to Findings and Corrective Action Plan

Marcellus Community Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and responses and corrective action plan. Marcellus Community Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Yeo & Yeo, P.C.

Kalamazoo, Michigan
October 20, 2016

Marcellus Community Schools
Schedule of Findings and Responses
June 30, 2016

GOVERNMENT AUDITING STANDARDS FINDINGS

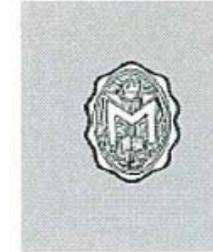
Finding 2016-001 – Material Weakness

- Criteria:** Michigan Department of Education Bulletin 1022 Michigan Public School Accounting Manual states that financial statements and records should be free of errors that could change the user's overall assessment of the entity's finance.
- Condition:** A material adjustment was required, as a result of audit procedures, to record \$1,223,309 of accounts payable in the capital projects fund.
- Cause and Effect:** Accounting personnel failed to identify the accounts payable through their normal year end closing procedures. The error initially resulted in accounts payable and expenditures being understated by \$1,223,309. An adjustment was made to ensure that the financial statements presented herein were accurate.
- Recommendation:** We recommend that the School District review the procedures currently in place for reviewing invoices received after year end. Procedures should include some level of review by another individual other than the employee entering amounts into the accounting system.
- Views of Responsible Officials:** Management agrees with the finding.
- Corrective Action Plan:** See page 7 – 4 for the corrective action plan from management.

Marcellus Community Schools
Corrective Action Plan
June 30, 2016

Marcellus Community Schools

305 W. Arbor - P O Box 48
Marcellus, Michigan 49067



Material Weakness Corrective Action Plan

Yeo & Yeo Audit – 6/30/2016

Our Financial Analyst had no prior experience in a bond implementation and did not realize the need for the retainage amounts to be recorded as a liability. We have been made aware of this through our current audit and plan to record these liabilities monthly as they are incurred.

The Superintendent will also review monthly reports for accuracy.

If there are remaining retainage amounts throughout the coming fiscal year, they will be represented appropriately in the general ledger.

A handwritten signature in blue ink, reading "Nanette Pauley".

Nanette Pauley
Superintendent