

**CLINTON COMMUNITY SCHOOLS
CLINTON, MICHIGAN**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**WITH
INDEPENDENT AUDITORS' REPORT**

Table of Contents

	<u>Page</u>
Management’s Discussion and Analysis	i - vii
Independent Auditors’ Report	1 – 3
Basic Financial Statements:	
Government-wide Financial Statements	
Statements of Net Position	4
Statement of Activities	5
Fund Financial Statements	
Balance Sheet – Governmental Funds	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Changes in Net Position	9
Fiduciary Funds	
Statements of Fiduciary Net Position	10
Notes to Financial Statements	11 - 27
Notes to Required Supplementary Information	28
Required Supplementary Information:	
Budgetary Comparison Schedule – General Fund	29
Schedule of the District’s Contributions – Michigan Public Schools Employees Retirement Plan	30
Schedule of the District’s Proportionate Share of the Net Pension Liability - Michigan Public Schools Employees Retirement Plan	31
Nonmajor Governmental Fund Types	
Combining Balance Sheet	32
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	33
Statement of Cash Receipts, Disbursements and Liabilities Agency Funds	34
Other Additional Information:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35 - 36

**CLINTON COMMUNITY SCHOOLS-CLINTON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The management's discussion and analysis is provided at the beginning of the audit and organized so that the reader can understand the current position of Clinton Community School's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all of the District's revenues by program for the General Fund, Debt Service Fund, and Capital Projects Fund.

Using the Annual Report

The District's Annual Report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The *District Wide Financial Statements*, which include the **Statement of Net Position** and the **Statement of Activities**, provide information about the district as a whole and present a longer-term view of the District's finances. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The *Fund Financial Statements* provide detailed information about the District's most significant funds,-not the District as a whole.

Reporting the school district as a whole

These two statements report the District's Net Position - the difference between assets and liabilities and deferred inflows of resources as reported in the **Statement of Net Position** – as one way to measure the District's financial health or financial position. The **Statement of Net Position** combines and consolidates governmental fund's current financial resources with capital assets and long-term obligations, regardless if they are currently available or not. In comparison to "other assets", capital assets are those assets that are tangible, valued over a specified amount, and usually have a long life. They are depreciated over a useful life. More detail on capital assets and their recorded useful lives is found in the footnote section of the financial statements. Long-term obligations (liabilities) are those that are longer than one year. Some liabilities are classified as "short-term" for the portion due in a year, and "long-term" for the portion due in the future years (such as leases payable, compensated absences, and debt obligations). Over time, increases or decreases in the District's Net Position – as reported in the **Statement of Activities** – is one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results.

However, the District's goal is to provide services to our students, not to generate a profit as commercial entities do. There are other factors to consider such as quality of education and school safety to assess the overall health of the District.

The **Statement of Net Position** and **Statement of Activities** report the governmental activities and business-type activities. These statements for the District will include only governmental activities, which encompass all of the District's services including instruction, supporting services, athletics, and food service. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

**CLINTON COMMUNITY SCHOOLS-CLINTON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Reporting the school district's most significant funds

The District's fund financial statements provide detailed information about the District's most significant funds - not the District as a whole. The fund statements are similar to financial presentations in the past, but the new focus is on the District's major funds rather than fund types. Some funds are required by State law and by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes (such as **Food Service**) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other monies (such as **Debt and Capital Projects**). The District's major fund is the **General Fund**.

Most of the District's services are reported in governmental funds. Governmental fund reporting focuses on how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called "modified accrual" accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and 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 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 reconciliation on pages 7 and 9.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Fund, Capital Projects Fund, and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions and grants and other intergovernmental revenues. The Debt Fund is used to record the funding and payment of principal and interest on bonded debt. The Special Revenue Fund is used to record the funding and expenditures of monies specified for a specific purpose (Food Service). The Fiduciary Fund accounts for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

**CLINTON COMMUNITY SCHOOLS-CLINTON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The District as a whole

The District's net position was \$(5,481,422) at the end of June 30, 2016 and \$(5,348,802) as of June 30, 2015, representing a net decrease of \$132,620. Of the total amount \$(11,499,641) was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use those funds for day-to-day operations. Our analysis below focuses on the **Net Position** (Table 1) and **Change in Net Position** (Table 2) of the School District's governmental activities.

Net Position (Table 1)

	2016	2015
ASSETS:		
Current and other assets	\$ 4,802,064	\$ 3,756,931
Capital assets, net of accumulated depreciation	8,720,636	8,541,124
Total assets	13,522,700	12,298,055
 DEFERRED OUTFLOWS OF RESOURCES:		
Related to pensions	1,899,582	2,133,774
 LIABILITIES:		
Current liabilities	2,703,054	1,140,154
Noncurrent liabilities	3,077,100	3,962,370
Net pension liability	15,073,622	13,216,966
Total liabilities	20,853,776	18,319,490
 DEFERRED INFLOWS OF RESOURCES:		
Related to pensions	49,928	1,461,141
 NET POSITION:		
Net investment in capital assets	5,467,087	4,857,783
Restricted	551,132	378,478
Unrestricted (deficit)	(11,499,641)	(10,585,063)
Total net position	\$(5,481,422)	\$ (5,348,802)

**CLINTON COMMUNITY SCHOOLS-CLINTON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The Statement of Activities presented later in the government-wide financial statement, provides greater detail on the District's annual activity. The Statement of Net Position (Table 2) shown below details the cost of the District's governmental activities and how those activities were financed.

Statement of Net Position from Operating Results (Table 2)

	2016	% of total	2015	% of total
Revenues:				
Program revenues:				
Charges for services	\$ 352,207	2.90%	356,080	3.27%
Operating grants	455,183	3.75%	308,101	2.83%
General revenues:				0.00%
Property taxes	1,684,353		1,726,682	15.85%
State sources	7,910,474	65.16%	7,984,244	73.30%
Grants and contributions not restricted to specific programs	1,731,055	14.26%	515,660	4.73%
Unrestricted investment earnings	6,138	0.05%	1,482	0.02%
Total revenues	\$ 12,139,410	86.1%	\$ 10,892,249	100.00%
Function/program expenses:				
Instruction	\$ 7,290,550	59.41%	6,907,577	62.39%
Support services	3,487,287	28.42%	2,731,699	24.67%
Food services	385,968	3.15%	434,522	3.92%
Athletics	407,189	3.32%	382,900	3.46%
Interest on long-term debt	97,630	0.80%	86,793	0.78%
Unallocated depreciation	603,406	4.92%	528,530	4.78%
Total expenses	\$ 12,272,030	100.00%	\$ 11,072,021	100.00%
Change in Net position	(132,620)		(179,772)	
Net position, beginning of year	(5,348,802)		7,846,469	
Restatement for implementation of GASB 68	-		(13,015,499)	
Net position, end of year	\$ (5,481,422)		\$ (5,348,802)	

**CLINTON COMMUNITY SCHOOLS-CLINTON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Financial Analysis of the District's Funds

The financial performance of the district as a whole is reflected in its governmental funds as well.

GENERAL FUND

Factors affecting Revenue

- *State Aid funding* – The State of Michigan provides a \$7,391 per pupil foundation allowance that provides a substantial portion of our district's revenue, 72 percent. In addition we also receive various grants from the state. This means that the financial stability of the District rests primarily with the economic health of the State of Michigan. State aid payments are made with the first payment of the school year beginning in October, and the last payment being made in August. Therefore, at the end of the District's fiscal year end, there is adjustment made that includes 2 months of state aid payments into revenue that has not yet been made.
- *Schools of Choice* – The School District has an agreement with the other public schools in Lenawee County to implement Lenawee County Schools of Choice (Open Enrollment) program. During the 2015-16 school year, of the 1,068 pupils enrolled, 257 (24%) of our student population were schools of choice pupils.
- *Sinking Fund Millage* – Revenues are generated by taxes going toward building improvements.

Factors affecting Expenses

- *Salaries and Benefits* – A significant portion of the District's expenses are related to compensation, 77% in 2015-16.
- *Instructional purchases* – Another part of each year's budgetary expenditures includes textbooks and supplemental learning materials, supplies, and purchased services.
- *Operation and Maintenance* – Each year's budgetary expenditures also include the general operation and maintenance of our school buildings.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, the District amends its budget during the school year. These revisions are made in order to deal with the unexpected changes in revenues and expenditures. The following analysis describes the reasons for changes in the budget during the year.

Original Budget versus Final Budget

- *Revenues* – Original estimated budgets for revenues were \$10,736,658 versus the final budget of \$11,003,865. Major components of revenue and their original budget versus final budget are discussed below.
- There was an increase in *State Aid* due to an increase in 29 students. An increase in prior year refunds and LISD Special Education revenue..
- *Expenditures* – The original budget for expenditures was \$12,004,993 versus the final budget of \$11,269,426.

**CLINTON COMMUNITY SCHOOLS-CLINTON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Final Budget versus Actual Figures

- A large portion (approximately 33%) of *Local Revenues* are property taxes received from seven townships: Clinton, Franklin, Macon, Tecumseh, Bridgewater, Manchester, and Saline.
- *State Revenues* were budgeted at \$8,053,140 versus actual of \$8,050,474. This is a difference of \$(2,666).
- *Federal Revenues* were budgeted at \$117,550 versus actual of \$116,678, a difference of \$(872).
- *Overall revenues* were under budget by \$6,408 from the final budget amounts. This is an insignificant amount compared to the total revenue budget of \$11,003,865 (less than one percent).
- Final estimated budgets for *expenses* were \$11,269,426 versus an actual final amount of \$11,218,871. The District was under budget for expenditures in the amount of \$50,555.

SPECIAL REVENUE FUNDS

- *School Lunch Fund* – The School Lunch Fund receives its revenues from the sale of goods, State reimbursement, and federal grants.
- *Capital Projects Fund* – These funds are restricted for improvements to the district. At the end of the fiscal year 2015-16 there was a fund balance of \$415,597.
- *Debt Service Fund* – This fund is directly funded through taxes. For fiscal year 2015-16, the collection of property taxes for the retirement of principal and interest relating to the District was \$528,261. Principal and interest requirements for the 2015-16 retirement was \$534,640.

CAPITAL ASSET AND DEBT ADMINISTRATION

- *Capital Assets* – At June 30, 2016, the School District had \$8,720,636 invested in capital assets, net of accumulated depreciation. The district had bonded debt outstanding of \$3,255,000. As these items also relate to capital assets, the amount ***Invested in capital assets net of related debt*** is \$5,467,087. Assets, net of accumulated depreciation will probably continue to decrease because the district at this time has no intention of purchasing many capital assets. Those already on the books will continue to depreciate.
- *Debt Administration* – At the fiscal year ending June 30, 2016, the District's had long-term obligations totaling \$3,551,013, including general obligation bonds (\$3,255,000), compensated absences (\$148,543), and unamortized bond premium (\$147,470).
- The District's total long-term debt decreased by \$411,357. The key factor in this decrease was the principal payment during the year on the 2015 general obligation refunding bonds.

**CLINTON COMMUNITY SCHOOLS-CLINTON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Contacting the District's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, please contact the Superintendent, 341 East Michigan, Clinton, MI 49236.



INDEPENDENT AUDITORS' REPORT

To the Board of Education
Clinton Community Schools
Clinton, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

102 Maumee St., Adrian, MI 49221, 517.266.2228

To the Board of Education
Clinton Community Schools
Clinton, Michigan

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, the major fund, and the aggregate remaining fund information of the District, as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and the schedules for the pension plan, as listed 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 the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Board of Education
Clinton Community Schools
Clinton, Michigan

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2016, on our consideration of Clinton Community Schools internal control over financial reporting and 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 Clinton Community Schools internal control over financial reporting and compliance.

Baker, Eaton & Owen
Adrian, Michigan

October 15, 2016

**CLINTON COMMUNITY SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,305,550
Receivables	1,490,727
Inventory	4,906
Prepaid expenses	881
Total current assets	4,802,064
Noncurrent assets:	
Capital assets not being depreciated	158,683
Capital assets being depreciated, net	8,561,953
Total noncurrent assets	8,720,636
Total assets	13,522,700
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	148,921
Deferred pension amounts	1,750,661
Total deferred outflows of resources	1,899,582
 LIABILITIES:	
Current and other liabilities:	
Accounts payable and accrued liabilities	822,078
State aid loan payable	500,000
Unearned revenue	178,218
Salaries payable	728,845
Current portion of long term obligations	461,067
Current portion of compensated absences	12,846
Total current liabilities	2,703,054
Noncurrent liabilities:	
Noncurrent portion of long term obligations	2,941,403
Compensated absences	135,697
Net pension liability	15,073,622
Total noncurrent liabilities	18,150,722
Total liabilities	20,853,776
 DEFERRED INFLOWS OF RESOURCES	
Deferred pension amounts	49,928
 NET POSITION:	
Net Investment in capital assets	5,467,087
Restricted for:	
Food service	70,663
Debt service	64,872
Capital projects	415,597
Unrestricted (deficit)	(11,499,641)
Total net position	\$ (5,481,422)

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

**CLINTON COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants</u>	
Governmental activities:				
Instruction	\$ 7,290,550	\$ 162,885	\$ 226,600	\$ (6,901,065)
Support services	3,487,287	3,167	30,078	(3,454,042)
Athletics	407,189	38,347	-	(368,842)
Food services	385,968	147,808	198,505	(39,655)
Interest and fiscal charges on long term debt	97,630	-	-	(97,630)
Unallocated depreciation	603,406	-	-	(603,406)
Total governmental activities	<u>\$ 12,272,030</u>	<u>\$ 352,207</u>	<u>\$ 455,183</u>	<u>\$ (11,464,640)</u>
General revenues:				
Property taxes				\$ 1,684,353
Unrestricted State Aid				7,910,474
Grants and contributions not restricted to specific programs				1,731,055
Unrestricted investment earnings				6,138
Total general revenues				<u>11,332,020</u>
Change in net position				(132,620)
Net position, beginning of year				<u>(5,348,802)</u>
Net position, end of year				<u>\$ (5,481,422)</u>

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

**CLINTON COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,753,364	\$ 552,186	\$ 3,305,550
Receivables	1,476,564	14,163	1,490,727
Due from other funds	-	2,460	2,460
Inventory	-	4,906	4,906
Prepaid expenditures	881	-	881
Total assets	<u>\$ 4,230,809</u>	<u>\$ 573,715</u>	<u>\$ 4,804,524</u>
LIABILITIES			
Accounts payable	\$ 376,506	\$ -	\$ 376,506
State aid loan payable	500,000	-	500,000
Accrued expenses	432,545	-	432,545
Salaries payable	728,845	-	728,845
Due to other funds	2,460	-	2,460
Unearned revenue	173,568	4,650	178,218
Total liabilities	<u>2,213,924</u>	<u>4,650</u>	<u>2,218,574</u>
FUND BALANCES			
Nonspendable:			
Inventory	-	4,906	4,906
Prepaid expenditures	881	-	881
Restricted:			
Food service	-	70,663	70,663
Capital projects	-	77,899	77,899
Debt service	-	415,597	415,597
Unassigned	2,016,004	-	2,016,004
Total fund balance	<u>2,016,885</u>	<u>569,065</u>	<u>2,585,950</u>
Total liabilities and fund balance	<u>\$ 4,230,809</u>	<u>\$ 573,715</u>	<u>\$ 4,804,524</u>

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

**CLINTON COMMUNITY SCHOOLS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Total governmental fund balances		\$ 2,585,950
Amount reported for <i>governmental activities</i> in the statement of net position are different because:		
Capital assets used in the governmental activities are not financial resources and are not reported in the funds:		8,720,636
Capital assets, net of accumulated depreciation		
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable	(3,255,000)	
Unamortized bond premium	(147,470)	
Unamortized loss on bond refunding	148,921	
Interest payable on long term debt	(13,027)	
Compensated absences	<u>(148,543)</u>	(3,415,119)
Certain pension-related amounts, such as the net pension Liability and dererred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported		
Net pension liability	(15,073,622)	
Deferred outflows related to the net pension liability	1,750,661	
Dererred inflows related to the net pension liability	<u>(49,928)</u>	(13,372,889)
Net position of governmental activities		<u>\$ (5,481,422)</u>

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

CLINTON COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
REVENUES:			
Local sources:			
Property taxes	\$ 928,377	\$ 755,976	\$ 1,684,353
Food sales	-	187,290	187,290
Interest	5,956	183	6,139
Athletics	38,347	-	38,347
Charges for services	162,885	-	162,885
Other	1,694,740	-	1,694,740
State sources	8,050,474	17,457	8,067,931
Federal sources	116,678	181,048	297,726
Total revenues	<u>10,997,457</u>	<u>1,141,954</u>	<u>12,139,411</u>
EXPENDITURES:			
Current:			
Instruction	6,791,173	-	6,791,173
Support services	4,042,103	-	4,042,103
Athletic activities	385,595	-	385,595
Food service activities	-	385,968	385,968
Capital outlay	-	51,004	51,004
Debt service:			
Principal repayment	-	430,000	430,000
Interest	-	104,640	104,640
Total expenditures	<u>11,218,871</u>	<u>971,612</u>	<u>12,190,483</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(221,414)</u>	<u>170,342</u>	<u>(51,072)</u>
Net change in fund balances	(221,414)	170,342	(51,072)
Fund balances:			
Beginning of year	<u>2,238,299</u>	<u>398,723</u>	<u>2,637,022</u>
End of year	<u>\$ 2,016,885</u>	<u>\$ 569,065</u>	<u>\$ 2,585,950</u>

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

**CLINTON COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

Change in fund balances total governmental funds \$ (51,072)

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

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

Capital assets purchased	\$ 782,918	
Depreciation expense	<u>(603,406)</u>	179,512

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of the bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Current year's amortization of bond premium	21,067	
Current year's amortization of loss of bond refunding	(21,275)	
Principal payments on long-term liabilities	<u>430,000</u>	429,792

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Certain pension-related amounts as discussed below

Net Pension Liability	(1,856,656)	
Deferred Inflows of resources Pension	1,411,213	
Deferred Outflows of resources Pension	<u>(212,917)</u>	(658,360)

Change in net pension liability and related deferred amounts

Change in accrued interest payable on bonds	7,218	
Change in the accrual for compensated absences	<u>(39,710)</u>	<u>(32,492)</u>

Change in net position of governmental activities \$ (132,620)

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

**CLINTON COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016**

ASSETS:	
Cash and cash equivalents	<u>\$ 97,744</u>
LIABILITIES:	
Due to student groups	<u>\$ 97,744</u>

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

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The District is governed by the Board of Education (the “Board”) of Clinton Community Schools, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide And Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District’s activities are classified as governmental activities.

Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the statement of net position. Amounts reported in the funds as receivable from or payable to fiduciary funds are included in the statement of net position as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, and (b) is reported on a full accrual, economic resource basis which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net position are reported in three parts – invested in capital assets net of related debt; restricted net position; and unrestricted net position.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating 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, intermediate district sources, interest income, and other revenues).

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements.

Governmental Funds – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds. Effective July 1, 2010, the school district has implemented their Fund Balance Policy in Accordance with GASB Statement No. 54 as follows:

Purpose. The following policy has been adopted by the Board of Education in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services. This policy will ensure that the District maintains adequate fund balances and reserves in order to:

- a. Provide sufficient cash flow for daily financial needs,
- b. Secure and maintain investment grade bond ratings,
- c. Offset significant economic downturns or revenues shortfalls and,
- d. Provide funds for unforeseen expenditures related to emergencies.

This policy and the procedures promulgated under it supersede all previous regulations regarding the District's fund balance and reserve policies.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Fund type definitions. The following definitions will be used in reporting activity in governmental funds across the District. The District may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

The District reports the following major governmental fund:

- The *general fund* is used to account for all financial resources not accounted for and reported in another fund.

•

The District reports the following fund types:

- The *special revenue fund* is used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.
- The *debt service fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.
- The *capital projects fund* is used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.
- The *agency fund* is used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the District's purposes.

Fund balance reporting in governmental funds. Fund balance will be reported in governmental funds under the following categories:

- Nonspendable fund balance – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact.
- Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers; or through enabling legislation.
- Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority (i.e., the Board of Education). A formal resolution of the Board is required to establish, modify, or rescind a fund balance commitment.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

- Assigned fund balance – includes amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign – The Board of Education delegates to the Superintendent or his/her/their designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

- Unassigned fund balance – includes the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Prioritization of fund balance use – When the District incurs an expenditure for purposes for which various fund balance classification can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

3. Inventories and Prepaid Expenditures

Inventories are valued at cost (first-in, first-out). Inventories in the Special Revenue Fund consisting of expendable supplies held for consumption, are recorded as expenditures when consumed or used rather than when purchased. Inventories for commodities are recorded as revenue when utilized. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and equipment	5 – 20 years
Transportation equipment	3 – 7 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

5. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expenses/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source; receipts that exceeded 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

7. 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 (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2016. The District does not consider these amendments to be significant.

NOTE 3. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities follows:

Statement of Net Position	
Cash and cash equivalents	\$ 3,305,550
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	97,744
Total	\$ 3,403,294
 Deposits and investments	
Bank deposits (checking and savings accounts)	\$ 1,059,676
Michigan CLASS	2,343,618
	\$ 3,403,294

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3. DEPOSITS AND INVESTMENTS (continued)

Statutory Authority

State statutes authorize the District to invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these type of investments.

Investments

The District chooses to disclose its investments by specifically identifying each. As of year-end, the District had the following investment:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan CLASS	n/a	\$ 2,343,618	AAAm

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4. INTERGOVERNMENTAL RECEIVABLES

Receivables as of year-end for the District's individual major fund and nonmajor funds in the aggregate, are as follows:

	General Fund	Nonmajor Funds	Total
Accounts receivable	\$ 718	\$ 1,620	\$ 2,338
Intergovernmental	1,475,846	12,543	1,488,389
	\$ 1,476,564	\$ 14,163	\$ 1,490,727

No allowance for doubtful accounts is considered necessary.

NOTE 5. CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Assets not being depreciated:				
Land	\$ 158,683	\$ -	\$ -	\$ 158,683
Capital assets being depreciated:				
Buildings and improvements	13,891,006	50,993	-	13,941,999
Vehicles	916,161	-	-	916,161
Equipment and furniture	3,904,325	731,926	-	4,636,251
Depreciable capital assets	18,711,492	782,919	-	19,494,411
Less accumulated depreciation for:				
Buildings and improvements	(6,256,579)	(302,209)	-	(6,558,788)
Vehicles	(706,996)	(48,599)	-	(755,595)
Equipment and furniture	(3,365,477)	(252,598)	-	(3,618,075)
Total accumulated depreciation	(10,329,052)	(603,406)	-	(10,932,458)
Governmental activities capital assets, net	\$ 8,541,123	\$ 179,513	\$ -	\$ 8,720,636

Depreciation is computed by the straight line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2016 amounted to \$603,406. The District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6. LONG-TERM DEBT

Bonds payable. At the end of the current fiscal year, the District had total bonded debt outstanding of \$3,255,000. Remaining payments for all bonded indebtedness vary from \$430,000 to \$490,000 through 2023, and include interest at 2.0-3.0%.

Changes in Long-term Debt. Long-term liability activity for the year ended June 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bond payable:					
2015 general obligation refunding	\$ 3,685,000	\$ -	\$ 430,000	\$ 3,255,000	\$ 440,000
Unamortized bond premium	168,537	-	21,067	147,470	21,067
Compensated absences	108,833	39,710	-	148,543	12,846
Total	\$ 3,962,370	\$ 39,710	\$ 451,067	\$ 3,551,013	\$ 473,913

Compensated absences are generally liquidated by the general fund.

Bond debt service requirements. Annual debt service requirements to maturity for bonds payable are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 440,000	\$ 78,163	\$ 518,163
2018	450,000	69,363	519,363
2019	455,000	60,362	515,362
2020	465,000	50,126	515,126
2021	490,000	38,500	528,500
2022-2023	955,000	40,750	995,750
	<u>\$ 3,255,000</u>	<u>\$ 337,264</u>	<u>\$ 3,592,264</u>

NOTE 7. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2016, the composition of net investment in capital assets was comprised of the following:

	<u>Governmental Activities</u>
Capital Assets:	
Capital Assets not being depreciated	\$ 158,683
Capital Assets Being depreciated, net	8,561,953
	<u>8,720,636</u>
Related Debt:	
Bonds Payable	3,255,000
Unamortized bond premium	147,470
Unamortized deferred loss on bonding refund	(148,921)
	<u>3,253,549</u>
Net investment in capital assets	\$ 5,467,087

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8. SHORT TERM DEBT

State school aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The District has pledged its State aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the District.

The District issued a state aid anticipation note in the 2015-16 fiscal year in the amount of \$500,000. Note Series D is \$285,785, set aside at an interest rate of 1.4625%; note Series C is \$214,215, at an interest rate of 1.08%. Both notes have a maturity date of August 22nd, 2016.

NOTE 9. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN

Plan Description

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

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

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

Benefits Provided

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

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

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (continued)

Contributions and Funded Status

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

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

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

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 District were \$1,190,540 for the year ended September 30, 2015.

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

At June 30, 2016, the District reported a liability of \$15,073,622 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was 0.06171 percent, which was an increase of .1892 percent from its proportion measured as of September 30, 2014.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

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

For the year ended June 30, 2016, the District recognized pension expense of \$1,368,326. At June 30, 2016, the 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
Differences between expected and actual experience	\$ -	\$ 49,928
Changes of assumptions	371,144	-
Net difference between projected and actual earnings on pension plan investments	76,939	-
Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions	350,333	-
Reporting Unit contributions subsequent to the measurement date	<u>952,245</u>	<u>-</u>
Total	<u><u>\$ 1,750,661</u></u>	<u><u>\$ 49,928</u></u>

\$952,245 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. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2016	\$ 136,581
2017	136,581
2018	116,456
2019	358,870

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

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:

Actuarial Assumptions

Wage Inflation Rate:	3.50%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.00%
- Pension Plus Plan (Hybrid):	7.00%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: [4.7158 for non-university employers 1.3923 for university employers]*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).*

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

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	-
TOTAL	100.00 %	

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

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate

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

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 19,433,763	\$ 15,073,622	\$ 11,397,845

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9. EMPLOYEE RETIREMENT SYSTEM DEFINED BENEFIT PLAN (Continued)

Michigan Public School Employees' Retirement System (MPERS) 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/documents/orsschools/MPERS_CAFR_2015_Final_510211_7.pdf).

NOTE 10. INTERFUND BALANCES AND TRANSFERS

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system and (3) payments between funds are made. All balances at June 30, 2016 are expected to be repaid within the next fiscal year.

A schedule of interfund balances follows:

Fund	Due From	Due To
General	\$ 2,460	\$ -
Nonmajor governmental funds	-	2,460
Totals	\$ 2,460	\$ 2,460

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

There were no interfund transfers for fiscal year ended June 30, 2016.

NOTE 11. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts..

NOTE 10. CONTINGENCIES

The District had no contingencies at June 30, 2016.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11. AT RISK

During the year, the District received State categorical aid for at risk students, which amounted to \$138,233. The District split all of these funds for at risk students

NOTE 13. NET POSITION RESTRICTED BY ENABLING LEGISLATION:

The government-wide statement of net position reports \$325,377 of restricted net position at June 30, 2016, all of which is restricted by enabling legislation.

NOTE 15. SUBSEQUENT EVENTS

The School District has reviewed subsequent events from June 30, 2016 to the date that the financial statements were available on October 15, 2016, and determined that no additional disclosures need be made.

**CLINTON COMMUNITY SCHOOLS
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1: CHANGES OF BENEFIT TERMS

There were no changes of benefit terms in 2015.

NOTE 2: CHANGES OF ASSUMPTIONS

There were no changes of benefit assumptions in 2015.

**CLINTON COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Local sources:				
Property taxes	\$ 981,602	\$ 928,389	\$ 928,377	\$ (12)
Interest	6,344	6,000	5,956	(44)
Athletics	32,000	38,350	38,347	(3)
Charges for services	173,368	163,970	162,885	(1,085)
Technology grant	1,177,140	1,113,327	1,113,445	118
Other local revenues	616,563	583,139	581,295	(1,844)
Total revenues from local sources	<u>2,987,017</u>	<u>2,833,175</u>	<u>2,830,305</u>	<u>(2,870)</u>
State sources	7,650,848	8,053,140	8,050,474	(2,666)
Federal sources	98,793	117,550	116,678	(872)
Total revenues	<u>10,736,658</u>	<u>11,003,865</u>	<u>10,997,457</u>	<u>(6,408)</u>
EXPENDITURES:				
Instruction:				
Basic programs:				
Preschool and other	230,770	217,925	216,767	1,158
Elementary	2,563,866	2,421,157	2,414,350	6,807
Middle school	1,377,416	1,300,747	1,299,661	1,086
High school	1,903,316	1,797,375	1,793,114	4,261
Added needs:				
Special education	866,069	845,365	844,113	1,252
At risk/Title I	225,930	220,529	218,079	2,450
Career/tech prep	5,215	5,090	5,089	1
Total instruction	<u>7,172,582</u>	<u>6,808,188</u>	<u>6,791,173</u>	<u>17,015</u>
Support services:				
Pupil services	245,783	225,141	224,163	978
Instructional staff	1,725,974	1,505,520	1,498,254	7,266
General administration	309,455	297,614	296,835	779
School administration	586,710	567,912	567,369	543
Business services	238,911	243,782	242,211	1,571
Operation & maintenance	995,697	940,232	923,799	16,433
Pupil transportation	328,017	294,656	289,472	5,184
Total support services	<u>4,430,547</u>	<u>4,074,857</u>	<u>4,042,103</u>	<u>32,754</u>
Athletics	<u>401,864</u>	<u>386,381</u>	<u>385,595</u>	<u>786</u>
Total expenditures	<u>12,004,993</u>	<u>11,269,426</u>	<u>11,218,871</u>	<u>50,555</u>
Net change in fund balance	(1,268,335)	(265,561)	(221,414)	44,147
Fund balance:				
Beginning of year			<u>2,238,299</u>	
End of year			<u>\$ 2,016,885</u>	

See notes to financial statements.

**CLINTON COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

	Year ended	
	2016	2015
Statutorily required contributions	\$ 1,190,540	\$ 1,610,048
Contributions in relation to statutorily required contributions	(1,241,914)	(1,610,048)
Contribution deficiency (excess)	\$ (51,374.00)	\$ -
Employer's covered-employee payroll	5,137,407	5,229,203
Contributions as a percentage of covered-employee payroll	24.2%	30.8%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**CLINTON COMMUNITY SCHOOLS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION
 LIABILITY**

	Year ended	
	2016	2015
District's proportion of the net pension liability	0.061714%	0.060000%
District's proportionate share of the net pension liability	\$ 15,073,622	\$ 13,216,966
District's covered-employee payroll	5,137,407	5,093,723
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	293.41%	259.48%
Plan fiduciary net position as a percentage of the total pension liability	63.17%	66.20%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**CLINTON COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016**

	Food Service Fund	Debt Service Fund	Sinking Fund	Totals
ASSETS:				
Cash and cash equivalents	\$ 71,233	\$ 69,134	\$ 411,819	\$ 552,186
Receivables	1,620	8,765	3,778	14,163
Due from other funds	2,460	-	-	2,460
Inventory	4,906	-	-	4,906
Total assets	<u>\$ 80,219</u>	<u>\$ 77,899</u>	<u>\$ 415,597</u>	<u>\$ 573,715</u>
LIABILITIES:				
Unearned revenue	4,650	-	-	4,650
Total liabilities	<u>4,650</u>	<u>-</u>	<u>-</u>	<u>4,650</u>
FUND BALANCES:				
Nonspendable	4,906	-	-	4,906
Restricted:				
School lunch program	70,663	-	-	70,663
Debt service	-	77,899	-	77,899
Capital projects	-	-	415,597	415,597
Total fund balances	<u>75,569</u>	<u>77,899</u>	<u>415,597</u>	<u>569,065</u>
Total liabilities & fund balances	<u>\$ 80,219</u>	<u>\$ 77,899</u>	<u>\$ 415,597</u>	<u>\$ 573,715</u>

See notes to financial statements.

CLINTON COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Food Service Fund</u>	<u>Debt Service Fund</u>	<u>Sinking Fund</u>	<u>Totals</u>
REVENUES				
Local sources:				
Property taxes	\$ -	\$ 528,261	\$ 227,715	\$ 755,976
Food sales	187,290	-	-	187,290
Interest	-	62	121	183
Total local sources	<u>187,290</u>	<u>528,323</u>	<u>227,836</u>	<u>943,449</u>
State sources	17,457	-	-	17,457
Federal sources	181,048	-	-	181,048
Total revenues	<u>385,795</u>	<u>528,323</u>	<u>227,836</u>	<u>1,141,954</u>
EXPENDITURES:				
Current:				
Food service activities	385,968	-	-	385,968
Capital outlay	-	-	51,004	51,004
Debt service:				
Principal repayment	-	430,000	-	430,000
Interest and fiscal charges	-	104,640	-	104,640
Total expenditures	<u>385,968</u>	<u>534,640</u>	<u>51,004</u>	<u>971,612</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(173)</u>	<u>(6,317)</u>	<u>176,832</u>	<u>170,342</u>
Net change in fund balances	(173)	(6,317)	176,832	170,342
Fund balances:				
Beginning of year	<u>75,742</u>	<u>84,216</u>	<u>238,765</u>	<u>398,723</u>
End of year	<u>\$ 75,569</u>	<u>\$ 77,899</u>	<u>\$ 415,597</u>	<u>\$ 569,065</u>

See notes to financial statements.

**CLINTON COMMUNITY SCHOOLS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
ASSETS:				
Cash and cash equivalents	\$ 98,436	\$ 410,316	\$ 411,008	\$ 97,744
Total assets	<u>\$ 98,436</u>	<u>\$ 410,316</u>	<u>\$ 411,008</u>	<u>\$ 97,744</u>
LIABILITIES:				
Due to student groups	\$ 98,436	\$ 410,316	\$ 411,008	\$ 97,744
Total liabilities	<u>\$ 98,436</u>	<u>\$ 410,316</u>	<u>\$ 411,008</u>	<u>\$ 97,744</u>

See notes to financial statements.



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

To the Board of Education
Clinton Community Schools
Clinton, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Clinton Community Schools (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 15, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's 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 District'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 charge 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we considered to be significant deficiencies.

2016-1

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

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

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

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

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

2016 – 2

Criteria: Adequate design of internal control over the complete preparation of the financial statements and footnotes being audited.

Cause: The District does not have personnel with level of knowledge to update the footnotes completely.

Effect: The District's design uses a template to prepare the financial statements, and prepares the footnotes with the best available information, however, may not be able to detect and correct misstatements timely.

Recommendation: From information gleaned from various seminars attended, consider gathering information on footnotes that will fit the District's needs, and apply appropriately.

Management's Response: The District has evaluated the manner in which they prepare the financial statements and footnotes to those financial statements and will attempt to follow the recommendation made. However, the cost associated with this is not justified by the expected benefits.

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Baker, Eaton & Owen
Adrian, Michigan

October 15, 2016