

**Alanson Public Schools**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2015

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## Management's Discussion and Analysis

As management of Alanson Public Schools (the "School District"), we offer readers of the School District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015.

### Financial Highlights

- The liabilities of the School District exceeded its assets at the close of the most recent fiscal year by \$526,529 (*net position*). Of this amount, \$2,639,910 is invested in capital assets, net of related debt; \$(3,234,398) (*unrestricted deficit*) may be used to meet the School District's ongoing obligations; \$40,596 is restricted for debt service, \$16,337 is restricted for the sinking fund and \$11,026 is restricted for school-based activities.
- The School District's total net position decreased by \$115,867. See the section entitled District-Wide Financial Analysis, below, for a few of the significant factors affecting net position during the year.
- As of the close of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$295,015, a decrease of \$745,896 in comparison with the prior year.

### Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

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

The District-wide financial statements can be found on pages 5-6 of this report.

## Management's Discussion and Analysis - Continued

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

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

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

The School District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances for the General Fund, the 2010 Refunding Bonds Fund and the 2014 Capital Projects Fund, which are considered to be the three major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The School District adopts an annual appropriated budget for its General Fund and the Special Revenue fund. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with that budget. The budgetary comparison schedule can be found on page 33 of this report.

The basic governmental fund financial statements can be found on pages 7-9 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the School District's own programs. The only fiduciary fund of the School District is an agency fund, which does not have a measurement focus.

The basic fiduciary fund financial statement can be found on page 10 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 11-31 of this report.

## Management's Discussion and Analysis - Continued

**Other information.** The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining fund statements can be found on pages 35-36 of this report.

### District-wide Financial Analysis

#### Alanson Public Schools Condensed Statement of Net Position

	Governmental Activities 2014-2015	Governmental Activities 2013-2014*
	2014-2015	2013-2014*
<b>Assets</b>		
Current and other assets	\$ 532,203	\$ 1,290,611
Capital assets	4,038,016	3,575,573
	<b>4,570,219</b>	<b>4,866,184</b>
<b>Deferred Outflows of Resources</b>	328,498	-
	<b>4,898,717</b>	<b>4,866,184</b>
<b>Liabilities</b>		
Current liabilities	436,141	439,689
Long-term liabilities	1,345,925	1,533,373
Net pension obligation	3,280,517	-
	<b>5,062,583</b>	<b>1,973,062</b>
<b>Deferred Inflows of Resources</b>	362,663	-
<b>Net Position</b>		
Invested in capital assets, net of related debt	2,639,910	2,633,452
Restricted for		
Food service	11,026	22,479
Debt service	40,596	54,386
Sinking fund	16,337	-
Unrestricted	(3,234,398)	182,805
	<b>(526,529)</b>	<b>2,893,122</b>
<b>Total liabilities, deferred inflows and net position</b>	<b>\$ 4,898,717</b>	<b>\$ 4,866,184</b>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School District, liabilities exceeded its assets by \$526,529 at the close of the most recent fiscal year.

The second largest portion of the School District's net position, \$2,639,910, reflects its investment in capital assets (e.g., land, buildings, equipment and vehicles and buses) less any related debt used to acquire those assets that are still outstanding. The School District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the School

## Management's Discussion and Analysis – Continued

District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$40,596 represents resources that are subject to external restrictions on how they may be used. \$16,337 represents resources that are subject to sinking fund requirements. \$11,026 represents resources restricted for the School District's food service program. \$(3,234,398) or is *unrestricted deficit* and is available for spending at the School District's discretion.

**General Fund Operations.** The School District's expenditures from General Fund operations exceeded revenues in the amount of \$103,969 for the fiscal year ended June 30, 2015.

**Debt Payments.** The School District paid \$180,000 toward outstanding bond principal obligations.

**Capital Assets.** The School District's capital assets increased by \$462,443 during the year. The School District made capital asset additions of \$677,137 in the form of a new science lab, bus garage, computer equipment and gym equipment. The net increase in accumulated depreciation was \$83,321.

### Alanson Public Schools Condensed Statement of Activities

	2015	2014*
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 37,324	\$ 47,391
Operating grants and contributions	777,355	820,420
General revenues		
Property taxes	1,525,397	1,652,492
Unrestricted State Aid	669,795	646,905
Unrestricted investment earnings	672	528
Other	38,948	195,350
	<b>3,049,491</b>	<b>3,363,086</b>
<b>Expenses</b>		
Instruction	1,779,032	1,819,308
Supporting services	983,947	1,048,259
Food services	137,106	133,209
Community Services	49,971	-
Other	39,250	36,139
Interest on long-term debt	59,231	51,489
Depreciation – unallocated	116,821	116,401
	<b>3,165,358</b>	<b>3,204,805</b>
<b>Change in net position</b>	<b>\$ (115,867)</b>	<b>\$ 158,281</b>

## Management's Discussion and Analysis – Continued

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

**Governmental Activities.** Governmental activities increased the School District's net position by \$357,782.

### Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$295,015, a decrease of \$745,896 in comparison with the prior year. Approximately 44% or \$131,209 of this total amount constitutes *unassigned fund balance*, which is available for spending at the School District's discretion. The remainder of fund balance is *restricted* to indicate that it is not available for new spending because the underlying assets are included in contractual obligations for repayment of bonds, capital improvements and food service and are not available for current expenditures.

The General Fund is the principal operating fund of the School District. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. At the end of the current fiscal year, the total fund balance of \$131,209 in the General Fund was unassigned and available for spending at the School District's discretion.

The fund balance of the School District's General Fund decreased by \$99,969 during the current fiscal year. This decrease is primarily attributable to reduced Federal and State revenues.

### 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 its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2014-2015 fiscal year, the District amended the general fund budget throughout the fiscal year. The footnotes show a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations.

Revenues were less than budget by \$3,436 due to prior year property tax adjustments reflected on State Aid after year end. There were no significant items in final expenditures to budget.

## Management's Discussion and Analysis - Continued

### Capital Asset and Debt Administration

**Capital assets.** The School District's investment in capital assets for its governmental activities amounted to \$4,038,016 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and vehicles and buses.

#### Alanson Public Schools Capital Assets

	<u>2015</u>	<u>2014</u>
Land	\$ 6,000	\$ 6,000
Buildings	6,663,251	6,233,988
Site improvements	736,913	736,913
Equipment	518,033	401,532
Vehicles and buses	<u>299,547</u>	<u>299,547</u>
Total	8,223,744	7,677,980
Accumulated depreciation	<u>(4,185,728)</u>	<u>(4,102,407)</u>
<b>Total capital assets, net</b>	<b><u>\$ 4,038,016</u></b>	<b><u>\$ 3,575,573</u></b>

Additional information on the School District's capital assets can be found in Note F on page 19 of this report.

**Long-term debt.** At the end of the current fiscal year, the School District had total bonded debt outstanding of \$1,485,000, which all relates to general obligation bonds.

The net increase in compensated absences was \$ 2,552.

Additional information on the School District's long-term debt can be found in Note G on pages 20-21 of this report.

## **Management's Discussion and Analysis - Continued**

### **Factors Bearing on the School District's Future**

The following factors were considered in preparing the School District's budget for the 2015-2016 fiscal year:

- Declining enrollment seems to have stabilized and the district expects no decrease and perhaps even an increase in enrollment for 2015-2016.
- The Capital Projects Bond passed in 2014 has been used to purchase 1 to 1 computing devices for students, build a new bus garage and science lab, and purchase new gym equipment. Funds are still being held to purchase a new bus when needed.
- The Sinking Fund Millage passed by the voters is helping the district to maintain facilities while preserving General Fund dollars for more direct student instruction and support.

### **Requests for Information**

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Dean Paul, Superintendent, 7400 North Street, Alanson, MI 49706.



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Alanson Public 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 *Alanson Public Schools* (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those

risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Alanson Public Schools as of June 30, 2015, 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.

### ***Emphasis of Matter***

#### *Accounting Changes*

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

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *vii*, and budgetary comparison information on page 33, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

The combining non-major 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 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 23, 2015, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Dennis, Gartland & Niergarth*

October 23, 2015

# Alanson Public Schools

## STATEMENT OF NET POSITION

June 30, 2015

	<u>Governmental Activities</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
Assets	
Current assets	
Cash and cash equivalents	\$ 368,286
Other receivables	2,571
Due from other governments	<u>161,346</u>
Total current assets	532,203
Capital assets, net of accumulated depreciation	<u>4,038,016</u>
Total assets	4,570,219
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>328,498</u>
Total assets and deferred outflows of resources	<u><u>\$ 4,898,717</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 1,523
Accrued expenses	49,251
Salaries payable and related liabilities	169,074
Due to other governments	26,293
Current portion of long-term debt	<u>190,000</u>
Total current liabilities	436,141
Non-current portion of long-term debt	1,345,925
Net pension obligation	<u>3,280,517</u>
Total liabilities	<u>5,062,583</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>362,663</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	2,639,910
Restricted for	
Food service	11,026
Debt service	40,596
Sinking fund	16,337
Unrestricted deficit	<u>(3,234,398)</u>
Total net position	<u>(526,529)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 4,898,717</u></u>

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

# Alanson Public Schools

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position Governmental Activities
		Charges For Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 1,779,032	\$ 24,915	\$ 646,917	\$ (1,107,200)
Supporting services	983,947	10,254	3,543	(970,150)
Community services	49,971	-	-	(49,971)
Food service	137,106	2,155	126,895	(8,056)
Other	39,250	-	-	(39,250)
Interest on long-term debt	59,231	-	-	(59,231)
Depreciation-unallocated	116,821	-	-	(116,821)
Total governmental activities	\$ 3,165,358	\$ 37,324	\$ 777,355	(2,350,679)
General purpose revenues				
Property taxes				
Levied for general purposes				1,197,038
Levied for debt service				328,359
State school aid - unrestricted				669,795
Unrestricted investment earnings				672
Other				38,948
Total general purpose revenues				2,234,812
Change in net position				(115,867)
Net position, beginning of year, as restated				(410,662)
Net position, end of year				\$ (526,529)

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

# Alanson Public Schools

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	General Fund	2014 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 213,126	\$ 86,894	\$ 68,266	\$ 368,286
Accounts receivable	2,207	-	364	2,571
Due from other funds	-	-	7,353	7,353
Due from other governments	160,417	-	929	161,346
Total assets	\$ 375,750	\$ 86,894	\$ 76,912	\$ 539,556
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 1,523	\$ -	\$ -	\$ 1,523
Accrued expenditures	40,298	-	-	40,298
Salaries payable and related liabilities	169,074	-	-	169,074
Due to other funds	7,353	-	-	7,353
Due to other governmental units	26,293	-	-	26,293
Total liabilities	244,541	-	-	244,541
<b>FUND BALANCES</b>				
Restricted				
Food service	-	-	11,026	11,026
Debt service	-	-	49,549	49,549
Capital projects	-	86,894	16,337	103,231
Committed for subsequent year expenditures	8,206	-	-	8,206
Unassigned	123,003	-	-	123,003
Total fund balances	131,209	86,894	76,912	295,015
Total liabilities and fund balances	\$ 375,750	\$ 86,894	\$ 76,912	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$8,223,744 and the accumulated depreciation is \$4,185,728.

4,038,016

Deferred outflows of resources is not a financial resource and, therefore, is not reported as an asset in governmental funds.

328,498

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

Bonds payable	(1,485,000)
Accrued interest on bonds	(8,953)
Compensated absences	(50,925)
Net pension obligation	(3,280,517)

Deferred inflows of resources is not a financial resource and, therefore, is not reported as a liability in governmental funds.

(362,663)

Total net position - governmental activities

\$ (526,529)

## Alanson Public Schools

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

Year Ended June 30, 2015

	General Fund	2014 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local sources				
Property taxes	\$ 1,197,038	\$ -	\$ 328,359	\$ 1,525,397
Charges for services	24,915	-	2,155	27,070
Interest	260	195	218	673
Other local revenue	48,453	-	762	49,215
State sources	920,877	-	4,476	925,353
Federal sources	134,200	-	122,419	256,619
Interdistrict sources	265,164	-	-	265,164
	<u>2,590,907</u>	<u>195</u>	<u>458,389</u>	<u>3,049,491</u>
Total revenues				
Expenditures				
Instruction	1,765,846	-	-	1,765,846
Supporting services	872,734	-	-	872,734
Community services	49,971	-	-	49,971
Food service	-	-	136,526	136,526
Other	4,818	34,341	-	39,159
Debt service				
Principal	-	-	180,000	180,000
Interest	-	-	60,267	60,267
Other	-	-	91	91
Capital outlay	1,507	601,839	87,447	690,793
	<u>2,694,876</u>	<u>636,180</u>	<u>464,331</u>	<u>3,795,387</u>
Total expenditures				
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(103,969)</u>	<u>(635,985)</u>	<u>(5,942)</u>	<u>(745,896)</u>
Other financing sources (uses)				
Operating transfers in	4,000	-	51,854	55,854
Operating transfers out	-	-	(55,854)	(55,854)
	<u>4,000</u>	<u>-</u>	<u>(4,000)</u>	<u>-</u>
Total other financing sources (uses)				
<b>REVENUE (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<u>(99,969)</u>	<u>(635,985)</u>	<u>(9,942)</u>	<u>(745,896)</u>
Fund balance, beginning of year	231,178	722,879	86,854	1,040,911
	<u>231,178</u>	<u>722,879</u>	<u>86,854</u>	<u>1,040,911</u>
Fund balance, end of year	<u>\$ 131,209</u>	<u>\$ 86,894</u>	<u>\$ 76,912</u>	<u>\$ 295,015</u>

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

## Alanson Public Schools

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

Year Ended June 30, 2015

**Total Net Change in Fund Balances - Governmental Funds** \$ (745,896)

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

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

	Capital outlays	\$ 677,137	
	Depreciation expense	<u>(214,694)</u>	462,443

Change in deferred outflows of resources. 328,498

Repayment of bond principal are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net position and do not affect the statement of activities. 180,000

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, compensated absences earned were more than amounts used by \$2,552. (2,552)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is used. The additional interest reported in the statement of activities is the net result of the increase in accrued interest on bonds and notes payable. 1,036

Change in net pension obligation. 23,267

Change in deferred inflows of resources. (362,663)

**Changes in Net Position of Governmental Activities** \$ (115,867)

**Alanson Public Schools**

STATEMENT OF FIDUCIARY NET POSITION  
AGENCY FUNDS

June 30, 2015

**ASSETS**

Cash and cash equivalents

\$ 25,856

**LIABILITIES**

Due to student groups

\$ 25,856

Total liabilities

\$ 25,856

# Alanson Public Schools

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Introduction*

Alanson Public Schools (the "School District") is a Michigan public school district consisting of one building serving elementary through high school students. The School District primarily serves the Alanson community.

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

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

#### *The Financial Reporting Entity*

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

#### *District-Wide and Fund Financial Statements*

##### *District-Wide Financial Statements*

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

## NOTES TO FINANCIAL STATEMENTS - Continued

### *Fund Financial Statements*

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

### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

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

The District-wide and fiduciary fund statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

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

### ***Fund Types and Major Funds***

#### *Activities in Major Funds*

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

The *2014 Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of capital assets.

#### *Non-Major Governmental Funds*

The *Special Revenue Fund* is used to account for restricted resources in the food service program sponsored by the School District.

NOTES TO FINANCIAL STATEMENTS - Continued

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The *Capital Projects Sinking Fund* is used to record capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan

*Non-Major Fiduciary Funds*

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the District-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

*Cash and Cash Equivalents*

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturity of three months or less when purchased.

*Capital Assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

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.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the School District are depreciated using the straight-line method over the following estimated useful lives:

Buildings	25-50 years
Site improvements	20 years
Equipment	5-20 years
Vehicles and buses	5-8 years

*Compensated Absences*

School District policy permits certain employees, including teacher and support staff, to accumulate earned but unused sick pay benefits, which are paid when the employee separates from service with the School District. All sick time is accrued when earned in the District-wide statements.

***Long-term Debt and Bond Discounts/Premiums***

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

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

***Fund Equity***

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

***Spending Policy***

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

***Program Revenues***

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

The School District's most significant program revenues are: 1) charges to customers or applicants for goods, services or privileges provided, and 2) operating grants and contributions.

***Pension Plan***

For purposes of measuring the net position, liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement System (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

## NOTES TO FINANCIAL STATEMENTS - Continued

payable in accordance with the benefit terms. Investments are reported at fair value.

### ***Encumbrance Accounting***

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

### ***Allocation of Expenses***

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

The School District has elected to not allocate indirect expenses.

### ***Use of Estimates in the Preparation of Financial Statements***

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

## **NOTE B - ACCOUNTING CHANGES**

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

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

## NOTES TO FINANCIAL STATEMENTS - Continued

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

Net position at June 30, 2014, <i>as originally stated</i>	\$ 2,893,122
Record net pension liability at June 30, 2014	<u>(3,303,784)</u>
Net position at June 30, 2014, <i>as restated</i>	<u><u>\$ (410,662)</u></u>

### NOTE C - BUDGETARY POLICY AND PRACTICE

#### ***Budgetary Information***

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

***Excess of Expenditures over Appropriations in Budgeted Funds***

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Supporting services			
Operations/maintenance	\$ 243,581	\$ 243,652	\$ 71
Central	92,840	93,916	1,076
Athletics	77,631	77,935	304

**NOTE D - CASH AND CASH EQUIVALENTS**

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

Cash on hand	\$ 20
Bank deposits	382,740
Investments	<u>11,382</u>
	<u>\$ 394,142</u>

***Bank Deposits***

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage. As of June 30, 2015, \$46,796 of the School District's bank deposits were uninsured and uncollateralized.

***Investments***

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

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

NOTES TO FINANCIAL STATEMENTS - Continued

Investments at June 30, 2015, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 11,382</u>	<u>\$ 11,382</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Interest Rate Risk*

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

*Credit Risk*

State law limits investments to prime or better rating issued by nationally recognized rating organizations. The School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

**NOTE E - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE**

***Property Taxes Receivable, Unearned Revenue and Property Tax Calendar***

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

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value in the School District of \$66.5 million and \$6 per \$1,000 of commercial personal property value in the School District of \$1.0 million was levied for general operating purposes. For debt service purposes, \$2.37 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value in the School District of \$137.5 million was levied.

NOTES TO FINANCIAL STATEMENTS - Continued

***Intergovernmental Receivables and Unearned Revenue***

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

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

Due from the State of Michigan State Aid	\$ 151,190
Due from Federal grants	<u>10,156</u>
	<u>\$ 161,346</u>

**NOTE F - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Capital assets being depreciated				
Buildings	6,233,988	429,263	-	6,663,251
Site improvements	736,913	-	-	736,913
Equipment	401,532	247,874	(131,373)	518,033
Vehicles and buses	<u>299,547</u>	<u>-</u>	<u>-</u>	<u>299,547</u>
Total capital assets being depreciated	7,671,980	677,137	(131,373)	8,217,744
Less accumulated depreciation	<u>(4,102,407)</u>	<u>(214,694)</u>	<u>131,373</u>	<u>(4,185,728)</u>
Total capital assets, net	<u>\$ 3,575,573</u>	<u>\$ 462,443</u>	<u>\$ -</u>	<u>\$ 4,038,016</u>

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

Support services	\$ 97,293
Food service	580
Unallocated	<u>116,821</u>
Total depreciation expense	<u>\$ 214,694</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE G - LONG-TERM LIABILITIES**

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

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable					
General obligation bonds	\$ 1,665,000	\$ -	\$ (180,000)	\$ 1,485,000	\$ 190,000
Total bonds payable	<u>1,665,000</u>	<u>-</u>	<u>(180,000)</u>	<u>1,485,000</u>	<u>190,000</u>
Other liabilities					
Compensated absences	<u>48,373</u>	<u>2,552</u>	<u>-</u>	<u>50,925</u>	<u>-</u>
Total other liabilities	<u>48,373</u>	<u>2,552</u>	<u>-</u>	<u>50,925</u>	<u>-</u>
Total long-term liabilities	<u>\$ 1,713,373</u>	<u>\$ 2,552</u>	<u>\$ (180,000)</u>	<u>\$ 1,535,925</u>	<u>\$ 190,000</u>

Compensated absences are generally liquidated by the General Fund.

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

**General Obligation Bonds**

2010 Building and Site Bonds, due through May 1, 2020, with annual principal payments ranging from \$145,000 to \$165,000 and semi-annual installments of interest at 4.0%.	\$ 775,000
2014 School Improvement Bonds, due through May 1, 2024, with annual principal payments ranging from \$45,000 to \$115,000 and semi-annual installments of interest at 3.2%.	<u>710,000</u>
Total bonds	1,485,000
Compensated absences	<u>50,925</u>
Total long-term debt	<u>\$ 1,535,925</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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

Years Ending June 30,	Principal	Interest	Total
2016	\$ 190,000	\$ 53,720	\$ 243,720
2017	200,000	46,480	246,480
2018	210,000	38,880	248,880
2019	220,000	30,920	250,920
2020	225,000	22,600	247,600
2021-2025	440,000	35,680	475,680
	<u>\$ 1,485,000</u>	<u>\$ 228,280</u>	<u>\$ 1,713,280</u>

Interest expense for the year ended June 30, 2015 was \$59,231.

**NOTE H - BALANCES WITHIN THE REPORTING ENTITY**

***Receivables and Payables***

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

At June 30, 2015, the School District's interfund balances consisted of the following:

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds		
General Fund	\$ -	\$ 7,353
Non-Major Governmental Funds		
Food Service Fund	<u>7,353</u>	<u>-</u>
	<u>\$ 7,353</u>	<u>\$ 7,353</u>

***Transfers and Payments***

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

The District-wide statement of activities eliminates transfers as reported within the segregated governmental columns.

NOTES TO FINANCIAL STATEMENTS - Continued

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

Fund	Transfer in	Transfer out
Major Governmental Funds		
General Fund	\$ 4,000	\$ -
Non-Major Governmental Funds		
Food Service Fund	-	4,000
2010 Building & Site Bond Fund	51,854	-
2010 Refunding Bond Fund	-	51,854
	<u>\$ 55,854</u>	<u>\$ 55,854</u>

**NOTE I - RISK MANAGEMENT**

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

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

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

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

**NOTE J - PENSION PLAN AND POST EMPLOYMENT BENEFITS**

*Plan Description*

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

*Benefits Provided*

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

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

*Pension Reform 2010*

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

*Pension Reform 2012*

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

## NOTES TO FINANCIAL STATEMENTS - Continued

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

### *Regular Retirement*

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

There is no mandatory retirement age.

### *Non-Duty and Duty Disability Benefit*

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

### *Survivor Benefit*

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

### ***Funding Policy***

#### *Defined Benefit Plan*

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

#### *Defined Contribution Plan*

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

#### *Employee Contributions*

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

NOTES TO FINANCIAL STATEMENTS - Continued

*Employer Contributions*

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

The School District's contributions to the MPSERS Defined Benefit Plan for the year ended June 30, 2015 was \$253,598, which is equal to the required contribution for the year. The covered payroll for the year ended June 30, 2015 was \$1,172,672.

The School District's contributions to the MPSERS Defined Contribution Plan were \$6,727, for the year ended June 30, 2015, which is equal to the pension expense recognized by the School District for the year.

*Post-Employment Benefits*

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. The School District's required contributions for post-employment health care benefits to the MPSERS Plan discussed above for the year ended June 30, 2015 were \$40,598.

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

*Pension Liabilities*

At June 30, 2015, the School District reported a liability of \$3,280,517 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At September 30, 2014, the School District's proportion was 0.01489%.

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

For the year ended June 30, 2015, the School District recognized pension expense of \$265,731. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	121,044	-
Net difference between projected and actual earnings on pension plan investments	-	362,663
Changes in proportion and differences between School District contributions and proportionate share of contributions	-	-
School District contributions subsequent to the measurement date	<u>207,454</u>	<u>-</u>
Total	<u>\$ 328,498</u>	<u>\$ 362,663</u>

NOTES TO FINANCIAL STATEMENTS - Continued

From the above table, \$207,454 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2016	\$ (59,190)
2017	(59,190)
2018	(59,190)
2019	(64,049)

*10-Year Trend Information - Defined Benefit Plan*

<u>Schedule of School District's Proportionate Share of Net Pension Liability</u>	
	<u>9/30/2014</u>
School District's proportion of net pension liability	0.01489 %
School District's proportionate share of net pension liability	\$ 3,280,517
School District's covered-employee payroll	\$ 1,276,161
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	257.06 %
Plan fiduciary net position as a percentage of total pension liability	66.20 %

<u>Schedule of School District's Contributions</u>	
	<u>6/30/2015</u>
Contractually required employer contributions	\$ 253,598
School District contributions recognized by the Plan	<u>253,598</u>
Contributions difference	-
Contributions difference as a percentage of contractually required employer contributions	- %
School District's covered-employee payroll	\$ 1,172,672
Contributions as a percentage of covered-employee payroll	21.63 %

***Actuarial Assumptions***

*Valuation Assumptions*

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

## NOTES TO FINANCIAL STATEMENTS - Continued

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

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

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

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

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

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

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

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

### *Mortality Assumptions*

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

NOTES TO FINANCIAL STATEMENTS - Continued

*Experience Study*

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

*Long-Term Expected Rate of Return on Investments*

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

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

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

*Discount Rate*

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

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

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

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

	<u>1% Lower (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Higher (9.0%)</u>
School District's proportionate share of net pension liability	\$ 4,325,076	\$ 3,280,517	\$ 2,400,461

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2014 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

*Payables to the Pension Plan*

The School District reported \$31,880 and \$956 payable to the plan at June 30, 2015 for legally required defined benefit and defined contribution plan contributions, respectively.

**NOTE K - COMMITMENTS AND CONTINGENCIES**

***2014 School Improvement Bond Issue Capital Projects Fund***

The School District began work on a 2014 capital project during the year ended June 30, 2014. The School District committed to a total project cost of approximately \$750,000. Of this amount, the School District issued bonds in the amount of \$750,000. As of June 30, 2015, \$663,358 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$87,000. The 2014 Capital Projects Fund balance was \$86,894 at June 30, 2015.

***Federal and State Grants***

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

***Collectively Bargained Employment Agreements***

The teachers of the School District are organized under the Littlefield Education Association. The Board of Education and the Littlefield Education Association have a contract for September 1, 2011 through August 31, 2014. A new contract was executed for September 1, 2014 through August 31, 2017.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association had a contract for September 1, 2011 through August 31, 2013. A new contract was executed for September 1, 2013 through August 31, 2016.

**REQUIRED SUPPLEMENTARY INFORMATION**

## Alanson Public Schools

### BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	<b>Revenues</b>				
Local sources	\$ 1,306,241	\$ 1,271,955	\$ 1,270,666	\$ (34,286)	\$ (1,289)
State sources	850,990	942,410	920,877	91,420	(21,533)
Federal sources	157,288	134,952	134,200	(22,336)	(752)
Interdistrict sources	258,238	245,026	265,164	(13,212)	20,138
Total revenues	<u>2,572,757</u>	<u>2,594,343</u>	<u>2,590,907</u>	<u>21,586</u>	<u>(3,436)</u>
<b>Expenditures</b>					
Instruction	1,745,937	1,766,194	1,765,846	(20,257)	348
Supporting services					
Pupil	66,184	27,634	27,634	38,550	-
Instructional staff	-	34,553	33,784	(34,553)	769
General administration	214,008	199,755	199,755	14,253	-
School administration	41,729	59,704	59,572	(17,975)	132
Business	68,430	62,644	62,644	5,786	-
Operations and maintenance	237,834	243,581	243,652	(5,747)	(71)
Transportation	92,797	75,457	75,349	17,340	108
Central	85,375	92,840	93,916	(7,465)	(1,076)
Athletics	69,132	77,631	77,935	(8,499)	(304)
Other	-	4,818	4,818	(4,818)	-
Community services	-	50,183	49,971	(50,183)	212
Total expenditures	<u>2,621,426</u>	<u>2,694,994</u>	<u>2,694,876</u>	<u>(73,568)</u>	<u>118</u>
<b>REVENUES (UNDER) EXPENDITURES</b>	(48,669)	(100,651)	(103,969)	(51,982)	(3,318)
Other financing uses					
Operating transfers in	-	4,000	4,000	4,000	-
<b>REVENUE (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	(48,669)	(96,651)	(99,969)	(47,982)	(3,318)
Fund balance, beginning of year	<u>228,070</u>	<u>231,178</u>	<u>231,178</u>	<u>3,108</u>	<u>-</u>
Fund balance, end of year	<u>\$ 179,401</u>	<u>\$ 134,527</u>	<u>\$ 131,209</u>	<u>\$ (44,874)</u>	<u>\$ (3,318)</u>

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

# Alanson Public Schools

## COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Special Revenue Fund	Debt Service Funds		Capital Projects Sinking Fund	Total Non-Major Governmental Funds
	Food Service Fund	2010 Building & Site Bond Fund	2010 Refunding Bonds Fund		
<b>ASSETS</b>					
Cash and cash equivalents	\$ 2,380	\$ 43,892	\$ 5,657	\$ 16,337	\$ 68,266
Due from other funds	7,353	-	-	-	7,353
Accounts receivable	364	-	-	-	364
Due from other governments	929	-	-	-	929
	<u>\$ 11,026</u>	<u>\$ 43,892</u>	<u>\$ 5,657</u>	<u>\$ 16,337</u>	<u>\$ 76,912</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Total liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
<b>FUND BALANCES</b>					
Restricted					
Food service	11,026	-	-	-	11,026
Debt service	-	43,892	5,657	-	49,549
Capital projects	-	-	-	16,337	16,337
	<u>11,026</u>	<u>43,892</u>	<u>5,657</u>	<u>16,337</u>	<u>76,912</u>
Total fund balances	<u>11,026</u>	<u>43,892</u>	<u>5,657</u>	<u>16,337</u>	<u>76,912</u>
Total liabilities and fund balances	<u>\$ 11,026</u>	<u>\$ 43,892</u>	<u>\$ 5,657</u>	<u>\$ 16,337</u>	<u>\$ 76,912</u>

## Alanson Public Schools

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

Year Ended June 30, 2015

	Special				Total Non-Major Governmental Funds
	Revenue Fund	Debt Service Funds			
	Food Service Fund	2010 Building & Site Bond Fund	2010 Refunding Bonds Fund	Capital Projects Sinking Fund	
Revenues					
Local sources					
Property taxes	\$ -	\$ 155,234	\$ 69,280	\$ 103,845	\$ 328,359
Charges for services	2,155	-	-	-	2,155
Interest income	23	121	44	30	218
Other local revenue	-	762	-	-	762
State sources	4,476	-	-	-	4,476
Federal sources	122,419	-	-	-	122,419
Total revenues	<u>129,073</u>	<u>156,117</u>	<u>69,324</u>	<u>103,875</u>	<u>458,389</u>
Expenditures					
Current					
Food service	136,526	-	-	-	136,526
Principal	-	140,000	40,000	-	180,000
Interest	-	36,600	23,667	-	60,267
Other	-	-	-	91	91
Capital outlay	-	-	-	87,447	87,447
Total expenditures	<u>136,526</u>	<u>176,600</u>	<u>63,667</u>	<u>87,538</u>	<u>464,331</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(7,453)</u>	<u>(20,483)</u>	<u>5,657</u>	<u>16,337</u>	<u>(5,942)</u>
Other financing sources (uses)					
Operating transfers in	-	51,854	-	-	51,854
Operating transfers out	(4,000)	-	(51,854)	-	(55,854)
Total other financing sources (uses)	<u>(4,000)</u>	<u>51,854</u>	<u>(51,854)</u>	<u>-</u>	<u>(4,000)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<u>(11,453)</u>	<u>31,371</u>	<u>(46,197)</u>	<u>16,337</u>	<u>(9,942)</u>
Fund balance, beginning of year	<u>22,479</u>	<u>12,521</u>	<u>51,854</u>	<u>-</u>	<u>86,854</u>
Fund balance, end of year	<u><u>\$ 11,026</u></u>	<u><u>\$ 43,892</u></u>	<u><u>\$ 5,657</u></u>	<u><u>\$ 16,337</u></u>	<u><u>\$ 76,912</u></u>



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

Board of Education  
Alanson Public 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 *Alanson Public Schools* (the "School District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 23, 2015.

***Internal Control Over Financial Reporting***

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in

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

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

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

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

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

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

### ***Compliance and Other Matters***

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

### ***School District's Response to Deficiency***

The School District's 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 School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*