

Alanson Public Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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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, 2016.

Financial Highlights

- The liabilities of the School District exceeded its assets at the close of the most recent fiscal year by \$431,095 (*net position*). Of this amount, \$2,616,350 is invested in capital assets, net of related debt; \$(3,179,828) (*unrestricted deficit*) may be used to meet the School District's ongoing obligations; \$17,621 is restricted for debt service, \$105,298 is restricted for the sinking fund and \$9,464 is restricted for school-based activities.
- The School District's total net position increased by \$95,434. 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 \$401,366, an increase of \$106,351 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, 2016.

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 34-35 of this report.

District-wide Financial Analysis

Alanson Public Schools Condensed Statement of Net Position

	Governmental Activities 2015-2016	Governmental Activities 2014-2015
Assets		
Current and other assets	\$ 651,713	\$ 532,203
Capital assets	3,826,629	4,038,016
	4,478,342	4,570,219
Deferred Outflows of Resources	260,287	328,498
	4,738,629	4,989,717
Liabilities		
Current liabilities	457,988	436,141
Long-term liabilities	1,138,119	1,345,925
Net pension obligation	3,320,885	3,280,517
	4,916,992	5,062,583
Deferred Inflows of Resources	252,732	362,663
Net Position		
Invested in capital assets, net of related debt	2,616,350	2,639,910
Restricted for		
Food service	9,464	11,026
Debt service	17,621	40,596
Sinking fund	105,298	16,337
Unrestricted	(3,179,828)	(3,234,398)
	(431,095)	(526,529)
Total net position	(431,095)	(526,529)
Total liabilities, deferred inflows and net position	\$ 4,738,629	\$ 4,898,717

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 \$431,095 at the close of the most recent fiscal year.

The second largest portion of the School District's net position, \$2,616,350, 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.

\$17,621 represents resources that are subject to external restrictions on how they may be used. \$105,298 represents resources that are subject to sinking fund requirements. \$9,464 represents resources restricted for the School District's food service program. \$(3,179,828) or is *unrestricted deficit* and is available for spending at the School District's discretion.

General Fund Operations. The School District's revenues from General Fund operations exceeded expenditures in the amount of \$45,412 for the fiscal year ended June 30, 2016.

Debt Payments. The School District paid \$190,000 toward outstanding bond principal obligations.

Capital Assets. The School District's capital assets decreased by \$211,387 during the year. The School District made capital asset additions of \$7,319 for a new Boiler. The net increase in accumulated depreciation was \$218,706.

Alanson Public Schools Condensed Statement of Activities

	2016	2015
Revenues		
Program revenues		
Charges for services	\$ 57,413	\$ 37,324
Operating grants and contributions	854,091	777,355
General revenues		
Property taxes	1,524,008	1,525,397
Unrestricted State Aid	740,843	669,795
Unrestricted investment earnings	492	672
Other	69,547	38,948
	3,246,394	3,049,491
Expenses		
Instruction	1,795,603	1,779,032
Supporting services	998,320	983,947
Food services	118,173	137,106
Community Services	49,560	49,971
Other	11,910	39,250
Interest on long-term debt	52,408	59,231
Depreciation – unallocated	124,986	116,821
	3,150,960	3,165,358
Change in net position	\$ 95,434	\$ (115,867)

Management's Discussion and Analysis – Continued

Governmental Activities. Governmental activities increased the School District's net position by \$95,434.

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 \$401,366, an increase of \$106,351 in comparison with the prior year. Approximately 27% or \$107,995 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, \$107,995 of the total fund balance of \$176,621 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 increased by \$45,412 during the current fiscal year. This decrease is primarily attributable to increased State revenues and an unpaid leave of absence by a professional staff member.

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 2015-2016 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 \$290 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 \$3,826,629 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and vehicles and buses.

	<u>2016</u>	<u>2015</u>
Land	\$ 6,000	\$ 6,000
Buildings	6,663,251	6,663,251
Site improvements	736,913	736,913
Equipment	525,352	518,033
Vehicles and buses	<u>299,547</u>	<u>299,547</u>
Total	8,225,063	8,223,744
Accumulated depreciation	<u>(4,404,434)</u>	<u>(4,185,728)</u>
Total capital assets, net	<u>\$ 3,826,629</u>	<u>\$ 4,038,016</u>

Additional information on the School District's capital assets can be found in Note E 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 \$1,295,000, which all relates to general obligation bonds.

The net decrease in compensated absences was \$7,806.

Additional information on the School District's long-term debt can be found in Note F 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 2016-2017 fiscal year:

- Enrollment is expected to decline in 2016-2017 and the district is exploring cost reductions to offset the revenue loss with minimum impact to student programs.
- 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.
- Alanson Public Schools has started a Aviation program geared for high school students located in Emmet and Charlevoix Counties. This program will be in cooperation with the Charlevoix-Emmet County Intermediate School District (Char-Em ISD), Pellston Public Schools, and Harbor Springs Public Schools. This program is open to all districts in the Char-Em region. We held an Open House on Tuesday May 17, 2016 at the Pellston Regional Airport (PLN) which had a huge turnout of parents, community members, and supporters.

The curriculum is be based on the FAA Private Pilot requirements and taught by a Certified Ground Instructor. Northwestern Michigan College in Traverse City is working with us. We have an Articulation Agreement with the college which will provide any student 5 college credits free of charge who enrolls in our high school program, passes the FAA Private Pilot written exam then continues their aviation education at NMC. The agreement also gives any student an additional 5 college credits if they pass the FAA Private Pilot practical test and receives their Private Pilot license. This type of program will also incorporate STEM (Science, Technology, Engineering, and Math) with Aviation A & P knowledge, and Unmanned drone operations, etc. We plan on moving towards building an A & P Certification program.

The classroom is located in the beautiful maintenance building at the Pellston Regional Airport (PLN). It's large enough for 10-15 students. We also have a flight simulator room which contains seven (7) Redbird Flight Simulators and one (1) Frasca 242 Simulator.

The FAA Private Pilot curriculum matches those requirements with our state standards. This will allow these aviation students to receive high school credit. Since this program would become a Michigan Department of Education Vocational program, we will be running the class every day for two hours, 1:00 to 3:00 p.m. This way, those students that start flying can do so without missing other classes. Those students who wish to take (and pay for) the actual flying lessons will do so through Executive Air Transport. E.A.T. is based at the Muskegon County Airport, but has an airplane based at the Pellston Airport.

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

Management's Responsibility for the Financial Statements

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

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, 2016, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 32, 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 26, 2016, 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 26, 2016

Alanson Public Schools

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets	
Current assets	
Cash and cash equivalents	\$ 453,658
Other receivables	1,684
Due from other governments	<u>196,371</u>
Total current assets	651,713
Capital assets, net of accumulated depreciation	<u>3,826,629</u>
Total assets	4,478,342
DEFERRED OUTFLOWS OF RESOURCES - pension obligations	<u>260,287</u>
Total assets and deferred outflows of resources	<u><u>\$ 4,738,629</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 1,907
Accrued expenses	13,770
Salaries payable and related liabilities	197,459
Unearned revenue	18,620
Due to other governments	26,042
Due to other funds	190
Current portion of long-term debt	<u>200,000</u>
Total current liabilities	457,988
Non-current portion of long-term debt	1,138,119
Net pension obligation	<u>3,320,885</u>
Total liabilities	<u>4,916,992</u>
DEFERRED INFLOWS OF RESOURCES - pension obligations	<u>252,732</u>
NET POSITION	
Invested in capital assets, net of related debt	2,616,350
Restricted for	
Food service	9,464
Debt service	17,621
Sinking fund	105,298
Unrestricted deficit	<u>(3,179,828)</u>
Total net position	<u>(431,095)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 4,738,629</u></u>

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

Alanson Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

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	\$ 1,795,603	\$ 39,080	\$ 746,046	\$ (1,010,477)
Supporting services	998,320	6,639	3,712	(987,969)
Community services	49,560	-	-	(49,560)
Food service	118,173	11,694	104,333	(2,146)
Other	11,910	-	-	(11,910)
Interest on long-term debt	52,408	-	-	(52,408)
Depreciation-unallocated	124,986	-	-	(124,986)
Total governmental activities	\$ 3,150,960	\$ 57,413	\$ 854,091	(2,239,456)
General purpose revenues				
Property taxes				
Levied for general purposes				1,197,456
Levied for debt service				326,552
State school aid - unrestricted				740,843
Unrestricted investment earnings				492
Other				69,547
Total general purpose revenues				2,334,890
Change in net position				95,434
Net position, beginning of year				(526,529)
Net position, end of year				\$ (431,095)

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

Alanson Public Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	2014 Capital Projects Fund	Capital Projects Sinking Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 232,639	\$ 84,721	\$ 105,298	\$ 31,000	\$ 453,658
Accounts receivable	1,373	-	-	311	1,684
Due from other funds	5,377	-	-	8,273	13,650
Due from other governments	195,318	-	-	1,053	196,371
Total assets	<u>\$ 434,707</u>	<u>\$ 84,721</u>	<u>\$ 105,298</u>	<u>\$ 40,637</u>	<u>\$ 665,363</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 1,907	\$ -	\$ -	\$ -	\$ 1,907
Accrued expenditures	5,595	-	-	534	6,129
Salaries payable and related liabilities	197,459	-	-	-	197,459
Unearned revenues	18,620	-	-	-	18,620
Due to other funds	8,463	-	-	5,377	13,840
Due to other governmental units	26,042	-	-	-	26,042
Total liabilities	258,086	-	-	5,911	263,997
FUND BALANCES					
Restricted					
Food service	-	-	-	9,464	9,464
Debt service	-	-	-	25,262	25,262
Capital projects	-	84,721	105,298	-	190,019
Committed for subsequent year expenditures	68,626	-	-	-	68,626
Unassigned	107,995	-	-	-	107,995
Total fund balances	176,621	84,721	105,298	34,726	401,366
Total liabilities and fund balances	<u>\$ 434,707</u>	<u>\$ 84,721</u>	<u>\$ 105,298</u>	<u>\$ 40,637</u>	

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 \$8,231,063 and the accumulated depreciation is \$4,404,434.	3,826,629
Deferred outflows of resources is not a financial resource and, therefore, is not reported as an asset in governmental funds.	260,287
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	(1,295,000)
Accrued interest on bonds	(7,641)
Compensated absences	(43,119)
Net pension obligation	(3,320,885)
Deferred inflows of resources is not a financial resource and, therefore, is not reported as a liability in governmental funds.	(252,732)
Total net position - governmental activities	<u>\$ (431,095)</u>

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

Alanson Public Schools

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

Year Ended June 30, 2016

	General Fund	2014 Capital Projects Fund	Capital Projects Sinking Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Local sources					
Property taxes	\$ 1,197,456	\$ -	\$ 108,807	\$ 217,745	\$ 1,524,008
Charges for services	39,080	-	-	11,694	50,774
Interest	240	44	46	162	492
Other local revenue	78,121	-	225	1,553	79,899
State sources	1,065,032	-	-	6,467	1,071,499
Federal sources	159,453	-	-	97,865	257,318
Interdistrict sources	262,404	-	-	-	262,404
	<u>2,801,786</u>	<u>44</u>	<u>109,078</u>	<u>335,486</u>	<u>3,246,394</u>
Total revenues					
Expenditures					
Instruction	1,777,719	-	-	-	1,777,719
Supporting services	904,262	-	-	-	904,262
Community services	49,560	-	-	-	49,560
Food service	-	-	-	117,593	117,593
Other	11,888	-	-	-	11,888
Debt service					
Principal	-	-	-	190,000	190,000
Interest	-	-	-	53,720	53,720
Other	-	-	-	22	22
Capital outlay	12,945	2,217	20,117	-	35,279
	<u>2,756,374</u>	<u>2,217</u>	<u>20,117</u>	<u>361,335</u>	<u>3,140,043</u>
Total expenditures					
REVENUES OVER (UNDER) EXPENDITURES	<u>45,412</u>	<u>(2,173)</u>	<u>88,961</u>	<u>(25,849)</u>	<u>106,351</u>
Fund balance, beginning of year	<u>131,209</u>	<u>86,894</u>	<u>16,337</u>	<u>60,575</u>	<u>295,015</u>
Fund balance, end of year	<u>\$ 176,621</u>	<u>\$ 84,721</u>	<u>\$ 105,298</u>	<u>\$ 34,726</u>	<u>\$ 401,366</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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	106,351
Amounts reported for governmental activities in the statement of activities are different because:		
<p>Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceed capital outlays in the period.</p>		
	Capital outlays \$	7,319
	Depreciation expense	<u>(218,706)</u>
		(211,387)
Change in deferred outflows of resources.		(68,211)
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.		190,000
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 less than amounts used by \$7,806.		7,806
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.		1,312
Change in net pension obligation.		(40,368)
Change in deferred inflows of resources.		<u>109,931</u>
Changes in Net Position of Governmental Activities	\$	<u>95,434</u>

Alanson Public Schools

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
AGENCY FUNDS

June 30, 2016

ASSETS	
Cash and cash equivalents	\$ 31,100
Due from other funds	<u>190</u>
Total assets	<u><u>\$ 31,290</u></u>
LIABILITIES	
Due to student groups	<u><u>\$ 31,290</u></u>

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, 2016.

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.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

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

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.

NOTES TO FINANCIAL STATEMENTS - Continued

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 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 - 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.

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, 2016, the School District was out of compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Instruction	\$ 1,788,000	\$ 1,789,575	\$ 1,575

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH AND CASH EQUIVALENTS

At June 30, 2016, the School District's cash and cash equivalents include the following:

Cash on hand	\$ 20
Bank deposits	473,328
Investments	<u>11,410</u>
	<u>\$ 484,758</u>

Bank Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage. As of June 30, 2016, \$109,407 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 or 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.

Investments at June 30, 2016, consisted of the following:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
MILAF	<u>\$ 11,410</u>	<u>\$ 11,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS - Continued

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. MILAF investments are carried at amortized cost and are not subject to any withdrawal restrictions.

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 D - 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 \$66.3 million and \$6 per \$1,000 of commercial personal property value in the School District of \$0.9 million was levied for general operating purposes. For debt service purposes, \$2.29 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value in the School District of \$140.2 million was levied.

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, 2016 are as follows:

Due from the State of Michigan State Aid	\$ 184,592
Due from Federal grants	<u>11,779</u>
	<u>\$ 196,371</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - 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	6,663,251	-	-	6,663,251
Site improvements	736,913	-	-	736,913
Equipment	518,033	7,319	-	525,352
Vehicles and buses	<u>299,547</u>	<u>-</u>	<u>-</u>	<u>299,547</u>
Total capital assets being depreciated	8,217,744	7,319	-	8,225,063
Less accumulated depreciation	<u>(4,185,728)</u>	<u>(218,706)</u>	<u>-</u>	<u>(4,404,434)</u>
Total capital assets, net	<u>\$ 4,038,016</u>	<u>\$ (211,387)</u>	<u>\$ -</u>	<u>\$ 3,826,629</u>

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

Support services	\$ 93,140
Food service	580
Unallocated	<u>124,986</u>
Total depreciation expense	<u>\$ 218,706</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2016 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	\$ 1,485,000	\$ -	\$ (190,000)	\$ 1,295,000	\$ 200,000
Total bonds payable	<u>1,485,000</u>	<u>-</u>	<u>(190,000)</u>	<u>1,295,000</u>	<u>200,000</u>
Other liabilities					
Compensated absences	50,925	-	(7,806)	43,119	-
Total other liabilities	<u>50,925</u>	<u>-</u>	<u>(7,806)</u>	<u>43,119</u>	<u>-</u>
Total long-term liabilities	<u>\$ 1,535,925</u>	<u>\$ -</u>	<u>\$ (197,806)</u>	<u>\$ 1,338,119</u>	<u>\$ 200,000</u>

Compensated absences are generally liquidated by the General Fund.

At June 30, 2016, 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 \$150,000 to \$165,000 and semi-annual installments of interest at 4.0%.	\$ 630,000
2014 School Improvement Bonds, due through May 1, 2024, with annual principal payments ranging from \$50,000 to \$115,000 and semi-annual installments of interest at 3.2%.	<u>665,000</u>
Total bonds	1,295,000
Compensated absences	<u>43,119</u>
Total long-term debt	<u>\$ 1,338,119</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds outstanding as of June 30, 2016 are as follows:

Years Ending June 30,	Principal	Interest	Total
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	105,000	14,080	119,080
2022-2026	<u>335,000</u>	<u>21,600</u>	<u>356,600</u>
	<u>\$ 1,295,000</u>	<u>\$ 174,560</u>	<u>\$ 1,469,560</u>

Interest expense for the year ended June 30, 2016 was \$52,408 and interest paid was \$53,720.

NOTE G - 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, 2016, the School District's interfund balances consisted of the following:

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds		
General Fund	\$ 5,377	\$ 8,463
Non-Major Governmental Funds		
Food Service Fund	8,273	-
2010 Building & Site Bond Fund	-	3,764
2010 Refunding Bond Fund	-	1,613
Fiduciary Funds		
Student Activities Fund	<u>190</u>	<u>-</u>
	<u>\$ 13,840</u>	<u>\$ 13,840</u>

NOTE H - 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, 2016, 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 I - PENSION PLAN AND POST EMPLOYMENT BENEFITS

Plan Description

The Michigan Public School Employees' Retirement System ("MPERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. The System's financial statements are available at www.michigan.gov/mpsers-cafr.

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit ("DB") pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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 plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. 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.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of 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.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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.

Funding Policy

Defined Contribution Plan

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

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 September 30, 2015 will be amortized over a 21 year period for the 2015 fiscal year.

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2015:

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

Required contributions to the pension plan from the School District were \$262,289 for the year ended September 30, 2015.

The School District's contributions to the MPSERS Defined Contribution Plan were \$7,518, for the year ended June 30, 2016, which is equal to the pension expense recognized by the School District for the year.

NOTES TO FINANCIAL STATEMENTS - Continued

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. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

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

At June 30, 2016, the School District reported a liability of \$3,320,885 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 30, 2014. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2015, the School District's proportion was 0.01360%, which was a decrease of 0.00129% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$215,769. At June 30, 2016, 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	\$ -	\$ 11,000
Changes of assumptions	81,767	-
Net difference between projected and actual earnings on pension plan investments	16,950	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	511	241,732
School District contributions subsequent to the measurement date	<u>161,059</u>	<u>-</u>
Total	<u>\$ 260,287</u>	<u>\$ 252,732</u>

NOTES TO FINANCIAL STATEMENTS - Continued

From the above table, \$161,059 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, 2017. 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>
2017	\$ (55,598)
2018	(55,598)
2019	(60,032)
2020	17,724

Actuarial Assumptions

Projection 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 actual valuation follows:

Summary of Actuarial Assumptions

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

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.
- Recognition period for assets is 5 years.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Rate of Return on Investments

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:

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

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan 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 School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

1% Decrease (Non-Hybrid/Hybrid) (7.0% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (8.0% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (9.0% / 8.0%)
<hr/>	<hr/>	<hr/>
\$ 4,281,472	\$ 3,320,885	\$ 2,511,071

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 Comprehensive Annual Financial Report ("CAFR"). The 2015 MPERS CAFR is available at: www.michigan.gov/mpers-cafr.

Payables to the Michigan Public School Employees' Retirement System ("MPERS")

The School District reported \$32,341 and \$746 payable to the plan at June 30, 2016 for legally required defined benefit and defined contribution plan contributions, respectively.

NOTES TO FINANCIAL STATEMENTS - Continued

Required Supplemental Information - 10-Year Trend Information

Schedule of School District's Proportionate Share of Net Pension Liability		
	9/30/2015	9/30/2014
School District's proportion of collective net pension liability	0.01360 %	0.01489 %
School District's proportionate share of net pension liability	\$ 3,320,885	\$ 3,280,517
School District's covered-employee payroll	1,148,052	1,276,161
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	289.26 %	257.06 %
Plan fiduciary net position as a percentage of total pension liability	63.17 %	66.20 %

Schedule of School District's Contributions		
	6/30/2016	6/30/2015
Statutorily required employer contributions	\$ 262,289	\$ 253,598
School District contributions made to the Plan	262,289	253,598
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 1,109,190	\$ 1,172,672
Contributions as a percentage of covered-employee payroll	23.65 %	21.63 %

Change of benefit terms: There were no changes of benefit terms in 2015.

Change of assumptions: There were no changes of benefit assumptions in 2015.

NOTE J - 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, 2016, \$665,575 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$85,000. The 2014 Capital Projects Fund balance was \$84,721 at June 30, 2016.

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Littlefield Education Association. The Board of Education and the Littlefield Education Association have a contract 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, 2013 through August 31, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Alanson Public Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variance - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual Total</u>
	Revenues				
Local sources	\$ 1,321,598	\$ 1,309,204	\$ 1,314,897	\$ (12,394)	\$ 5,693
State sources	964,908	1,067,045	1,065,032	102,137	(2,013)
Federal sources	139,725	159,452	159,453	19,727	1
Interdistrict sources	<u>258,871</u>	<u>266,374</u>	<u>262,404</u>	<u>7,503</u>	<u>(3,970)</u>
Total revenues	<u>2,685,102</u>	<u>2,802,075</u>	<u>2,801,786</u>	<u>116,973</u>	<u>(289)</u>
Expenditures					
Instruction	1,842,294	1,788,000	1,789,575	54,294	(1,575)
Supporting services					
Pupil	19,273	25,461	25,461	(6,188)	-
Instructional staff	5,447	53,651	53,651	(48,204)	-
General administration	164,443	186,769	185,989	(22,326)	780
School administration	54,287	58,922	58,835	(4,635)	87
Business	68,530	63,722	63,722	4,808	-
Operations and maintenance	240,111	263,428	262,828	(23,317)	600
Transportation	86,572	81,012	80,414	5,560	598
Central	100,750	97,640	96,640	3,110	1,000
Athletics	74,371	77,996	77,811	(3,625)	185
Other	-	11,888	11,888	(11,888)	-
Community services	<u>37,230</u>	<u>49,980</u>	<u>49,560</u>	<u>(12,750)</u>	<u>420</u>
Total expenditures	<u>2,693,308</u>	<u>2,758,469</u>	<u>2,756,374</u>	<u>(65,161)</u>	<u>2,095</u>
REVENUES (UNDER) EXPENDITURES	<u>(8,206)</u>	<u>43,606</u>	<u>45,412</u>	<u>51,812</u>	<u>1,806</u>
Fund balance, beginning of year	<u>132,615</u>	<u>131,209</u>	<u>131,209</u>	<u>(1,406)</u>	<u>-</u>
Fund balance, end of year	<u>\$ 124,409</u>	<u>\$ 174,815</u>	<u>\$ 176,621</u>	<u>\$ 50,406</u>	<u>\$ 1,806</u>

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

Alanson Public Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2016

	Special Revenue Fund	Debt Service Funds		Total
	Food Service Fund	2010 Building & Site Bond Fund	2010 Refunding Bonds Fund	Non-Major Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 361	\$ 20,696	\$ 9,943	\$ 31,000
Due from other funds	8,273	-	-	8,273
Accounts receivable	311	-	-	311
Due from other governments	1,053	-	-	1,053
Total assets	\$ 9,998	\$ 20,696	\$ 9,943	\$ 40,637
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accrued expenditures	\$ 534	\$ -	\$ -	\$ 534
Due to other funds	-	3,764	1,613	5,377
Total liabilities	534	3,764	1,613	5,911
FUND BALANCES				
Restricted				
Food service	9,464	-	-	9,464
Debt service	-	16,932	8,330	25,262
Total fund balances	9,464	16,932	8,330	34,726
Total liabilities and fund balances	\$ 9,998	\$ 20,696	\$ 9,943	\$ 40,637

Alanson Public Schools

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

Year Ended June 30, 2016

	Special Revenue Fund	Debt Service Funds		Total Non-Major Governmental Funds
	Food Service Fund	2010 Building & Site Bond Fund	2010 Refunding Bonds Fund	
Revenues				
Local sources				
Property taxes	\$ -	\$ 147,870	\$ 69,875	\$ 217,745
Charges for services	11,694	-	-	11,694
Interest income	5	116	41	162
Other local revenue	-	1,054	499	1,553
State sources	6,467	-	-	6,467
Federal sources	97,865	-	-	97,865
Total revenues	<u>116,031</u>	<u>149,040</u>	<u>70,415</u>	<u>335,486</u>
Expenditures				
Current				
Food service	117,593	-	-	117,593
Principal	-	145,000	45,000	190,000
Interest	-	31,000	22,720	53,720
Other	-	-	22	22
Total expenditures	<u>117,593</u>	<u>176,000</u>	<u>67,742</u>	<u>361,335</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,562)</u>	<u>(26,960)</u>	<u>2,673</u>	<u>(25,849)</u>
Fund balance, beginning of year	<u>11,026</u>	<u>43,892</u>	<u>5,657</u>	<u>60,575</u>
Fund balance, end of year	<u><u>\$ 9,464</u></u>	<u><u>\$ 16,932</u></u>	<u><u>\$ 8,330</u></u>	<u><u>\$ 34,726</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, 2016, 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 26, 2016.

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.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described below, that we consider 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