

AKRON-FAIRGROVE SCHOOLS
FAIRGROVE, MICHIGAN

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and
additional supplementary information)
YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Akron-Fairgrove Schools
Fairgrove, Michigan 48733

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 Akron-Fairgrove Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

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

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the 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 7, 2016, on our consideration of Akron-Fairgrove Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Akron-Fairgrove Schools' internal control over financial reporting and compliance.

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN

October 7, 2016

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis

This section of the 2016 annual financial report presents our discussion and analysis of the School District's financial performance during the school year ended June 30, 2016. The intent of this discussion and analysis is to provide, in layman's terms, a look at the district's performance and past and current position. Readers should also review the transmittal letter, notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

Using this Annual Report

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the district's budget for the year.

Financial Section

- Basic Financial Statements
 - District-wide Financial Statements
 - Fund Financial Statements
 - Fiduciary Fund
 - Notes to Financial Statements
- Required Supplementary Information
 - Budgetary Comparison Schedules
 - Schedule of the Proportionate Share of the Net Pension Liability
 - Schedule of the Reporting Unit's Contribution
 - Notes to the Required Supplementary Information

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

One of the most frequent and important question asked about our School District is, "As a whole, what is the School District's financial condition as a result of this year's activities?" The first two statements in the School District's financial statements are the Statement of net position and the Statement of activities. These two statements report information on the School District as a whole because they include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis

These two statements report the Akron-Fairgrove School District's net position – the difference between assets and liabilities, as reported in the statement of net position – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The School District's operating results come from the relationship between the revenues and expenses. Our School District's goal is not to generate profits, as do commercial entities, but is to provide services to our students. To assess the overall health of the School District, there are many non-financial factors such as the quality of education provided, along with the safety of our schools.

In the District-wide statements, the district's activities are classified as *governmental activities*. The District's activities include regular and special education, support services, community services, transportation, food service, and athletics. Property taxes, State aid, State and Federal grants finance most of these activities.

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

The fund financial statements do not report the School District as a whole; instead the fund financial statements provide detailed information about the District's most significant funds. The School District establishes funds that comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." The General Fund, Debt Service Funds, and Capital Projects Fund are the District's major funds, which includes the instructional student and instructional support activities. There are additional funds that the School District also establishes to help it control and manage money for particular purposes, such as the Food Services Funds, and Student Activities Funds. Funds need to be established to show that it's meeting legal responsibilities for certain taxes, grants. The governmental funds of the School District use the following accounting approach:

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

In the fund financial statements, capital asset purchases are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

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

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

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis

Financial Analysis of the School District as a Whole

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

Condensed Statement of Net Position	Governmental Activities	
	2016	2015
Assets		
Current assets	\$ 1,805,110	\$ 3,851,012
Noncurrent assets	7,042,389	5,007,085
Total assets	8,847,499	8,858,097
Deferred Outflows of Resources		
Deferred charge on refunding	11,487	12,787
Related to pensions	546,266	381,408
Total Deferred Outflows of Resources	557,753	394,195
Liabilities		
Current liabilities	975,922	841,476
Noncurrent liabilities	5,168,149	6,111,998
Net pension liability	3,734,679	3,244,022
Total liabilities	9,878,750	10,197,496
Deferred Inflows of Resources		
Related to pensions	114,282	358,628
Total Deferred Inflows of Resources	114,282	358,628
Net position		
Net investment in capital assets	1,952,523	1,370,422
Restricted:		
Debt Service	617,659	499,731
Food Service	-	-
Unrestricted	(3,157,962)	(3,173,985)
Total net position	(587,780)	(1,303,832)
Total Net Position and Liabilities	\$ 9,290,970	\$ 8,893,664

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis

The statement of activities shows the results of this year's operations for Akron-Fairgrove District Schools as a whole. Table 2 shows the changes in net position of the School District as of June 30, 2016 and June 30, 2015.

Table 2
Statement of Net Position from Operating Results

	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 20,098	\$ 24,050
Operating grants & Other Transactions	885,982	873,410
General revenues:		
Property taxes	1,999,360	1,728,806
State sources	1,117,702	1,275,611
Other	59,694	99,481
Total revenues	4,082,836	4,001,358
Expenses		
Instruction	1,718,252	1,651,878
Support services	1,030,966	1,059,354
Community services	5,940	6,866
Food Services	162,670	130,569
Facilities improvement	50,019	103,976
Interest on long-term debt	86,223	238,768
Unallocated depreciation	312,714	152,294
Total Expenses	3,366,784	3,343,705
Increase (Decrease) in Net Position	\$ 716,052	\$ 657,653

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis

Financial analysis of the School District's Funds

The District uses funds to help it control and manage money for particular purposes. The reader can look at these funds to help determine whether the Akron-Fairgrove School District is being held accountable for the resources taxpayers and others provide to it, and it may give them insight in the School District's overall financial health.

Table 2 shows the breakdown of the sources of revenue for the District. A substantial portion (27%) of the District's revenues is received from State sources, which means that the financial stability of the District rests primarily with the economic health of the State of Michigan.

Table 2 shows that 87% of the District's resources are spent on instruction services, support services, community services, and food services. Another 3% is spent on interest and 1% is spent on facilities improvement, while 9% is spent for depreciation and amortization.

The financial performance of the district as a whole is reflected in its governmental funds. As the School District completed the 2015/2016 school year, the governmental funds reported a combined fund balance of \$841,691.

Factors On Fund Balance

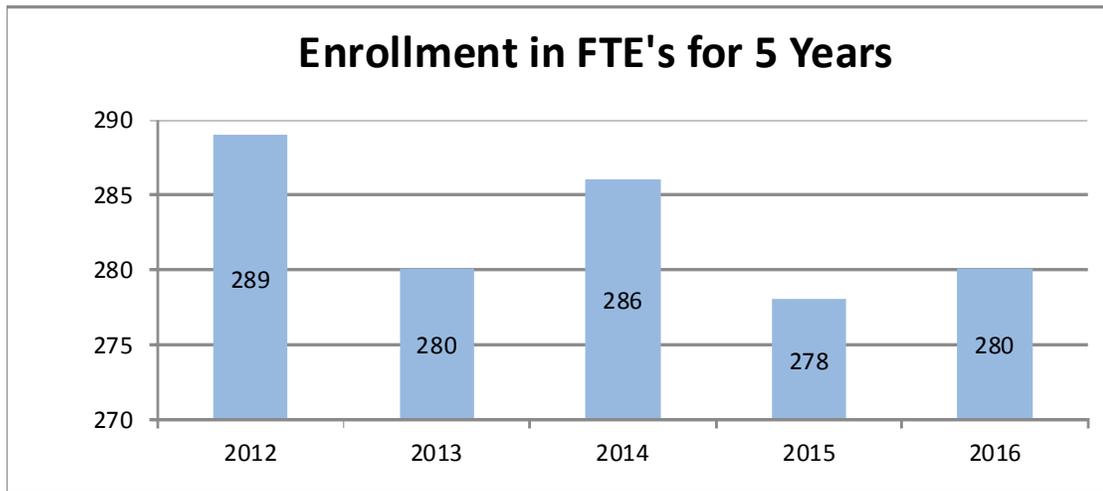
- ◆ *General Fund Balance* – Increased \$115,775 during the year. This was offset by a deficit from the beginning of the year of \$(7,293) leaving an ending fund balance of \$108,482 at June 30, 2016.
- ◆ The *Food Service Fund Balance*- Decreased by \$11,387 during the year. The District was required to spend down the fund balance in order to maintain legal limits in this fund.
- ◆ The *Debt Service Fund Balance*- Increased by \$121,057 overall.
- ◆ *Capital Projects Fund Balance* – Decreased \$2,404,503. During the year, the District spent the majority of the 2014 bond proceeds on allowable improvements.

Factors Decreasing Fund Balance

- ◆ *Student Enrollment*
The chart on the next page shows a general decline in enrollment for most of the past 5 years. There was an increase of 2 general education students between 2015 and 2016 with state aid at \$7,391 per student this is an increase in revenue of \$14,782.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis



General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the School District revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted just before the year-end, along with the new adopted budget for the upcoming school year.

Budget Amendment 15/16

The increase in revenue this year between the beginning budget and the final amended budget totaled \$107,596, with local revenues, state sources, federal sources, transfers and other all increasing.

The expenditures increased by \$134,219 between the beginning budget and the final amended budget. The major areas of increase were in Basic program instruction and Instructional staff.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2016, the School District had \$10,019,773 invested in a broad range of capital assets.

The District's capital assets at year-end are outlined in Table 3.

AKRON-FAIRGROVE DISTRICT SCHOOLS

Management's Discussion and Analysis

Table 3

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Construction in progress		\$ 520,516
Buildings	\$ 8,427,032	7,417,846
Buses	375,651	294,748
General Equipment	207,781	192,603
Playground, Athletic, Site Improvement	661,299	620,868
Technology	348,010	348,010
Total	<u>\$ 10,019,773</u>	<u>\$ 9,394,591</u>

The District's net capital assets show an increase of \$625,182 from 2015, as a result of the 2014 Bond project, less depreciation. Depreciation is taken on the assets using the straight-line method of depreciation.

Debt Administration

As of June 30, 2016 the District had debt on the financial statements for the 2015 Refunding Bonds in the amount of \$2,775,000. These bonds continue to mature through May 1, 2025.

As of June 30, 2016 the District had debt on the financial statements for the 2014 Bonds in the amount of \$1,720,000. These bonds continue to mature through May 2024.

As of June 30, 2016 the District had debt on the financial statements for the 2005 QZAB Bond in the amount of \$625,000. This bond will mature in 2020.

As of June 30, 2016 the District had compensated absences, which include accumulated sick and vacation pay, totaling \$48,149.

We present more detailed information about our long-term liabilities in the notes to financial statements.

Factors bearing on the District's future

Annual foundation adjustments, MPSERS increases, and health insurance increases will all factor into the District's ability to maintain financial stability.

Student counts are vital to the funding of the district.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Central Office, Akron-Fairgrove District Schools, 2800 N. Thomas Road, Fairgrove, Michigan, 48733, and telephone number (989) 693-6163.

BASIC FINANCIAL STATEMENTS

AKRON-FAIRGROVE SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2016

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and equivalents	\$ 1,330,844
Receivables:	
Accounts receivable	2,190
Intergovernmental receivable	398,094
Inventory	2,508
Prepaid expenses	40,723
Restricted cash - capital projects	11,124
Restricted investments - capital projects	19,627
Capital assets, net of accumulated depreciation	7,042,389
TOTAL ASSETS	8,847,499
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding, net of amortization	11,487
Related to pensions	546,266
TOTAL DEFERRED OUTFLOWS OF RESOURCES	557,753
LIABILITIES	
Accounts payable	40,743
Accrued salaries and related items	205,711
Accrued retirement	71,562
Unearned revenue	40,453
Accrued interest	17,453
Note payable	600,000
Noncurrent liabilities:	
Due within one year	910,000
Due in more than one year	4,210,000
Compensated absences	48,149
Net pension liability	3,734,679
TOTAL LIABILITIES	9,878,750
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	12,370
Related to state aid funding for pension	101,912
TOTAL DEFERRED INFLOWS OF RESOURCES	114,282
NET POSITION	
Net investment in capital assets	1,952,523
Restricted for debt service	617,659
Unrestricted	(3,157,962)
TOTAL NET POSITION	\$ (587,780)

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Governmental Activities
		<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:				
Instruction	\$1,718,252		\$423,684	\$ (1,294,568)
Support services	1,030,966	\$ 17,558	285,661	(727,747)
Community services	5,940			(5,940)
Food services	162,670	2,540	176,637	16,507
Facilities improvement	50,019			(50,019)
Interest and fees on long-term debt	86,223			(86,223)
Unallocated depreciation	312,714			(312,714)
Total governmental activities	<u>\$3,366,784</u>	<u>\$ 20,098</u>	<u>\$ 885,982</u>	<u>(2,460,704)</u>
General revenues:				
Property taxes, levied for general purposes				886,834
Property taxes, levied for debt service				1,112,526
State sources				1,117,702
Investment earnings				12,497
Transfers from other districts				32,621
Other				14,576
Total general revenue				<u>3,176,756</u>
Change in net position				716,052
Net position, beginning of year				<u>(1,303,832)</u>
Net position, end of year				<u>\$ (587,780)</u>

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	GENERAL FUND	DEBT SERVICE	2014 CAPITAL PROJECTS	NONMAJOR FOOD SERVICES	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>					
Cash and cash equivalents	\$ 626,323	\$ 650,388		\$ 54,133	\$ 1,330,844
Receivables:					
Accounts receivable	2,190			-	2,190
Intergovernmental receivable	398,094				398,094
Due from other funds	-	-	\$ 11,220	3,795	15,015
Inventory				2,508	2,508
Prepaid expenditures	40,723		-		40,723
Restricted:					
Cash			11,124		11,124
Investments			19,627		19,627
TOTAL ASSETS	<u>\$ 1,067,330</u>	<u>\$ 650,388</u>	<u>\$ 41,971</u>	<u>\$ 60,436</u>	<u>\$ 1,820,125</u>
 <u>LIABILITIES & FUND BALANCES</u>					
LIABILITIES:					
Accounts payable	\$ 22,925	\$ 15,276	\$ 350	\$ 2,192	\$ 40,743
Due to other funds	15,015	-	-	-	15,015
Accrued salaries and related items	204,291			1,420	205,711
Accrued retirement	71,214			348	71,562
Unearned revenue	40,453				40,453
Accrued interest	4,950				4,950
Note payable	600,000				600,000
TOTAL LIABILITIES	<u>958,848</u>	<u>15,276</u>	<u>350</u>	<u>3,960</u>	<u>978,434</u>
FUND BALANCES:					
Nonspendable:					
Inventory				2,508	2,508
Prepaid expenditures	40,723		-		40,723
Restricted for:					
Debt service		635,112			635,112
Capital projects			41,621		41,621
Food service				53,968	53,968
Unassigned	67,759				67,759
TOTAL FUND BALANCES	<u>108,482</u>	<u>635,112</u>	<u>41,621</u>	<u>56,476</u>	<u>841,691</u>
TOTAL LIABILITIES & FUND BALANCES	<u>\$ 1,067,330</u>	<u>\$ 650,388</u>	<u>\$ 41,971</u>	<u>\$ 60,436</u>	<u>\$ 1,820,125</u>

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total Fund Balances - Governmental Funds	\$ 841,691
Amounts reported for governmental activities in the statement of net position are different because:	
Deferred outflows of resources-changes on refunding, net of amortization	11,487
Deferred outflows of resources-related to pensions	546,266
Deferred inflows of resources-related to pensions	(12,370)
Deferred inflows of resources-state aid funding for pensions	(101,912)
Capital assets used in governmental activities are not financial resources and are not reported in the funds	
The cost of the capital assets is:	10,019,773
Accumulated depreciation is:	(2,977,384)
Long term liabilities are not due and payable in the current period and are not reported in the funds	
Bonds payable	(5,120,000)
Compensated absences	(48,149)
Accrued interest is not included as a liability in governmental funds; it is recorded when paid	(12,503)
Net pension liability	<u>(3,734,679)</u>
Net Position of Governmental Activities	<u>\$ (587,780)</u>

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	<u>GENERAL FUND</u>	<u>DEBT SERVICE FUNDS</u>	<u>2014 CAPITAL PROJECTS FUND</u>	<u>NONMAJOR FOOD SERVICES</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES					
Local sources					
Taxes	\$ 886,834	\$ 1,112,526			\$ 1,999,360
Charges for services	17,558			\$ 2,540	20,098
Other	42,136	11,626	\$ 631	80	54,473
State sources	1,728,989	-		3,205	1,732,194
Federal sources	196,765			176,637	373,402
Transfers from other districts	32,621				32,621
TOTAL REVENUES	<u>2,904,903</u>	<u>1,124,152</u>	<u>631</u>	<u>182,462</u>	<u>4,212,148</u>
EXPENDITURES					
Instruction	1,728,268				1,728,268
Supporting services	1,035,258		-		1,035,258
Community services	5,940				5,940
Food services				185,573	185,573
Facilities improvement			2,405,134		2,405,134
Debt service:					
Principal redemption		950,000			950,000
Interest and fiscal charges		86,744			86,744
TOTAL EXPENDITURES	<u>2,769,466</u>	<u>1,036,744</u>	<u>2,405,134</u>	<u>185,573</u>	<u>6,396,917</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>135,437</u>	<u>87,408</u>	<u>(2,404,503)</u>	<u>(3,111)</u>	<u>(2,184,769)</u>
OTHER FINANCING SOURCES (USES)					
Sale of assets	2,600				2,600
Transfers in	11,387	33,649		-	45,036
Transfers out	(33,649)			(11,387)	(45,036)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(19,662)</u>	<u>33,649</u>	<u>-</u>	<u>(11,387)</u>	<u>2,600</u>
NET CHANGE IN FUND BALANCES	<u>115,775</u>	<u>121,057</u>	<u>(2,404,503)</u>	<u>(14,498)</u>	<u>(2,182,169)</u>
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	<u>(7,293)</u>	<u>514,055</u>	<u>2,446,124</u>	<u>70,974</u>	<u>3,023,860</u>
FUND BALANCES (DEFICIT) - END OF YEAR	<u>\$ 108,482</u>	<u>\$ 635,112</u>	<u>\$ 41,621</u>	<u>\$ 56,476</u>	<u>\$ 841,691</u>

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Total net change in fund balances--governmental funds \$(2,182,169)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their useful lives as depreciation:

Depreciation expense	(312,714)
Capital outlay	2,378,018
Net book value of disposed assets	(30,000)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable at the beginning of the year	14,324
Accrued interest payable at the end of the year	(12,503)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, where as these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items are as follows:

Principal payments	950,000
Amortization of deferred amount on bond refunding	(1,300)

Compensated absences are reported on the accrual method in the statement of activities and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences at the beginning of the year	41,998
Accrued compensated absences at the end of the year	(48,149)

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

Pension related items	20,459
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Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period.

Pension related items	<u>(101,912)</u>
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Change in net position of governmental activities \$ 716,052

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2016

	<u>AGENCY FUNDS</u>
ASSETS	
Cash and equivalents	\$ 43,672
<i>TOTAL ASSETS</i>	<u>\$ 43,672</u>
LIABILITIES	
Due to student organizations	\$ 43,672
<i>TOTAL LIABILITIES</i>	<u>\$ 43,672</u>

See notes to financial statements.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

REPORTING ENTITY:

Akron-Fairgrove Schools (the "District") is governed by the Akron-Fairgrove Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement.

BASIS OF PRESENTATION – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

BASIS OF PRESENTATION – FUND FINANCIAL STATEMENTS:

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – government and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *2014 capital projects* fund accounts for the receipt of debt proceeds and the acquisition of capital assets or construction of major capital projects.

The 2014 Capital Projects Fund includes capital projects activities funded with bonds issued after May 1, 1994. For this capital project, the school district has complied with the applicable provisions of section 1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported annual construction activity in the 2014 capital projects fund.

The project for which the 2014 School Building and Site Bonds were issued was considered substantially complete on June 30, 2016 and the cumulative expenditures recognized for the construction period were as follows.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

	<u>2015</u>	<u>2016</u>	<u>Total</u>
Revenue and other financing sources	\$ 3,100,095	\$ 631	\$ 3,100,726
Expenditures and other financing uses	\$ 653,971	\$ 2,405,134	\$ 3,059,105

Revenue and other financing sources include the net bond proceeds of \$3,100,000.

AKRON-FAIRGROVE SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2016

OTHER NON-MAJOR FUNDS:

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in the special revenue fund.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in the fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING:

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital lease are reported as other financing sources.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on the pupil membership counts.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exception (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30th is reported as an intergovernmental receivable.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are generally considered to be measureable and available only when cash is received by the District.

BUDGETARY INFORMATION:

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to the year ended June 30th.

ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND NET POSITION/FUND BALANCE:

1. Cash and equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Certain investments are valued at fair value and determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the districts intend to hold the investment until maturity.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are valued at their fair market value at the date of donation.

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

Land and construction in progress, if any, are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
General Equipment	5 – 20 years
Buses	8 years
Technology	5 - 20 years
Playground, Athletic & Site Improvement	5 - 20 years

5. Defined benefit plan

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

6. Deferred outflows/inflows of resources

Deferred outflow:

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has two items that qualify for reporting in this category. They are a deferred charge on refunding and pension related items reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension related items. These amounts are expensed in the plan year in which they apply.

AKRON-FAIRGROVE SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2016

Deferred inflow:

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary. The second is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

7. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of the resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

REVENUES AND EXPENDITURES/EXPENSES:

1. Program revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements for a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

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

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed valuation:

<u>FUND</u>	<u>MILLS</u>
General Fund:	
Non-Principle Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	3.29

3. Compensated absences

The District's policy permits employees to accumulate earned but unused vacation and sick leave benefits, which are eligible for payment upon separation from service. The liability for such leave is reported as incurred in the government-wide financial statements. A liability for those amounts is recorded in the governmental funds only if the liability has matured as a result of employee resignations or retirements. The liability for compensated absences includes salary and related benefits, where applicable.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. 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 on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

AKRON-FAIRGROVE SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2016

NOTE 2 – DEPOSITS AND INVESTMENTS:

As of June 30, 2016, the District had the following investments.

Investment Type	Fair value	Weighted Average Maturity (Years)	Standard & Poor's Rating	%
MILAF - MIMAX	\$ 18,758	0.0027	AAAm	95.6%
MILAF - MICMS	869	0.0027	AAAm	4.4%
Total fair value	<u>\$ 19,627</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2016, the fair value of the District’s investment is the same as the value of the pool shares.

MILAF funds are considered external investment pools as defined by the GASB and as such are recorded at amortized cost, which approximates fair value. The MILAF (MAX Class) fund requires notification of redemptions prior to 14 days to avoid penalties. These funds are not subject to the fair value disclosures.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, the District did not have investments in commercial paper and corporate bonds.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2016, \$1,090,449 of the District’s bank balance of \$1,394,582 was exposed to custodial credit risk because it was uninsured and uncollateralized. The carrying value on the books for deposits at the end of the year was \$1,385,640.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

Fair value measurement. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing and investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The District does not have any investments subject to the fair value measurement.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 2:

Deposits - including fiduciary funds of \$43,672	\$ 1,385,640
Investments	<u>19,627</u>
	<u>\$ 1,405,267</u>

The above amounts are reported in the financial statements as follows:

Cash - District wide	\$ 1,330,844
Cash - Fiduciary funds	43,672
Restricted Cash-Capital projects	11,124
Restricted Investments - Capital projects	<u>19,627</u>
	<u>\$ 1,405,267</u>

NOTE 3 – INTERGOVERNMENTAL RECEIVABLES:

Intergovernmental receivables at June 30, 2016 consist of the following:

Governmental Units:	
State Aid	\$ 290,093
Federal	40,073
Other	<u>67,928</u>
Total	<u>\$ 398,094</u>

Amounts due from other governmental units include amounts due from federal and state sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

NOTE 4 – NOTE PAYABLE:

At June 30, 2016, the District has a state aid note payable outstanding of \$600,000. The note has an interest rate of .99% and matures August 22, 2016.

Balance 6/30/2015	Additions	Payments	Balance 6/30/2016
\$ 279,000	\$ 600,000	\$ 279,000	\$ 600,000

NOTE 5 – LONG-TERM DEBT:

The following is a summary of the general obligation bonds of the school district for the year ended June 30, 2016:

	General obligation bonds	Compensated absences	Total
Beginning balance	\$ 6,070,000	\$ 41,998	\$ 6,111,998
Additions		6,151	6,151
Deletions	(950,000)		(950,000)
Ending balance	5,120,000	48,149	5,168,149
Due within one year	(910,000)		(910,000)
Due in more than one year	\$ 4,210,000	\$ 48,149	\$ 4,258,149

Interest expense (all funds) for the year ended June 30, 2016 was \$93,064. General fund interest expense is included in supporting services.

As of June 30, 2016, the school district had the following outstanding bonds payable:

2005 QZAB Bond -To be paid in 15 equal annual installments of \$33,649. The annual payments will be deposited with Chemical Bank and Trust Company and will earn interest at the rate of 2.96% per annum. The accumulated amounts will be used to pay off the QZAB bond in 2020. This bond is interest free.	\$ 625,000
2014 School Building and Site Bonds due in annual payments ranging from \$950,000 to \$150,000 from May 1, 2016 to May 1, 2024, with interest from 0.65% to 2.55%.	1,720,000
2015 Refunding Bonds due in annual payments ranging from \$235,000 to \$370,000 from May 1, 2017 to May 1, 2025, with interest from 1.00% to 2.55%.	2,775,000
Total general obligation debt	5,120,000
Obligation under contract for compensated absences	48,149
Total general long-term debt	\$ 5,168,149

The District has defeased certain obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2016, \$2,905,000 of bonds outstanding are considered defeased.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

The annual requirements to amortize long-term debt outstanding as of June 30, 2016 are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2017	\$ 910,000	\$ 75,018	\$ 985,018
2018	470,000	67,268	537,268
2019	450,000	62,063	512,063
2020	1,075,000	56,063	1,131,063
2021	450,000	48,863	498,863
2022 - 2025	1,765,000	102,548	1,867,548
	<u>5,120,000</u>	<u>411,823</u>	<u>5,531,823</u>
Accumulated compensated absences	48,149	-	48,149
TOTALS	<u>\$ 5,168,149</u>	<u>\$ 411,823</u>	<u>\$ 5,579,972</u>

A fund balance amount of \$635,112 is available in the debt service fund to service the general obligation debt.

NOTE 6 - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT 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. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/mpers-cafr>.

Benefits Provided - Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPERS is as follows:

<u>Plan Name</u>	<u>Plan Type</u>	<u>Plan Status</u>
Basic	Defined Benefit	Closed
Member Investment Plan (MIP)	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

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

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0%-4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contributed at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0%-7.0%.

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 (MPERS) who became a member of MPERS 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.

AKRON-FAIRGROVE SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2016

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. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement (no reduction factor for age)

Eligibility - Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided member worked through 60th birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount - Total credited service as of the Transition Date times 1.5% of final average compensation.

Pension Plus

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 - Credited Service after the Transition Date times 1.5% times FAC.

Option 2 - Credited Service after the Transition Date (until total service reaches 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 - Credited Service after the Transition Date times 1.25% times FAC.

Option 4 - None (Member will receive benefit through a Defined Contribution plan). As a DC participant they receive a 4% employer contribution to a tax - deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation - Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

Member Contributions

Depending on the plan selected, member contribution range from 0%-7%. Plan members electing the defined contribution plan are not required to make additional contributions.

Employer Contributions

Reporting units are 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.

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.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

School District's contributions are determined based on employee election. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

October 1, 2014 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - September 30, 2016	14.56% - 18.95%

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$339,170, with \$333,751 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. (69.45% for pension and 30.55% for OPEB).

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

Pension Liabilities

At June 30, 2016, the District reported a liability of \$3,734,679 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The 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 reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .01529 and .01473 percent.

<u>MPERS (Plan) Non-university employers:</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	\$ 41,887,015,147	\$ 43,134,384,072
Net Pension Liability	\$ 24,425,026,755	\$ 22,026,503,110
Proportionate Share	0.01529	0.01473
Net Pension Liability for the District	\$ 3,734,679	\$ 3,244,022

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

For the year ended June 30, 2016, the District recognized pension expense of \$347,725. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate. These amounts have been recorded as a deferred outflow as of June 30, 2016.

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

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Changes of assumptions	\$ 91,956	
Net difference between projected and actual plan investment earnings	19,063	
Differences between expected and actual experience		\$ (12,370)
Changes in proportion and differences between employer contributions and proportionate share of contributions	119,142	
District's contributions subsequent to the measurement date	316,105	
Total	\$ 546,266	\$ (12,370)

AKRON-FAIRGROVE SCHOOLS
Notes to Financial Statements
Year Ended June 30, 2016

\$316,105 reported as deferred outflows of resources related to pensions resulting from 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 in pension expense as follows:

Year ended September 30,	Amount
2016	\$ 42,544
2017	42,544
2018	37,558
2019	95,145

Actuarial Assumptions

Investment rate of return - 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).

Salary increases - The rate of pay increase used for individual members is 3.5%.

Inflation - 2.1%

Mortality assumptions - RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projections scale AA for men and women were used.

Experience study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

The long-term expected rate of return on pension plan investments - The rate was 8% (7% Pension Plus Plan) net of investment and administrative expenses 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	28.00%	5.90%
Alternate Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate and Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short Term Investment Pools	2.00%	0.00%
Total	100.00%	

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

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

Discount rate - The discount rate used to measure the total pension liability was 8% (7% for Pension Plan Plus). 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.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent (7% for Pension Plus Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1% Lower (6.0% - 7.0%)	Discount Rate (7.0% - 8.0%)	1% Higher (8.0% - 9.0%)
District's proportionate share of the net pension liability	\$4,814,959	\$3,734,679	\$2,823,959

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 2015 Comprehensive Annual Financial Report.

Payable to Pension Plan

At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund MPERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

Benefit Provisions - Other Postemployment

Introduction

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, 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 retirement healthcare. Any changes to a member's healthcare benefit 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 December 1, 2012.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to September 30, 2014, 2.2% to 2.71% of covered payroll for the period from October 1, 2014 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPERS for the year ended June 30, 2016, 2015, and 2014 were approximately \$134,000, \$134,000, and \$95,000.

NOTE 7 - RISK MANAGEMENT:

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for the other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 8 – INTERFUND RECEIVABLES AND PAYABLES:

The following interfund balances were outstanding at June 30, 2016:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
General Fund	\$ -	General Fund	\$ 15,015
Nonmajor Fund	3,795	Nonmajor Fund	-
Capital Projects Fund	11,220	Capital Projects Fund	
	<u>\$ 15,015</u>		<u>\$ 15,015</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 9 – TRANSFERS:

The general fund transferred \$33,649 to the QZAB debt retirement fund during the current fiscal year for note repayment set aside requirements. The food service fund transferred \$11,387 to the general fund. This transfer was made to cover indirect costs paid by the general fund that relate to the school lunch activities.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

NOTE 10 – QZAB FUND:

On June 28, 2005 the District borrowed \$625,000 through the Qualified Zone Academy Bond Program for the purpose of remodeling, equipping, re-equipping, furnishing and re-furnishing school buildings; acquiring school buses; and developing and improving athletic facilities, playgrounds and sites. The bonds are to be repaid with fifteen annual installments of \$33,649 commencing on June 28, 2006 being paid into a Trust Account to provide the funds to repay the bond principal in one payment of \$625,000 on June 28, 2020. The bonds are interest-free and the balance on June 30, 2016 is \$625,000. The balance in this trust account at June 30, 2016 is \$431,539.

NOTE 11 – CAPITAL ASSETS:

A summary of changes in capital assets follows:

	BALANCE JULY 1, 2015	ADDITIONS	REDUCTIONS	BALANCE JUNE 30, 2016
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 520,516	\$ -	\$ 520,516	\$ -
Total capital assets, not being depreciated	<u>520,516</u>	<u>-</u>	<u>520,516</u>	<u>-</u>
Capital assets, being depreciated:				
Buildings	7,417,846	2,475,195	\$ 1,466,009	8,427,032
General Equipment	192,603	60,713	45,535	207,781
Buses	294,748	200,903	120,000	375,651
Technology	348,010	-	-	348,010
Playground, Athletic, & Site Improvement	620,868	161,723	121,292	661,299
Total capital assets being depreciated	<u>8,874,075</u>	<u>2,898,534</u>	<u>1,752,836</u>	<u>10,019,773</u>
Accumulated depreciation:				
Buildings	3,652,404	208,021	1,466,009	2,394,416
General Equipment	94,094	15,922	45,535	64,481
Buses	111,013	35,464	90,000	56,477
Technology	192,830	31,036	-	223,866
Playground, Athletic, & Site Improvement	337,165	22,271	121,292	238,144
Total accumulated depreciation	<u>4,387,506</u>	<u>312,714</u>	<u>1,722,836</u>	<u>2,977,384</u>
Net capital assets being depreciated	<u>4,486,569</u>	<u>2,585,820</u>	<u>30,000</u>	<u>7,042,389</u>
Net governmental capital assets	<u>\$ 5,007,085</u>	<u>\$ 2,585,820</u>	<u>\$ 550,516</u>	<u>\$ 7,042,389</u>

Depreciation for the fiscal year ended June 30, 2016 amounted to \$312,714. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 12 – SUBSEQUENT EVENTS:

On July 11, 2016 the Board of Education adopted a resolution to borrow \$600,000 against state aid for the 2016-2017 fiscal year.

AKRON-FAIRGROVE SCHOOLS

Notes to Financial Statements

Year Ended June 30, 2016

NOTE 13 – UPCOMING ACCOUNTING PRONOUNCEMENT:

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in their footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This Statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future.

REQUIRED SUPPLEMENTARY INFORMATION

AKRON-FAIRGROVE SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES:				
Local sources				
Taxes	\$ 878,474	\$ 883,855	\$ 886,834	\$ 2,979
Charges for services	17,700	17,578	17,558	(20)
Other	29,505	41,069	42,136	1,067
State sources	1,656,678	1,723,076	1,728,989	5,913
Federal sources	197,649	200,600	196,765	(3,835)
Incoming transfers and other	11,200	32,624	32,621	(3)
TOTAL REVENUES	<u>2,791,206</u>	<u>2,898,802</u>	<u>2,904,903</u>	<u>6,101</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	1,189,721	1,332,523	1,297,897	34,626
Added needs	443,141	436,136	430,371	5,765
Total instruction	<u>1,632,862</u>	<u>1,768,659</u>	<u>1,728,268</u>	<u>40,391</u>
Supporting services:				
Pupil	51,915	37,937	37,937	-
Instructional staff	4,988	19,918	15,098	4,820
General administration	149,045	154,766	151,373	3,393
School administration	290,743	297,326	297,070	256
Business	48,750	46,100	50,333	(4,233)
Operations & maintenance	306,104	274,109	269,129	4,980
Pupil transportation	96,706	99,367	90,413	8,954
Central services	25,121	38,942	38,851	91
Athletics	82,749	86,618	85,054	1,564
Total supporting services	<u>1,056,121</u>	<u>1,055,083</u>	<u>1,035,258</u>	<u>19,825</u>
Community services	6,480	5,940	5,940	-
TOTAL EXPENDITURES	<u>2,695,463</u>	<u>2,829,682</u>	<u>2,769,466</u>	<u>60,216</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>95,743</u>	<u>69,120</u>	<u>135,437</u>	<u>66,317</u>
OTHER FINANCING SOURCES (USES):				
Sale of assets	-	1,800	2,600	800
Transfer from Other Funds	16,781	14,500	11,387	(3,113)
Transfer to Other Funds	(33,649)	(33,649)	(33,649)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(16,868)</u>	<u>(17,349)</u>	<u>(19,662)</u>	<u>(2,313)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 78,875</u>	<u>\$ 51,771</u>	<u>115,775</u>	<u>\$ 64,004</u>
FUND BALANCE (DEFICIT) - BEGINNING OF YEAR			<u>(7,293)</u>	
FUND BALANCE - END OF YEAR			<u>\$ 108,482</u>	

AKRON-FAIRGROVE SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 9/30 OF EACH FISCAL YEAR)

	<u>2015</u>	<u>2014</u>
Reporting unit's proportion of net pension liability (%)	0.01529%	0.01473%
Reporting unit's proportionate share of net pension liability	\$ 3,734,679	\$ 3,244,022
Reporting unit's covered-employee payroll	\$ 1,306,958	\$ 1,358,264
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	285.75%	238.84%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

AKRON-FAIRGROVE SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REPORTING UNIT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED
AS OF 6/30 OF EACH FISCAL YEAR END)

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 333,751	\$ 280,318
Contributions in relation to statutorily required contributions	<u>333,751</u>	<u>280,318</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 1,270,171	\$ 1,348,180
Contributions as a percentage of covered-employee payroll	26.28%	20.79%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

AKRON-FAIRGROVE SCHOOLS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

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

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

ADDITIONAL SUPPLEMENTARY INFORMATION

AKRON-FAIRGROVE SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	DEBT SERVICE	QZAB DEBT SERVICE	TOTAL DEBT SERVICE
<u>ASSETS</u>			
Cash and equivalents	\$ 218,849	\$ 431,539	\$ 650,388
TOTAL ASSETS	\$ 218,849	\$ 431,539	\$ 650,388
 <u>LIABILITIES & FUND BALANCES</u>			
Accounts payable	\$ 15,276	\$ -	\$ 15,276
TOTAL LIABILITIES	15,276	-	15,276
Fund balances:			
Restricted for debt service	203,573	431,539	635,112
TOTAL LIABILITIES & FUND BALANCES	\$ 218,849	\$ 431,539	\$ 650,388

AKRON-FAIRGROVE SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2016

	DEBT SERVICE	QZAB DEBT SERVICE	TOTAL DEBT SERVICE
REVENUES:			
Local Sources:			
Property taxes	\$ 1,112,526	\$ -	\$ 1,112,526
Interest	21	11,605	11,626
Total Local Sources	1,112,547	11,605	1,124,152
TOTAL REVENUES	1,112,547	11,605	1,124,152
EXPENDITURES:			
Debt Service:			
Principal repayment	950,000	-	950,000
Interest and other fiscal charges	86,744	-	86,744
TOTAL EXPENDITURES	1,036,744	-	1,036,744
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	75,803	11,605	87,408
OTHER FINANCING SOURCES (USES):			
Transfer from General Fund		33,649	33,649
TOTAL OTHER FINANCING SOURCES (USES)	-	33,649	33,649
NET CHANGE IN FUND BALANCES	75,803	45,254	121,057
FUND BALANCES - BEGINNING OF YEAR	127,770	386,285	514,055
FUND BALANCES - END OF YEAR	\$ 203,573	\$ 431,539	\$ 635,112

AKRON-FAIRGROVE SCHOOLS
SCHEDULE OF BONDED DEBT -
2015 REFUNDING BONDS
JUNE 30, 2016

<u>PAYMENT DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST RATE</u>	<u>INTEREST DUE</u>	<u>TOTAL PAYMENT</u>
11/1/2016			\$ 25,156	\$ 25,156
5/1/2017	\$ 235,000	1.00%	25,156	260,156
11/1/2017			23,981	23,981
5/1/2018	325,000	1.20%	23,981	348,981
11/1/2018			22,031	22,031
5/1/2019	300,000	1.35%	22,031	322,031
11/1/2019			20,006	20,006
5/1/2020	300,000	1.55%	20,006	320,006
11/1/2020			17,681	17,681
5/1/2021	300,000	1.75%	17,681	317,681
11/1/2021			15,056	15,056
5/1/2022	305,000	1.95%	15,056	320,056
11/1/2022			12,083	12,083
5/1/2023	315,000	2.20%	12,083	327,083
11/1/2023			8,618	8,618
5/1/2024	325,000	2.40%	8,618	333,618
11/1/2024			4,718	4,718
5/1/2025	370,000	2.55%	4,718	374,718
	<u>\$ 2,775,000</u>		<u>\$ 298,660</u>	<u>\$ 3,073,660</u>

The 2015 Refunding Bonds (the "Bonds") were authorized by the Board of Education of Akron-Fairgrove Schools, County of Tuscola, State of Michigan (the "School District") by resolutions adopted on September 14, 2014 and March 9, 2015 (the "Resolutions") for the purpose of refunding a portion of a prior bond issue of the School District. The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the School District without limitation as to rate or amount.

AKRON-FAIRGROVE SCHOOLS
SCHEDULE OF BONDED DEBT -
2014 SCHOOL BUILDING AND SITE BONDS
JUNE 30, 2016

<u>PAYMENT DATE</u>	<u>PRINCIPAL DUE</u>	<u>INTEREST RATE</u>	<u>INTEREST DUE</u>	<u>TOTAL PAYMENT</u>
11/1/2016			\$ 12,353	\$ 12,353
5/1/2017	\$ 675,000	0.80%	12,353	687,353
11/1/2017			9,653	9,653
5/1/2018	145,000	0.90%	9,653	154,653
11/1/2018			9,000	9,000
5/1/2019	150,000	1.30%	9,000	159,000
11/1/2019			8,025	8,025
5/1/2020	150,000	1.70%	8,025	158,025
11/1/2020			6,750	6,750
5/1/2021	150,000	2.00%	6,750	156,750
11/1/2021			5,250	5,250
5/1/2022	150,000	2.15%	5,250	155,250
11/1/2022			3,638	3,638
5/1/2023	150,000	2.30%	3,638	153,638
11/1/2023			1,913	1,913
5/1/2024	150,000	2.55%	1,913	151,913
	<u>\$ 1,720,000</u>		<u>\$ 113,164</u>	<u>\$ 1,833,164</u>

The 2014 Bonds (the "Bonds") were authorized at an election on May 6, 2014, for the purpose of remodeling, furnishing, and refurbishing and equipping and re-equipping school buildings; acquiring, installing and equipping and re-equipping school buildings for instructional technology; purchasing school buses; and developing and improving athletic facilities and sites. The Bonds will pledge the full faith and credit of the School District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount as provided by Article IX, Section 6, of the Michigan Constitution of 1963.



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

To the Board of Education
Akron-Fairgrove Schools
Fairgrove, MI 48733

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 Akron-Fairgrove Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 7, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Anderson, Tuckey, Bernhardt & Doran, P.C.

ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
CARO, MICHIGAN

October 7, 2016



ANDERSON, TUCKEY, BERNHARDT & DORAN, P.C.

Certified Public Accountants

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To the Members of the Board
Akron-Fairgrove Schools

We have audited the financial statements of **Akron-Fairgrove Schools** for the year ended June 30, 2016, and have issued our report thereon dated October 7, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Akron-Fairgrove Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of **Akron-Fairgrove Schools'** compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by **Akron-Fairgrove Schools** are described in Note 1 to the financial statements. The application of existing policies was not changed during 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements were:

Estimates have been used to calculate the net pension liability.

Management's estimate of the liability of the payout of employee compensated absences.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. We proposed adjustments that we consider to be significant and have communicated this to management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 7, 2016.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the required supplementary information (RSI) which are required and supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, other knowledge we obtained during the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the other supplementary information, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Akron-Fairgrove Schools
Page three

Restriction on Use

This information is intended solely for the use of the Members of the Board and management of **Akron-Fairgrove Schools** and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Anderson, Tuckey, Bernhardt & Doran, P.C.
Anderson, Tuckey, Bernhardt, & Doran, P.C.
Certified Public Accountants
Caro, MI

October 7, 2016