

Clinton Community Schools  
Clinton, Michigan

For the  
Year Ended  
June 30, 2015

Financial  
Statements

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# CLINTON COMMUNITY SCHOOLS

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**INDEPENDENT AUDITORS' REPORT**

November 2, 2015

Board of Education  
Clinton Community Schools  
Clinton, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of *Clinton Community Schools* (the "District"), as of and for the year ended June 30, 2015, 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.

***Independent Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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, the major fund, and the aggregate remaining fund information of Clinton Community Schools as of June 30, 2015, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Implementation of GASB Statement No. 68*

As described in Note 16, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

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

### *Other Information*

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Rehmann Lobson LLC". The signature is written in a cursive, flowing style.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CLINTON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

As management of Clinton Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015.

### Financial Highlights

- The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPERS net pension liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of (\$5,348,802). Of this amount, (\$10,585,063) is unrestricted net position (deficit) and \$378,478 is restricted for other purposes.
- The District's total net position decreased by \$179,772.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,637,022, of which \$393,817 was restricted for future use.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$2,227,664 or 21.6% of total general fund expenditures.
- Investments for the future were made by the spending of \$382,030 on school improvements and equipment.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components:

1. *Government-wide Financial Statements*
2. *Fund Financial Statements*
3. *Notes to the Financial Statements*

This report also contains other supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

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

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the residual balance reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

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

# CLINTON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, community services, athletics, and food service. The District has no business-type activities as of and for the year ending June 30, 2015.

### Fund Financial Statements

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

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

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

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of fund revenues, expenditures, and changes in fund balances for the general fund. Individual fund data for the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. A budgetary statement has been provided herein for the general fund to demonstrate compliance with the general fund budget.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

# CLINTON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management's discussion and analysis and the schedules for the MPSERS pension plan immediately following the notes to the financial statements. The combining fund statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$5,348,802 at the close of the most recent fiscal year.

Normally the largest portion of the District's total assets reflects its investment in capital assets (e.g., land, buildings and improvements, equipment and furniture, and vehicles). Investment in capital assets, net of related debt used to acquire those assets that are still outstanding, was \$4,857,783 at June 30, 2015. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In addition, net position of \$378,478 is restricted for food service, debt service and capital projects. The remaining balance is unrestricted net position, which has a negative balance.

	Net Position	
	2015	2014
Current and other assets	\$ 3,756,931	\$ 4,459,296
Capital assets, net	8,541,124	8,715,245
<b>Total assets</b>	<b>12,298,055</b>	<b>13,174,541</b>
<b>Deferred outflows of resources</b>	<b>2,133,774</b>	<b>93,308</b>
Current and other liabilities	14,357,120	4,386,739
Long-term liabilities	3,962,370	1,034,641
<b>Total liabilities</b>	<b>18,319,490</b>	<b>5,421,380</b>
<b>Deferred inflows of resources</b>	<b>1,461,141</b>	<b>-</b>
Net position:		
Net investment in capital assets	4,857,783	4,515,245
Restricted	378,478	368,712
Unrestricted (deficit)	(10,585,063)	2,962,512
<b>Total net position</b>	<b>\$ (5,348,802)</b>	<b>\$ 7,846,469</b>

# CLINTON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

The negative total net position of \$5,348,802 of governmental activities represent the accumulated results of all past years' operations. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities. Below is a summary of the District's changes in net position for the years ended June 30, 2015 and 2014.

Net position decreased \$179,772. The key elements of this decrease included: An increase in property tax revenue and increase in state aid revenue, offset by a more significant increase in instruction expense of approximately \$496,000.

	Change in Net Position	
	2015	2014
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 356,080	\$ 224,619
Operating grants and contributions	308,101	802,163
General revenues:		
Property taxes	1,726,682	1,704,898
Unrestricted state aid	7,984,244	7,800,194
Grants and contributions not restricted to specific programs	515,660	264,660
Unrestricted investment earnings	1,482	2,646
<b>Total revenues</b>	<u>10,892,249</u>	<u>10,799,180</u>
<b>Expenses:</b>		
Instruction	6,907,577	6,411,164
Supporting services	2,731,699	2,764,977
Athletics	382,900	367,160
Food service	434,522	427,616
Interest on long-term debt	86,793	197,501
Unallocated depreciation	528,530	531,229
<b>Total expenses</b>	<u>11,072,021</u>	<u>10,699,647</u>
Change in net position	(179,772)	99,533
<b>Net position:</b>		
Beginning of year	7,846,469	7,746,936
Restatement for implementation of GASB 68	(13,015,499)	-
<b>End of year</b>	<u>\$ (5,348,802)</u>	<u>\$ 7,846,469</u>

# CLINTON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,637,022. Approximately 84% of this total amount (\$2,227,664) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending because the underlying assets are included in inventory or prepaids and are not available for current expenditure or it is constrained by externally imposed restrictions.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,227,664 while the total fund balance was \$2,238,299. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance represent approximately 21.6% and 21.7%, respectively, of total general fund expenditures.

The fund balance of the District's general fund decreased \$613,462 during the current fiscal year. This is attributable to increases in state aid revenue that were outpaced by increases in instruction expenditures related to negotiated compensation increases.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted at year end. A statement showing the District's original and final budget amounts compared with amounts actually paid and received is provided with the governmental fund section in these financial statements.

The original budget is adopted by the school board before the start of the District's fiscal year and the final amended budget is adopted at the end of the fiscal year. The difference between the two relates to adjustments made in salaries, benefits, and general expenditures throughout the course of the year. Once the adjustments are known, the budget is adjusted accordingly.

# CLINTON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Capital Assets and Debt Administration

*Capital Assets.* The District's investment in capital assets for its governmental activities as of June 30, 2015, amounted to \$8,541,124 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and furniture, and vehicles.

The major capital asset events during the year were as follows:

- Additional classroom in Preschool building

	Capital Assets (Net of Depreciation)	
	2015	2014
Land	\$ 158,683	\$ 158,683
Buildings and improvements	7,334,550	7,389,463
Equipment and furniture	209,166	243,130
Vehicles	838,725	923,969
Total capital assets, net	<u>\$ 8,541,124</u>	<u>\$ 8,715,245</u>

Additional information regarding the District's capital assets can be found in Note 7 to the financial statements.

### Long-term Debt

At the end of the current fiscal year, the District had total long term debt outstanding of \$3,962,370.

	Long-term Debt	
	2015	2014
General obligation bonds	\$ 3,685,000	\$ 4,200,000
Unamortized premium	168,537	93,308
Compensated absences	108,833	93,431
Total	<u>\$ 3,962,370</u>	<u>\$ 4,386,739</u>

The District's total long-term debt decreased by \$424,369. The key factor in this decrease was the principal payment of general obligation bond debt during the year on the 2005 refunding bonds.

Additional information regarding the District's long-term debt can be found in Note 10 to the financial statements.

# CLINTON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Factors Bearing on the District's Future

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

- The foundation allowance is budgeted at \$7,391
- Best Practices & Performance revenue was removed
- Student enrollment is anticipated to decrease by 50 students
- Health insurance costs were increased by Department of Treasury Caps
- \$30,000 performance compensation was given for 15-16 school year

### Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 341 East Michigan, Clinton, MI 49236.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

# CLINTON COMMUNITY SCHOOLS

## Statement of Net Position

June 30, 2015

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 2,278,701
Receivables	1,462,689
Prepays and inventory	15,541
Capital assets not being depreciated	158,683
Capital assets being depreciated, net	<u>8,382,441</u>
<b>Total assets</b>	<u>12,298,055</u>
<b>Deferred outflows of resources</b>	
Deferred loss on refunding	170,196
Deferred pension amounts	<u>1,963,578</u>
<b>Total deferred outflows of resources</b>	<u>2,133,774</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,095,516
Unearned revenue	44,638
Long-term debt:	
Due within one year	461,950
Due in more than one year	3,500,420
Net pension liability	<u>13,216,966</u>
<b>Total liabilities</b>	<u>18,319,490</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	<u>1,461,141</u>
<b>Net position</b>	
Net investment in capital assets	4,857,783
Restricted for:	
Food service	75,742
Debt service	63,971
Capital projects	238,765
Unrestricted (deficit)	<u>(10,585,063)</u>
<b>Total net position</b>	<u>\$ (5,348,802)</u>

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

# CLINTON COMMUNITY SCHOOLS

## Statement of Activities

For the Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities</b>				
Instruction	\$ 6,907,577	\$ 146,866	\$ 83,657	\$ (6,677,054)
Supporting services	2,731,699	2,589	25,634	(2,703,476)
Athletics	382,900	35,008	-	(347,892)
Food service	434,522	171,617	198,810	(64,095)
Interest on long-term debt	86,793	-	-	(86,793)
Unallocated depreciation	528,530	-	-	(528,530)
<b>Total governmental activities</b>	<b>\$ 11,072,021</b>	<b>\$ 356,080</b>	<b>\$ 308,101</b>	<b>(10,407,840)</b>
<b>General revenues</b>				
Property taxes				1,726,682
Unrestricted state aid				7,984,244
Grants and contributions not restricted to specific programs				515,660
Unrestricted investment earnings				1,482
<b>Total general revenues</b>				<b>10,228,068</b>
<b>Change in net position</b>				<b>(179,772)</b>
Net position, beginning of year, as restated				(5,169,030)
<b>Net position, end of year</b>				<b>\$ (5,348,802)</b>

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

## FUND FINANCIAL STATEMENTS

# CLINTON COMMUNITY SCHOOLS

## Balance Sheet

Governmental Funds

June 30, 2015

	General Fund	Nonmajor Funds	Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 1,830,155	\$ 448,546	\$ 2,278,701
Receivables	1,462,086	603	1,462,689
Due from other funds	-	2,168	2,168
Inventory	-	4,906	4,906
Prepays	10,635	-	10,635
<b>Total assets</b>	<b>\$ 3,302,876</b>	<b>\$ 456,223</b>	<b>\$ 3,759,099</b>
<b>Liabilities</b>			
Accounts payable	\$ 20,876	\$ 52,850	\$ 73,726
Salaries and retirement payable	1,001,545	-	1,001,545
Due to other funds	2,168	-	2,168
Unearned revenue	39,988	4,650	44,638
<b>Total liabilities</b>	<b>1,064,577</b>	<b>57,500</b>	<b>1,122,077</b>
<b>Fund balances</b>			
Nonspendable:			
Inventory	-	4,906	4,906
Prepays	10,635	-	10,635
Restricted:			
Food service	-	70,836	70,836
Capital projects	-	238,765	238,765
Debt service	-	84,216	84,216
Unassigned	2,227,664	-	2,227,664
<b>Total fund balances</b>	<b>2,238,299</b>	<b>398,723</b>	<b>2,637,022</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,302,876</b>	<b>\$ 456,223</b>	<b>\$ 3,759,099</b>

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

# CLINTON COMMUNITY SCHOOLS

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2015

Fund balances - total governmental funds	\$ 2,637,022
Amounts reported for <i>governmental activities</i> in the statement of net position are because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	
Capital assets, net of accumulated depreciation	8,541,124
Certain liabilities, such as bonds payable, are not due and payable in the current period therefore are not reported in the funds.	
Bonds payable	(3,685,000)
Unamortized bond premium	(168,537)
Unamortized loss on bond refunding	170,196
Accrued interest on bonds payable	(20,245)
Compensated absences	(108,833)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(13,216,966)
Deferred outflows related to the net pension liability	1,963,578
Deferred inflows related to the net pension liability	(1,461,141)
Net position of governmental activities	<u>\$ (5,348,802)</u>

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

# CLINTON COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2015

	General Fund	Nonmajor Funds	Totals
<b>Revenues</b>			
Local sources:			
Property taxes	\$ 929,496	\$ 797,186	\$ 1,726,682
Food sales	-	171,617	171,617
Interest	1,321	161	1,482
Athletics	35,008	-	35,008
Charges for services	149,455	-	149,455
Other	511,974	3,686	515,660
State sources	7,984,244	12,525	7,996,769
Federal sources	109,291	186,285	295,576
<b>Total revenues</b>	<b>9,720,789</b>	<b>1,171,460</b>	<b>10,892,249</b>
<b>Expenditures</b>			
Current:			
Instruction	7,112,418	-	7,112,418
Supporting services	2,828,303	-	2,828,303
Athletics	393,530	-	393,530
Food service	-	434,522	434,522
Capital outlay	-	246,253	246,253
Debt service:			
Principal repayment	-	405,000	405,000
Interest and fiscal charges	-	95,510	95,510
Issuance costs	-	81,649	81,649
<b>Total expenditures</b>	<b>10,334,251</b>	<b>1,262,934</b>	<b>11,597,185</b>
Revenue under expenditures	(613,462)	(91,474)	(704,936)
<b>Other financing sources (uses)</b>			
Issuance of long-term debt	-	3,685,000	3,685,000
Issuance premium	-	168,537	168,537
Payment to escrow agent	-	(3,871,888)	(3,871,888)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(18,351)</b>	<b>(18,351)</b>
<b>Net change in fund balances</b>	<b>(613,462)</b>	<b>(109,825)</b>	<b>(723,287)</b>
Fund balances, beginning of year	2,851,761	508,548	3,360,309
<b>Fund balances, end of year</b>	<b>\$ 2,238,299</b>	<b>\$ 398,723</b>	<b>\$ 2,637,022</b>

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

# CLINTON COMMUNITY SCHOOLS

## Reconciliation

Net Change in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ (723,287)

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

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

Capital assets purchased	382,030
Depreciation expense	(528,530)
Loss on disposal of capital assets	(27,621)

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

Issuance of long-term debt	(3,685,000)
Principal payments on long-term liabilities	405,000
Premium on issuance of long-term debt	(168,537)
Payment to escrow agent	3,871,888

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

Change in net pension liability and related deferred amounts	300,970
Change in accrued interest payable on bonds	8,717
Change in the accrual for compensated absences	(15,402)

Change in net position of governmental activities \$ (179,772)

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

# CLINTON COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenues</b>				
Local sources:				
Property taxes	\$ 967,293	\$ 933,792	\$ 929,496	\$ (4,296)
Interest	5,000	1,300	1,321	21
Athletics	28,000	35,000	35,008	8
Charges for services	118,000	149,456	149,455	(1)
Other local revenues	485,366	511,451	511,974	523
Total revenues from local sources	<u>1,603,659</u>	<u>1,630,999</u>	<u>1,627,254</u>	<u>(3,745)</u>
State sources -				
State school aid - unrestricted	<u>7,991,010</u>	<u>7,987,957</u>	<u>7,984,244</u>	<u>(3,713)</u>
Federal sources:				
Title I	71,519	84,000	83,657	(343)
Title II-A	27,096	27,000	25,634	(1,366)
Total revenues from federal sources	<u>98,615</u>	<u>111,000</u>	<u>109,291</u>	<u>(1,709)</u>
<b>Total revenues</b>	<u>9,693,284</u>	<u>9,729,956</u>	<u>9,720,789</u>	<u>(9,167)</u>
<b>Expenditures</b>				
Instruction:				
Basic programs:				
Elementary	2,664,186	2,672,907	2,667,192	(5,715)
Middle school	1,460,721	1,314,599	1,309,109	(5,490)
High school	1,897,682	1,982,150	1,973,425	(8,725)
Added needs:				
Special education	895,236	839,224	829,319	(9,905)
At Risk	206,530	330,993	327,547	(3,446)
Career/tech prep	7,000	5,827	5,826	(1)
Total instruction	<u>7,131,356</u>	<u>7,145,700</u>	<u>7,112,418</u>	<u>(33,282)</u>

continued...

# CLINTON COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Expenditures (continued)</b>				
Supporting services:				
Pupil services	\$ 3,800	\$ 9,868	\$ 7,950	\$ (1,918)
Guidance services	232,534	203,369	202,980	(389)
Instructional staff	8,000	1,300	1,299	(1)
Library	184,088	139,795	138,863	(932)
Technology and media	86,781	91,675	91,216	(459)
General administration:				
Executive administration	319,972	334,794	334,091	(703)
School administration	575,143	576,339	573,682	(2,657)
Business services	239,016	217,888	216,779	(1,109)
Operations and maintenance	911,501	947,217	955,442	8,225
Pupil transportation	330,368	307,830	306,001	(1,829)
Total supporting services	<u>2,891,202</u>	<u>2,830,075</u>	<u>2,828,303</u>	<u>(1,772)</u>
Athletics	<u>378,116</u>	<u>394,648</u>	<u>393,530</u>	<u>(1,118)</u>
Total expenditures	<u>10,400,674</u>	<u>10,370,423</u>	<u>10,334,251</u>	<u>(36,172)</u>
Net change in fund balance	(707,389)	(640,467)	(613,462)	27,005
Fund balance, beginning of year	<u>2,851,761</u>	<u>2,851,761</u>	<u>2,851,761</u>	-
Fund balance, end of year	<u>\$ 2,144,372</u>	<u>\$ 2,211,294</u>	<u>\$ 2,238,299</u>	<u>\$ 27,005</u>

concluded.

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

# CLINTON COMMUNITY SCHOOLS

## Statement of Fiduciary Assets and Liabilities

June 30, 2015

	Agency Fund
<b>Assets</b>	
Cash and cash equivalents	\$ <u>98,436</u>
<b>Liabilities</b>	
Due to student groups and activities	\$ <u>98,436</u>

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

## NOTES TO FINANCIAL STATEMENTS

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Clinton Community Schools (the "District") has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### *Government-wide and Fund Financial Statements*

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2015.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges 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 or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

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, except for agency funds, which do not have a measurement focus. 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.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants that use one year. 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, are recorded only when payment is due.

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

The *general fund* is used to account for all financial resources except those accounted for and reported in another fund.

The District reports the following fund types:

The *special revenue fund* is used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The *debt service fund* is used to account for and report all financial resources restricted, committed or assigned to expenditure for principal and interest.

The *capital projects fund* is used to account for and report all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

The *agency fund* is used to account for and report assets held for other groups and organizations and is custodial in nature.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### Cash and Cash 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.

### Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

### Inventory and Prepaids

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the general fund and special revenue funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in both government-wide and fund financial statements.

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### Capital Assets

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

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

Asset	Years
Buildings and improvements	20-50
Equipment and furniture	5-20
Vehicles	8

### Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows for the loss on refunding. This amount represents 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. The District also reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date.

### Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types generally 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 when incurred.

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

### Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District's deferred inflows of resources related to pension costs. More detailed information can be found in Note 14.

### Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance* for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. *Unassigned fund balance* is the residual classification for the general fund. The District reported no assigned fund balances.

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

### Pensions

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 Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The general and special revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on an activity basis.

### 3. EXCESS OF EXPENDITURES OVER BUDGET

During the year ended June 30, 2015, operations and maintenance expenditures in the general fund exceeded amounts appropriated by \$8,225.

### 4. SINKING FUND COSTS

The sinking fund records capital project activities funded with a Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and Sinking Funds in Michigan.

### 5. DEPOSITS AND INVESTMENTS

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

<b>Statement of Net Position</b>	
Cash and cash equivalents	\$ 2,278,701
<b>Statement of Fiduciary Assets and Liabilities</b>	
Cash and cash equivalents	<u>98,436</u>
<b>Total</b>	<u><u>\$ 2,377,137</u></u>
<b>Deposits and investments</b>	
Bank deposits (checking and savings accounts)	\$ 1,437,164
MILAF investment funds	<u>939,973</u>
	<u><u>\$ 2,377,137</u></u>

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Statutory Authority*

State statutes authorize the District to invest in:

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

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

### **Investments**

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

Investment	Maturity	Fair Value	Rating
Michigan Liquid Asset Fund	n/a	\$ 939,973	S&P-AAAm

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### Investment and Deposit Risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturity dates are identified above for investments held at year end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment credit risk. The rating is identified above for investments held at year end.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,497,578 of the District’s bank balance of \$1,747,578 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial Credit Risk - Investments.* For an investment, custodial credit risk 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. State law does not require and the District does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

## 6. RECEIVABLES

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

	General Fund	Nonmajor Funds	Total
Accounts receivable	\$ 722	\$ -	\$ 722
Intergovernmental	1,461,364	603	1,461,967
	<u>\$ 1,462,086</u>	<u>\$ 603</u>	<u>\$ 1,462,689</u>

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 158,683	\$ -	\$ -	\$ 158,683
Capital assets being depreciated:				
Buildings and improvements	13,056,419	207,128	-	13,263,547
Equipment and furniture	910,882	28,379	(23,100)	916,161
Vehicles	4,467,256	146,523	(81,996)	4,531,783
Total capital assets being depreciated	18,434,557	382,030	(105,096)	18,711,491
Less accumulated depreciation for:				
Buildings and improvements	(5,666,956)	(262,041)	-	(5,928,997)
Equipment and furniture	(667,752)	(51,274)	12,031	(706,995)
Vehicles	(3,543,287)	(215,215)	65,444	(3,693,058)
Total accumulated depreciation	(9,877,995)	(528,530)	77,475	(10,329,050)
Total capital assets being depreciated, net	8,556,562	(146,500)	(27,621)	8,382,441
<b>Governmental activities capital assets, net</b>	<b>\$ 8,715,245</b>	<b>\$ (146,500)</b>	<b>\$ (27,621)</b>	<b>\$ 8,541,124</b>

Depreciation expense of \$528,530 was charged to the function "unallocated depreciation", and was not allocated to other functions.

### 8. PAYABLES

Accounts payable and accrued liabilities as of year end for the District's individual major fund and nonmajor funds in the aggregate, are as follows:

	General Fund	Nonmajor Funds	Total
<b>Fund Financial Statements:</b>			
Accounts payable	\$ 20,876	\$ 52,850	73,726
Salaries and retirement payable	1,001,545	-	1,001,545
	<u>\$ 1,022,421</u>	<u>\$ 52,850</u>	1,075,271
<b>Government-wide Financial Statements -</b>			
Accrued interest on long-term debt			<u>20,245</u>
			<u>\$ 1,095,516</u>

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At June 30, 2015, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ -	\$ 2,168
Nonmajor governmental funds	2,168	-
	<u>\$ 2,168</u>	<u>\$ 2,168</u>

The District often reports interfund balances between many of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

There were no transfers reported.

### 10. LONG-TERM DEBT

**Bonds Payable.** At the end of the current fiscal year, the District had total bonded debt outstanding of \$3,685,000. Remaining payments for all bonded indebtedness vary from \$430,000 to \$490,000 through 2023, and include interest at 2.0-3.0%.

*Changes in Long-term Debt.* Long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Bonds payable:					
2005 general obligation refunding	\$ 4,200,000	\$ -	\$ (4,200,000)	\$ -	\$ -
2015 general obligation refunding	-	3,685,000	-	3,685,000	430,000
Subtotal - bonds payable	<u>4,200,000</u>	<u>3,685,000</u>	<u>(4,200,000)</u>	<u>3,685,000</u>	<u>430,000</u>
Unamortized bond premium	93,308	168,537	(93,308)	168,537	21,067
Compensated absences	<u>93,431</u>	<u>40,707</u>	<u>(25,305)</u>	<u>108,833</u>	<u>10,883</u>
Total	<u>\$ 4,386,739</u>	<u>\$ 3,894,244</u>	<u>\$ (4,318,613)</u>	<u>\$ 3,962,370</u>	<u>\$ 461,950</u>

Compensated absences are generally liquidated by the general fund.

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### Advance Refunding

During the year, the District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust for the purpose of generating resources for all future debt service payments on the refunded debt. As a result, the refunded bonds are considered to be defeased and the trust fund assets and related liabilities have been removed from the statement of net position.

The District issued \$3,685,000 in refunding bonds during the year to advance refund \$3,795,000 of 2005 refunding bonds. The refunding resulted in a savings of \$353,059 over the next nine years and an economic gain of \$331,059.

The bonds were called on May 1, 2015, therefore no amount of defeased debt remains outstanding at year end.

### Bond debt service requirements

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

Year Ended June 30,	Principal	Interest	Total
2016	\$ 430,000	\$ 104,115	\$ 534,115
2017	440,000	78,163	518,163
2018	450,000	69,363	519,363
2019	455,000	60,362	515,362
2020	465,000	50,126	515,126
2021-2023	1,445,000	79,250	1,524,250
	<u>\$ 3,685,000</u>	<u>\$ 441,379</u>	<u>\$ 4,126,379</u>

## 11. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2015, the composition of net investment in capital assets was comprised of the following:

	Governmental Activities
Capital assets:	
Capital assets not being depreciated	\$ 158,683
Capital assets being depreciated, net	8,382,441
	<u>8,541,124</u>
Related debt:	
Bonds payable	3,685,000
Unamortized bond premium	168,537
Unamortized deferred loss on bond refunding	(170,196)
	<u>3,683,341</u>
 Net Investment in capital assets	 <u>\$ 4,857,783</u>

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 12. RISK MANAGEMENT

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

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

### 13. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by township governments whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties involved.

### 14. DEFINED BENEFIT PENSION PLAN

#### *General Information about the Pension Plan*

*Plan Description.* The District contributes to the Michigan Public School Employees Retirement System ("MPSERS"), a cost-sharing multiple-employer pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Services with oversight from a 12-member board. Benefit provisions are established and may be amended by state statute. The Office of Retirement Services issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report can be obtained by writing to Michigan Public School Employees Retirement Services, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

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 MPSERS is as follows:

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

*The Member Investment Plan (MIP)* includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7%* plan.

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are match at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

*Benefits Provided.* MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

Plan	Eligibility Based on Years of Service	Vesting
Member Investment Plan (MIP)	Age 46 with 30 years or age 60 with 10 years	10 years
Basic	Age 55 with 30 years or Age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

*Contributions.* Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 7.63% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services. For the plan year ended September 30, 2015, an additional 1.13% MPSERS liability prepayment was invoiced as a one-time cost. Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization and one-time prepayment rates, range from 27.52% to 31.83% of covered payroll. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2015, inclusive of the MPSERS UAAL Stabilization and one-time prepayment, was \$1,610,048.

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

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

At June 30, 2015, the District reported a liability of \$13,216,966 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2014, the District's proportion (as calculated by MPSERS) was 0.06000%.

For the year ended June 30, 2015, the District recognized pension expense of \$1,070,610. At June 30, 2015, the District reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes in assumptions	\$ 487,678	\$ -	\$ 487,678
Net difference between projected and actual earnings on pension plan investments	-	1,461,141	(1,461,141)
	<u>487,678</u>	<u>1,461,141</u>	<u>(973,463)</u>
District contributions subsequent to the measurement date	1,475,900	-	1,475,900
	<u>1,475,900</u>	<u>-</u>	<u>1,475,900</u>
<b>Total</b>	<b><u>\$ 1,963,578</u></b>	<b><u>\$ 1,461,141</u></b>	<b><u>\$ 502,437</u></b>

The amount of deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as pension-related deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ (238,474)
2017	(238,474)
2018	(238,474)
2019	<u>(258,041)</u>
<b>Total</b>	<b><u>\$ (973,463)</u></b>

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

*Actuarial Assumptions.* The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.5%
Salary increases	3.5% to 12.3%, including wage inflation at 3.5%
Investment rate of return	8.0% (7.0% for the Pension Plus plan)
Cost of living adjustments	3.0% annual, non-compounded for MIP members
Healthcare cost trend rate	8.5% year 1 graded to 3.5% year 12

The mortality table used in this valuation was the RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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 was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	4.80%	1.34%
Alternative investment pools	18.00%	8.50%	1.53%
International equity	16.00%	6.10%	0.98%
Fixed income pools	10.50%	1.50%	0.16%
Real estate and infrastructure pools	10.00%	5.30%	0.53%
Absolute return pools	15.50%	6.30%	0.98%
Short-term investment pools	2.00%	-0.20%	-0.02%
	<u>100.00%</u>		<u>5.50%</u>
Inflation			<u>2.50%</u>
Investment rate of return			<u><u>8.00%</u></u>

# CLINTON COMMUNITY SCHOOLS

## Notes to Financial Statements

*Discount Rate.* The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions 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 net pension liability of the District, calculated using the discount rate of 8.0%, as well as what the District’s net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 17,425,418	\$ 13,216,966	\$ 9,671,282

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued MPSERS financial statements available on the State of Michigan Office of Retirement Services website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

*Payable to the Pension Plan.* At June 30, 2015, the District reported a payable of \$221,990 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2015.

### *Other Postemployment Benefits*

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 2.20% to 2.71% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual’s Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

# CLINTON COMMUNITY SCHOOLS

## ■ Notes to Financial Statements

The District's contributions to MPSERS for other postemployment benefits amounted to \$166,412 for the year ended June 30, 2015.

### 15. SUBSEQUENT EVENT

On August 20, 2015, the District borrowed \$214,215 and \$285,785 in State Aid Anticipation Notes. The notes bear interest at 1.08% and 1.46%, respectively, and are both due on August 22, 2016.

### 16. RESTATEMENT

The District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$13,015,499.



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## REQUIRED SUPPLEMENTARY INFORMATION

# CLINTON COMMUNITY SCHOOLS

## Required Supplementary Information

### MPSERS Cost-Sharing Multiple-Employer Plan

#### Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30, 2015
District's proportion of the net pension liability	0.060000%
District's proportionate share of the net pension liability	\$ 13,216,966
District's covered-employee payroll	5,093,723
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	259.48%
Plan fiduciary net position as a percentage of the total pension liability	66.20%

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

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

# CLINTON COMMUNITY SCHOOLS

## Required Supplementary Information

### MPSERS Cost-Sharing Multiple-Employer Plan

#### Schedule of District Contributions

	Year Ended June 30, 2015
Contractually required contribution	\$ 1,610,048
Contributions in relation to the contractually required contribution	<u>(1,610,048)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 5,229,203
Contributions as a percentage of covered employee payroll	30.8%

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

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## COMBINING FUND FINANCIAL STATEMENTS

# CLINTON COMMUNITY SCHOOLS

## Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2015

	Food Service Fund	Debt Service Fund	Sinking Fund	Totals
<b>Assets</b>				
Cash and cash equivalents	\$ 72,715	\$ 84,216	\$ 291,615	\$ 448,546
Receivables	603	-	-	603
Due from other funds	2,168	-	-	2,168
Inventory	4,906	-	-	4,906
<b>Total assets</b>	<b>\$ 80,392</b>	<b>\$ 84,216</b>	<b>\$ 291,615</b>	<b>\$ 456,223</b>
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 52,850	\$ 52,850
Unearned revenue	4,650	-	-	4,650
<b>Total liabilities</b>	<b>4,650</b>	<b>-</b>	<b>52,850</b>	<b>57,500</b>
<b>Fund balances</b>				
Nonspendable	4,906	-	-	4,906
Restricted	70,836	84,216	238,765	393,817
<b>Total fund balances</b>	<b>75,742</b>	<b>84,216</b>	<b>238,765</b>	<b>398,723</b>
<b>Total liabilities and fund balances</b>	<b>\$ 80,392</b>	<b>\$ 84,216</b>	<b>\$ 291,615</b>	<b>\$ 456,223</b>

# CLINTON COMMUNITY SCHOOLS

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2015

	Food Service Fund	Debt Service Fund	Sinking Fund	Totals
<b>Revenues</b>				
Local sources:				
Property taxes	\$ -	\$ 572,627	\$ 224,559	\$ 797,186
Food sales	171,617	-	-	171,617
Interest	1	63	97	161
Other	-	3,686	-	3,686
State sources	12,525	-	-	12,525
Federal sources	186,285	-	-	186,285
<b>Total revenues</b>	<b>370,428</b>	<b>576,376</b>	<b>224,656</b>	<b>1,171,460</b>
<b>Expenditures</b>				
Current:				
Food service	434,522	-	-	434,522
Capital outlay	-	-	246,253	246,253
Debt service:				
Principal repayment	-	405,000	-	405,000
Interest and fiscal charges	-	95,510	-	95,510
Issuance costs	-	81,649	-	81,649
<b>Total expenditures</b>	<b>434,522</b>	<b>582,159</b>	<b>246,253</b>	<b>1,262,934</b>
Revenues under expenditures	(64,094)	(5,783)	(21,597)	(91,474)
<b>Other financing sources (uses)</b>				
Issuance of long-term debt	-	3,685,000	-	3,685,000
Issuance premium	-	168,537	-	168,537
Payment to escrow agent	-	(3,871,888)	-	(3,871,888)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(18,351)</b>	<b>-</b>	<b>(18,351)</b>
Net change in fund balances	(64,094)	(24,134)	(21,597)	(109,825)
Fund balances, beginning of year	139,836	108,350	260,362	508,548
<b>Fund balances, end of year</b>	<b>\$ 75,742</b>	<b>\$ 84,216</b>	<b>\$ 238,765</b>	<b>\$ 398,723</b>

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

November 2, 2015

To the Board of Education  
Clinton Community Schools  
Clinton, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of *Clinton Community Schools* (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 2, 2015.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2015-001, that we consider to be a significant deficiency.

**Compliance and Other Matters**

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

**Clinton Community Schools' Response to Finding**

The District’s response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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



# CLINTON COMMUNITY SCHOOLS

## Schedule of Findings and Responses

For the Year Ended June 30, 2015

### 2015-001 - Segregation of Duties

**Finding Type.** Significant deficiency in internal controls over financial reporting.

**Criteria.** Management is responsible for establishing and maintaining effective internal controls in order to safeguard the assets of the District. A key element of internal control is the segregation of incompatible duties within the accounting function.

**Condition.** During our audit, we noted the following areas in which the District could improve segregation of duties:

- All journal entries are prepared by the Business Manager, but the entries are not reviewed by an employee independent of the preparation.
- The District charges guests for admission to various athletic events. Tickets sold are reconciled to cash collected for most events. However, for one event we selected, we were unable to obtain a ticket reconciliation.
- The District does not currently retain any evidence of review of the payroll register before the payroll is processed.
- Preschool tuition payments can be made in the Business Office. A single individual will receipt cash, prepare the deposit and take it to the bank for these payments.

**Cause.** This condition is the result of the assignment of staff responsibilities and staffing constraints typical of smaller governments.

**Effect.** As a result of this condition, the District is exposed to increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management on a timely basis.

**Recommendation.** We recommend that final payroll and all journal entries be reviewed by someone other than the preparer. All athletic events should have ticket reconciliations prepared. Any time preschool tuition payments are collected, there should be a verification of the amount by someone other than the individual receiving the cash. The person who takes the deposit to the bank should be different than the person recording the receipt in the general ledger.

# CLINTON COMMUNITY SCHOOLS

## Schedule of Findings and Responses

For the Year Ended June 30, 2015

**View of Responsible Officials.** Clinton Community Schools acknowledges that we have 2 business office staff that handle all the financial reporting for the district. Below are the steps that the district will take to improve the finding of Segregation of Duties:

1. Journal Entries will be signed by the Superintendent.
2. We will have tickets at all games (not just HS) so our tickets sold can be reconciled to cash collected.
3. Superintendent will sign off on payroll registers before payroll is processed.
4. Preschool cash will be collected by the Executive Assistant to the Superintendent and cash slip will be created and given to the Business Manager. The Business Manager creates the deposit ticket and the Executive Assistant to the Superintendent takes the deposit to the bank.

