

**Ionia County Intermediate School District**

**Financial Statements**

**June 30, 2015**

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**Ionia County Intermediate School District**  
**Members of the Board of Education and Administration**  
**June 30, 2015**

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Members of the Board of Education

Tom Humphreys – President

Allen MacDonald – Vice President

S. Tutt Gorman – Secretary

Brian Talbot – Treasurer

Bruce Lincoln – Trustee

Administration

Robert Kjolhede – Superintendent

Sally Caverley – Deputy Superintendent



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## Independent Auditors' Report

Management and the Board of Education  
Ionia County Intermediate School District

### 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 the Ionia County Intermediate School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

#### ***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 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 the Ionia County Intermediate School District, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Adoption of New Accounting Standards**

As described in Note 1 to the financial statements, during the year ended June 30, 2015, the School District adopted GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinions are 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, budgetary comparison information, schedule of the school district's proportionate share of the net pension liability, and schedule of the school district's contributions, as identified 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 Ionia County Intermediate School District's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The other supplementary information, as identified in the table of contents, 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. 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 other supplementary information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2015 on our consideration of the Ionia County Intermediate School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ionia County Intermediate School District's internal control over financial reporting and compliance.

*Yeo & Yeo, P.C.*

Alma, MI  
October 22, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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**Ionia County Intermediate School District**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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The management's discussion and analysis section of Ionia County Intermediate School District's (District) annual financial report provides the district's evaluation of its own financial performance during the year ended June 30, 2015. Management's discussion and analysis should be read in conjunction with the district's financial statements immediately following this section.

**Using this Annual Report**

The District's annual report consists of a series of financial statements and notes related to those statements. Financial statements are organized so the reader can understand the District's financial operations as a whole. *District-wide Financial Statements* provide information about the activities of the entire District, presenting both an aggregate view of the District's finances and a long-term view of those finances. Governmental activities statements explain how services were financed in the short-term, and explain how remaining funds can be used for future operations. *Fund Financial Statements* examine the District's operations in more detail than the district-wide financial statements.

The District's annual financial report includes the following financial statements and related information:

- Management's Discussion and Analysis (MD&A) (required supplementary information)
- Basic Financial Statements
  - District-wide Financial Statements
  - Fund Financial Statements
  - Notes to the Basic Financial Statements
- Required Supplementary Information
  - Budgetary Comparison Schedules
  - Schedule of the School District's Proportionate Share of the Net Pension Liability
  - Schedule of the School District's Contributions
- Other Supplementary Information

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

The statement of net position, and the statement of activities, which appear first in the financial statements, report information on the financial condition of the District as a result of this year's activities. These statements record all assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 recognized regardless of when cash is received or paid.

The statement of net position and the statement of activities report the governmental activities for the District, which encompass all the District's services, including instruction, supporting services, and community services. Property taxes, State Aid, and state and federal grants finance most of these activities.

**Ionia County Intermediate School District**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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The statement of net position and the statement of activities report the District's net position as the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position a measurement of the District's financial health. Over time, increases or decreases in the District's net position – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The District's primary goal is to provide services to students, local districts and constituents. As a result, one must consider many non-financial factors, such as the quality of services provided and the safety of the schools, to assess the overall health of the District.

Effective for the year ended June 30, 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68 *Accounting and Financial Reporting for Pensions*, and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This new accounting standard requires school district employers to report their portion of the long term obligation of pension benefits as a liability. This liability has been recorded along with deferred outflows and inflows of resources associated with this pension liability in the statement of net position. The amounts necessary to restate the assets and liabilities for 2014 were not available for comparative reporting.

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

The District's fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, the District establishes many other funds to help it control and manage money for particular purposes or to show that the District is meeting legal responsibilities for using certain taxes, grants and other money. The governmental funds of the District use the following accounting approach:

Governmental Funds – All of the 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. Governmental funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance District programs. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reported in a reconciliation.

**Reporting the District's Fiduciary Responsibilities - The District as Trustee**

The District is the trustee, or fiduciary, for funds of various groups. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the District's other financial statements because these assets cannot be used to finance District operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Ionia County Intermediate School District**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2015**

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**The School District as a Whole**

Recall that the statement of net position provides an overall perspective for the District's financial position. Table 1 provides a summary of the statement of net position as of June 30, 2014 and 2015:

<b>Table 1</b>	<u>2014</u>	<u>2015</u>
<b>Assets</b>		
Current and other assets	\$7,549,348	\$7,542,147
Capital assets, net of depreciation	3,716,942	3,521,787
Total assets	<u>11,266,290</u>	<u>11,063,934</u>
<b>Deferred Outflows of Resources</b>		
	<u>-</u>	<u>3,826,184</u>
Total assets and deferred outflows of resources	<u>11,266,290</u>	<u>14,890,118</u>
<b>Liabilities</b>		
Current liabilities	4,102,160	4,423,210
Non-current liabilities	1,068,139	34,169,112
Total liabilities	<u>5,170,299</u>	<u>38,592,322</u>
<b>Deferred Inflows of Resources</b>		
	<u>-</u>	<u>3,672,819</u>
Total liabilities and deferred outflows of resources	<u>5,170,299</u>	<u>42,265,141</u>
<b>Net Position</b>		
Net investment in capital assets	2,963,862	2,911,667
Restricted	3,132,129	2,924,115
Unrestricted (deficit)	<u>(16,943)</u>	<u>(33,210,805)</u>
Total net position	<u>\$6,095,991</u>	<u>(\$27,375,023)</u>

The net position of the District on June 30, 2014 and 2015 was \$6,095,991 and (\$27,375,023), respectively. \$2,911,667 of the District's net position is reflected as net investment in capital assets. The District uses capital assets to provide services and these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Most of the debt will

**Ionia County Intermediate School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015**

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be repaid from money available from general operations. The unrestricted deficit is directly attributable to the net pension liability of \$33,223,028 record for the current year.

The results of this year's operations as a whole are reported in the statement of activities, which reflects the changes in net position for fiscal years 2014 and 2015. Table 2 below summarizes the statement of activities:

<b>Table 2</b>	<u>2014</u>	<u>2015</u>
<b>Revenues</b>		
Program revenue:		
Charges for services	\$1,236	\$1,282
Operating grants and contributions	16,201,765	15,866,548
General revenue:		
Property taxes	8,644,120	8,791,559
State aid – unrestricted	429,474	462,947
Other	<u>13,762</u>	<u>8,586</u>
Total revenues	<u>25,290,357</u>	<u>25,130,922</u>
 <b>Function/Program Expenses</b>		
Instruction	8,877,410	9,405,577
Supporting services	14,037,924	14,189,970
Food service	2,780	1,052
Community services	783,886	288,877
Interdistrict payments	2,351,029	1,272,568
Interest on long-term debt	<u>27,044</u>	<u>23,653</u>
Total function/program expenses	<u>26,080,033</u>	<u>25,181,697</u>
<b>Change in net position</b>	<u>(\$789,676)</u>	<u>(\$50,775)</u>

As reported in the statement of activities, the cost of all governmental activities this year totaled \$25,181,697, a decrease of \$898,336 from last year. The majority of the decrease is attributable to fewer interdistrict payments being made. The District's revenue decreased a modest \$159,435 from last year. Overall, the District experienced a decrease in net position of \$50,775 in the current year.

**Ionia County Intermediate School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015**

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**The School District's Funds**

The District's funds are used to control and manage money for particular purposes. Reviewing funds maintained by the District helps determine whether the District is being accountable for the resources it receives and can provide more insight into the District's overall financial health.

As the District completed the 2014-15 year, governmental funds reported a combined fund balance of \$3,097,239, which is an increase of \$264,021 from the prior year. General Fund and Vocational Education Fund experienced decreases in their fund balance during 2014-15. This was due to decreased funding and increased program expenses. General Fund utilized \$52,114, and Vocational Education Fund utilized \$116,511 of fund balance. Special Education Fund increased \$644,773 due to personnel rightsizing and the recognition of revenue received too late to recognize in 2013-14.

**Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the District's Board of Education adopt an original budget for the upcoming fiscal year by July 1<sup>st</sup>. As a matter of practice, the district amends its budget during the fiscal year. These revisions are made in order to recognize changes in revenues and expenditures. The following analysis describes the significant changes in the budget during the year.

The following changes occurred in the District's financial operations when comparing actual financial performance to the final budget projections for 2014-15. Actual revenues were lower than final budget projections in the General Fund (\$235,951 or 6.52%) and higher in the Special Education Fund (\$494,614 or 2.48%). General Fund budget variance resulted mainly from grant funds that were awarded but not expended during 2014-15. Special Education Fund budget variance resulted mainly from grant revenue generated from 2013-14 activity but not received until 2014-15.

Actual expenditures were lower than final budget projections in all funds for the 2014-15 year: General Fund expenditures were lower by \$100,724 (2.41%) and Special Education Fund by \$195 (less than .1%).

**Capital Asset and Debt Administration**

***Capital Assets***

At June 30, 2014 and 2015, the District had \$3,716,942 and \$3,521,787, respectively, (net of depreciation), invested in a broad range of capital assets, including land, buildings and improvements, equipment and buses and other vehicles. Further detail is included the notes to the financial statements.

**Ionia County Intermediate School District  
Management's Discussion and Analysis  
For the Year Ended June 30, 2015**

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***Debt***

At June 30, 2014 and 2015, the District had \$1,068,139 and \$946,084, respectively, in long-term debt. The debt consisted of the following:

<b>Debt</b>	<b>2014</b>	<b>2015</b>
Government obligation bonds	\$595,000	\$505,000
Capital lease	158,080	105,120
Compensated absences	315,059	335,964
Total	<u>\$1,068,139</u>	<u>\$946,084</u>

**Economic Factors and Next Year's Budget**

The District relies on three main sources of revenue: property taxes, state funding and federal grants. Each of these sources are experiencing serious financial pressures that will likely challenge the District's financial position during 2014-15 and beyond. With rightsizing staff and working towards decreasing expenses in other areas, funds available to the District are expected to remain steady or increase slightly during the 2015-16 fiscal year.

Property taxes have historically remained a relatively stable source of revenues, annually increasing near the rate of inflation. The District has fortunately been able to avoid the large property tax valuation declines that many other areas of the state and nation have experienced; however, property tax valuations have decreased over the last few years. The loss of property tax revenue will create continuing budget and fiscal challenges in future years for the District, as property valuations are not expected to recover in the immediate future. Additional property tax revenue from planned commercial development is expected to be offset by reductions in categorical grant funds currently received from the State. The district will need to plan accordingly to be able to effectively operate in a declining revenue environment

The District, along with other Michigan school districts, will be faced with significant budget challenges in the next several years as the State of Michigan continues to struggle to determine an effective method to provide adequate funding to public education. Legislative changes that significantly change the State tax structure continue to be reviewed and considered. How these changes impact Michigan school districts remains to be seen. Districts must continue to provide quality educational services to their students while effectively managing their resources within the ever changing financial landscape in Michigan education.

**Request for Information**

This financial report is designed to provide our stakeholders with a general overview of the district's finances and to show the district's accountability for the funding it receives. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to: Ionia County Intermediate School District, Business Office, 2191 Harwood Road, Ionia, MI 48846.

## BASIC FINANCIAL STATEMENTS

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**Ionia County Intermediate School District**  
**Statement of Net Position**  
**June 30, 2015**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash	\$ 4,290,155
Accounts receivable	7,163
Due from other governmental units	3,181,614
Due from agency fund activities	558
Prepaid items	62,657
Capital assets not being depreciated	89,336
Capital assets - net of accumulated depreciation	<u>3,432,451</u>
Total assets	11,063,934
<b>Deferred Outflows of Resources</b>	
Deferred amount of pension expense related to net pension liability	<u>3,826,184</u>
Total assets and deferred outflows of resources	<u>14,890,118</u>
<b>Liabilities</b>	
Accounts payable	185,484
State aid anticipation note payable	500,000
Due to other governmental units	1,819,900
Payroll deductions and withholdings	192,018
Accrued expenditures	3,348
Accrued salaries payable	881,246
Unearned revenue	841,214
Noncurrent liabilities	
Net pension liability	33,223,028
Debt due within one year	147,960
Debt due in more than one year	<u>798,124</u>
Total liabilities	38,592,322
<b>Deferred Inflows of Resources</b>	
Deferred amount on net pension liability	<u>3,672,819</u>
Total liabilities and deferred inflows of resources	<u>42,265,141</u>

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Statement of Net Position**  
**June 30, 2015**

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	<u>Governmental Activities</u>
<b>Net Position</b>	
Net investment in capital assets	\$ 2,911,667
Restricted for	
Food service	339
Special education	2,697,160
Vocational education	226,616
Unrestricted (deficit)	<u>(33,210,805)</u>
Total net position	<u>\$ (27,375,023)</u>

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Statement of Activities**  
**For the Year Ended June 30, 2015**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Functions/Programs</b>					
Governmental activities					
Instruction	\$ 9,405,577	\$ -	\$ 6,622,222	\$ -	\$ (2,783,355)
Supporting services	14,189,970	-	9,240,343	-	(4,949,627)
Food services	1,052	-	3,983	-	2,931
Community services	288,877	1,282	-	-	(287,595)
Interdistrict payments	1,272,568	-	-	-	(1,272,568)
Interest on long-term debt	23,653	-	-	-	(23,653)
Total governmental activities	<u>\$ 25,181,697</u>	<u>\$ 1,282</u>	<u>\$ 15,866,548</u>	<u>\$ -</u>	<u>(9,313,867)</u>
General revenues					
Property taxes					8,791,559
State aid - unrestricted					462,947
Interest and investment earnings					8,386
Gain on sale of capital assets					200
Total general revenues					<u>9,263,092</u>
Change in net position					(50,775)
Net position - beginning, as restated					<u>(27,324,248)</u>
Net position - ending					<u>\$ (27,375,023)</u>

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2015**

	General Fund	Special Education Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash	\$ 728,549	\$ 3,141,702	\$ 419,904	\$ 4,290,155
Accounts receivable	1,873	4,033	1,257	7,163
Due from other funds	500,786	8,475	286	509,547
Due from other governmental units	543,064	2,518,777	119,773	3,181,614
Due from agency fund activities	58	-	500	558
Prepaid items	22,208	37,518	2,931	62,657
<b>Total assets</b>	<b>\$ 1,796,538</b>	<b>\$ 5,710,505</b>	<b>\$ 544,651</b>	<b>\$ 8,051,694</b>
<b>Liabilities</b>				
Accounts payable	\$ 31,266	\$ 135,227	\$ 18,991	\$ 185,484
State aid anticipation note payable	500,000	-	-	500,000
Due to other funds	186	423,203	86,158	509,547
Due to other governmental units	150,758	1,549,129	120,013	1,819,900
Payroll deductions and withholdings	20,903	157,219	13,896	192,018
Accrued salaries payable	87,256	715,451	78,539	881,246
Unearned revenue	808,098	33,116	-	841,214
<b>Total liabilities</b>	<b>1,598,467</b>	<b>3,013,345</b>	<b>317,597</b>	<b>4,929,409</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue				
Interdistrict services	1,722	23,236	-	24,958
Grants received	88	-	-	88
<b>Total deferred inflows of resources</b>	<b>1,810</b>	<b>23,236</b>	<b>-</b>	<b>25,046</b>

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2015**

	General Fund	Special Education Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Fund Balance</b>				
Non-spendable				
Prepaid items	\$ 22,208	\$ 37,518	\$ 2,931	\$ 62,657
Restricted for				
Food service	-	-	339	339
Debt service	-	-	99	99
Special education	-	2,636,406	-	2,636,406
Vocational education	-	-	223,685	223,685
Assigned				
Fiscal year 15/16 budgeted appropriation	19,433	-	-	19,433
Unassigned	154,620	-	-	154,620
Total fund balance	<u>196,261</u>	<u>2,673,924</u>	<u>227,054</u>	<u>3,097,239</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,796,538</u>	<u>\$ 5,710,505</u>	<u>\$ 544,651</u>	<u>\$ 8,051,694</u>

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**  
**June 30, 2015**

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<b>Total fund balances for governmental funds</b>	<b>\$ 3,097,239</b>
Total net position for governmental activities in the statement of net position is different because	
Certain receivables are not available to pay for current period expenditures and, therefore, are unavailable in the funds.	
Grants	88
Interdistrict services	24,958
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	89,336
Capital assets - net of accumulated depreciation	3,432,451
Deferred outflows (inflows) of resources	
Deferred inflows of resources resulting from net pension liability	(3,672,819)
Deferred outflow of resources from subsequent pension expense from measurement date	3,826,184
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(3,348)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(335,964)
Bonds payable	(505,000)
Other loans payable and liabilities	(105,120)
Net pension liability	<u>(33,223,028)</u>
<b>Net position of governmental activities</b>	<b><u>\$ (27,375,023)</u></b>

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2015**

	General Fund	Special Education Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local sources	\$ 402,138	\$ 8,515,180	\$ 1,279,222	\$ 10,196,540
Non-educational sources	96,515	61,471	-	157,986
State sources	1,849,455	6,108,326	578,772	8,536,553
Federal sources	160,478	3,357,169	72,771	3,590,418
Interdistrict sources	871,217	2,395,252	47,378	3,313,847
<b>Total revenues</b>	<b>3,379,803</b>	<b>20,437,398</b>	<b>1,978,143</b>	<b>25,795,344</b>
<b>Expenditures</b>				
Instruction	887,758	7,369,434	1,165,990	9,423,182
Supporting services	2,563,846	10,850,728	802,615	14,217,189
Food services	-	-	1,040	1,040
Community services	263,674	16,100	-	279,774
Intergovernmental payments	268,410	997,529	6,629	1,272,568
Capital outlay	39,628	79,476	51,256	170,360
Debt service				
Principal	52,960	-	90,000	142,960
Interest and other expenditures	-	-	24,250	24,250
<b>Total expenditures</b>	<b>4,076,276</b>	<b>19,313,267</b>	<b>2,141,780</b>	<b>25,531,323</b>
Excess (deficiency) of revenues over expenditures	(696,473)	1,124,131	(163,637)	264,021

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2015**

	General Fund	Special Education Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Other Financing Sources (Uses)</b>				
Transfers in	\$ 701,484	\$ -	\$ 114,250	\$ 815,734
Transfers out	(57,125)	(479,358)	(279,251)	(815,734)
Total other financing sources (uses)	644,359	(479,358)	(165,001)	-
Net change in fund balance	(52,114)	644,773	(328,638)	264,021
Fund balance - beginning (restated)	248,375	2,029,151	555,692	2,833,218
Fund balance - ending	<u>\$ 196,261</u>	<u>\$ 2,673,924</u>	<u>\$ 227,054</u>	<u>\$ 3,097,239</u>

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2015**

<b>Net change in fund balances - Total governmental funds</b>	\$ 264,021
Total change in net position reported for governmental activities in the statement of activities is different because	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Operating grants	(689,380)
Charges for services	24,958
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 as depreciation expense.	
Depreciation expense	(252,038)
Capital outlay	59,620
Sale of capital assets (net book value)	(2,737)
Expenses are recorded when incurred in the statement of activities.	
Interest	597
Compensated absences	(20,905)
The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions.	
Net change in net pension liability	2,119,177
Net change in the deferred inflow of resources related to the net pension liability	(3,672,819)
Net change between actual pension contributions and the cost of benefits earned net of employee contributions	1,975,771
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are recorded as liabilities and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as a financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.	
Repayments of long-term debt	142,960
<b>Change in net position of governmental activities</b>	<b>\$ (50,775)</b>

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Fiduciary Funds**  
**Statement of Fiduciary Net Position**  
**June 30, 2015**

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	<u>Agency Funds</u>
<b>Assets</b>	
Cash	<u>\$ 11,909</u>
<b>Liabilities</b>	
Accounts payable	\$ 1,209
Due to primary government	558
Due to agency fund activities	<u>10,142</u>
Total liabilities	<u>\$ 11,909</u>

See Accompanying Notes to the Financial Statements

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

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**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Ionia County Intermediate School District (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

**Reporting Entity**

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. The Ionia County Intermediate School District Board of Education (Board) is the primary government which has oversight and coordination responsibility related to public school education in Ionia County. The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in GASB pronouncements since the Board members are elected by the member districts, the governing body has separate legal standing and is fiscally independent of other governmental entities. As such, the Board has decision-making authority, the authority to levy taxes and determine its budget, the power to designate management, the ability to significantly influence operations and financial accountability. The Board does not include any component unit within its general purpose financial statements.

**District-wide Financial Statements**

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

**Fund Financial Statements**

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

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School 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.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Special Education Fund – The Special Education Fund consists of those activities involved in operating the programs necessary to provide for the education of students identified as needing special education services. The Fund's revenue sources include property taxes, federal and state sources, and inter-governmental reimbursements.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Funds include the Food Service Fund, Vocational Education Fund and the Michigan Works Fund. Operating deficits generated by these activities are covered by a transfer from the General Fund.

Debt Service Fund – The debt service fund is used to record the payment of interest, principal, and other expenditures on long-term debt. Revenue consists of transfers made from other funds.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

**Assets, Liabilities and Net Position or Equity**

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

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Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2014, the rates are as follows per \$1,000 of assessed value.

General Fund	0.1319
Special Education Fund	4.3409
Vocational Education Fund	1.0000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries.

Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000 and an estimated useful life in excess of five years. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	10-50 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-15 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

Compensated Absences – The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated sick leave benefits. A liability for these amounts is reported in governmental funds as it come due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District's fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

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Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has granted the Superintendent and finance director the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's

policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

The School District has adopted a minimum fund balance policy. The fund balance policy proscribes the minimum unrestricted fund balance equal to two months of General Fund operating expenditures.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**Eliminations and Reclassifications**

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

**Adoption of New Accounting Standards**

The Governmental Accounting Standards Board ("The GASB") has issued Statement 68, *Accounting and Financial Reporting for Pensions*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability is recorded on the government-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

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contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. Statements 68 and 71 are effective for the year ending June 30, 2015.

**Upcoming Accounting and Reporting Changes**

The Governmental Accounting Standards Board (“The GASB”) has issued Statement No. 72 *Fair Value Measurements and Applications*. Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value. Statement 72 is effective for the year ending June 30, 2016.

Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*. The first objective of this Statement is provide the readers of the financial statements information about the effects of the pension-related transactions on the financial statements of state and local government employers. It will assist in assessing the relationship between a government’s inflows of resources and its total cost (including pension expense) of providing government services each period in addition to providing information about the government’s pension obligation. The second objective of this Statement is to improve the information about financial support provided by certain nonemployer entities for pensions that are provided to the employees of other entities that are not within the scope of Statement No. 68. These requirements are effective for the fiscal year ending June 30, 2017. The third objective is to improve the quality of information associated with governments that hold assets accumulated for purposes of providing defined benefit pensions that are not within the scope of Statement 68 and to clarify the application of certain

provisions of Statement No. 67 and 68. These requirements are effective for the fiscal year ending June 30, 2016.

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact GASB 72 thru 75 will have on its financial reporting.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

**Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund, Special Education Fund, and Vocational Education Fund. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

**Excess of Expenditures over Appropriations**

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

Function	Final Budget	Amount of Expenditures	Budget Variances
<b>General Fund</b>			
Added needs	\$ 56,944	\$ 56,787	\$ (157)
Pupil	282,260	295,600	13,340
General administration	196,985	228,068	31,083
Central	450,033	454,100	4,067
Intergovernmental payments	223,040	268,410	45,370
Capital outlay	22,318	39,628	17,310
Transfers out	57,050	57,125	75
<b>Special Education Fund</b>			
Added needs	7,363,613	7,369,434	5,821
Instructional staff	888,169	907,910	19,741
General administration	133,631	138,693	5,062
Operations and maintenance	324,072	331,276	7,204
Pupil transportation services	39,805	40,968	1,163
Central	552,756	561,251	8,495
Community services	3,162	16,100	12,938
Intergovernmental payments	943,670	997,529	53,859
Capital outlay	69,262	79,476	10,214

**District-Wide Deficits**

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$33,210,805 as of June 30, 2015. There are no governmental funds with a deficit.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

**Note 3 - Deposits**

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 4,290,155	\$ 11,909	\$ 4,302,064

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 4,226,466
Investments in securities, mutual funds, and similar vehicles	75,323
Petty cash and cash on hand	275
Total	\$ 4,302,064

As of year end, the School District had the following investments:

Investment	Fair Value	Maturities	Rating
MILAF + MAX Class	\$ 75,323	6 months	AAAm

Interest rate risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. The School District's policy minimizes interest rate risk by requiring implementation of the following methods as defined by the Government Accountability Standards Board: segmented timed distribution, specific identification, weighted average maturity, duration and simulation model. Furthermore, the School

District's policy restricts investing in only those investments that conform with state and federal law.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of year-end, \$4,488,831 of the School District's bank balance of \$4,775,479 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the School 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 School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law. As of year-end, none of the School District's investments were exposed to custodial credit risk.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

**Note 4 - Capital Assets**

A summary of the changes in governmental capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 89,336	\$ -	\$ -	\$ 89,336
Capital assets being depreciated				
Buildings and additions	4,459,545	13,521	-	4,473,066
Equipment and furniture	928,193	23,950	-	952,143
Buses and other vehicles	229,500	22,149	27,371	224,278
Total capital assets being depreciated	5,617,238	59,620	27,371	5,649,487
Less accumulated depreciation for				
Buildings and additions	1,345,640	97,171	-	1,442,811
Equipment and furniture	494,689	135,654	-	630,343
Buses and other vehicles	149,303	19,213	24,634	143,882
Total accumulated depreciation	1,989,632	252,038	24,634	2,217,036
Net capital assets being depreciated	3,627,606	(192,418)	2,737	3,432,451
Net capital assets	<u>\$ 3,716,942</u>	<u>\$ (192,418)</u>	<u>\$ 2,737</u>	<u>\$ 3,521,787</u>

Depreciation expense was charged to activities of the School District as follows:

<b>Governmental activities</b>	
Instruction	\$ 99,284
Supporting services	149,795
Food services	11
Community services	2,948
Total governmental activities	<u>\$ 252,038</u>

**Note 5 - Interfund Receivable and Payable and Transfers**

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
Special Education Fund	General Fund	\$ 423,103
Nonmajor Governmental Funds	General Fund	77,683
Agency Fund	General Fund	58
Agency Fund	Nonmajor Governmental Funds	500
General Fund	Nonmajor Governmental Funds	186
Nonmajor Governmental Funds	Special Education Fund	8,475
Special Education Fund	Nonmajor Governmental Funds	100
		<u>\$ 510,105</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

Interfund transfers consist of the following:

	Transfers Out			Total
	General Fund	Special Education Fund	Nonmajor Governmental Funds	
<b>Transfers in</b>				
General Fund	\$ -	\$ 422,233	\$ 279,251	\$ 701,484
Nonmajor governmental funds	57,125	57,125	-	114,250
	<u>\$ 57,125</u>	<u>\$ 479,358</u>	<u>\$ 279,251</u>	<u>\$ 815,734</u>

Interfund transfers primarily represent indirect cost reimbursements and funds transferred to cover debt service payments.

**Note 6 - Unearned Revenue**

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Grant and categorical aid payments received prior to meeting all eligibility requirements	<u>\$ 841,214</u>
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**Capital Lease**

The School District has a capital lease for general ledger software. There is no interest and imputed interest would not be material. The future minimum lease payments are as follows:

<b>Year ending June 30,</b>	
2016	\$ 52,960
2017	<u>52,160</u>
Present value of minimum lease payments	<u>\$ 105,120</u>

The assets acquire through capital leases are as follows:

<b>Assets</b>	
Equipment and furniture	\$ 264,800
Less accumulated depreciation	<u>(105,920)</u>
Total	<u>\$ 158,880</u>

**Note 7 - Long-Term Debt**

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 595,000	\$ -	\$ 90,000	\$ 505,000	\$ 95,000
Capital lease	158,080	-	52,960	105,120	52,960
Compensated absences	315,059	20,905	-	335,964	-
<b>Total</b>	<b>\$ 1,068,139</b>	<b>\$ 20,905</b>	<b>\$ 142,960</b>	<b>\$ 946,084</b>	<b>\$ 147,960</b>

For governmental activities, compensated absences are primarily liquidated by the general, special education and vocational education funds.

General obligation bonds payable at year end, consist of the following:

\$975,000 serial bond due in annual installments of \$95,000 to \$105,000 through May 1, 2020, interest at 4% \$ 505,000

Future principal and interest requirements for bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 95,000	\$ 20,200	\$ 115,200
2017	100,000	16,400	116,400
2018	100,000	12,400	112,400
2019	105,000	8,400	113,400
2020	105,000	4,200	109,200
<b>Total</b>	<b>\$ 505,000</b>	<b>\$ 61,600</b>	<b>\$ 566,600</b>

The general obligation bonds are payable from the Debt Service Fund. As of year end, this fund had a balance of \$99 to pay this debt.

Interest expenditures for the fiscal year were \$24,250.

**Compensated Absences**

Vacation days are accumulated at variable rates for administrative employees and other full time employees. The School District's policy allows employees to accumulate vacation days earned and carry the accumulation for an indefinite period of time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense when vacation days are actually taken. The vacation pay liability at year end is \$65,011. The vacation pay liability is reflected in the District-wide financial statements.

Sick time is paid off at a daily rate upon termination if years of service requirements are met. The liability has been calculated and included in the government-wide financial statements using the vesting method. Leave amounts for both employees who currently are 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. The sick leave pay liability at year end is \$270,953.

**Note 8 - Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had \$13,785 of unemployment compensation expense for the year. No provision has been made for possible future claims.

**Ionia County Intermediate School District**  
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**Note 9 - Pension Plans and Post-Employment Benefits**

**Organization**

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

- Two active classroom teachers or other certified school personnel.
- One active member or retiree from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retiree from a classroom teaching position.
- One retiree from a finance or operations management position.
- One administrator or trustee of a community college that is a reporting unit of the System.
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience.
- One elected member of a reporting unit's board of control.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under

section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological, and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

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

MPSERS issues a publicly-available Comprehensive Annual Financial Report. That report may be obtained by writing to ORS at P.O. Box 30171, Lansing, Michigan 48909-7671, or on the Internet at <http://www.michigan.gov/orsschools>.

**Ionia County Intermediate School District**  
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Membership – At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries	
currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	204,512
Inactive plan members entitled to, but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	210,777
Total plan members	432,268

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

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

Member Contributions – Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates as a percent of wages: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

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described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

**Summary of Significant Accounting Policies**

Basis of Accounting and Presentation – The System’s financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Reserves – Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was \$1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$59.5 million.

Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was \$4.7 billion.

Reserve for Employer Contributions - This reserve represents all employer contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was a deficit of (\$25.8) billion.

Reserve for Pension Plus Employer Contributions - This reserve represents all employer contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$55.5 million.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
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Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$44.6 billion.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was \$0.

Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was \$18.6 billion.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was \$3.5 billion.

Reporting Entity – The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection – Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process, except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
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Fair Value of Investments – Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income – Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System – Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Property and Equipment – Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Post-employment Benefit Plan Fiduciary Net Position. Such assets are

depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions – Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

Building rentals	\$ 789,000
Technological support	10,420,000
Attorney general	417,000
Investment services	12,846,000
Personnel services	9,922,000

Cash – At September 30, 2014, the System had \$246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to (\$0.6) thousand for the year ended September 30, 2014.

**Contributions and Funding Status**

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided." Employers 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

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
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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. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the plan's 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0 - 4.0%	18.34 - 19.61%
Member Investment Plan	3.0 - 7.0	18.34 - 19.61
Pension Plus	3.0 - 6.4	18.11
Defined Contribution	0.0	15.44 - 16.61

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The

duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

**Net Pension Liability**

Measurement of the MPERS Net Pension Liability – The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

MPERS (Plan) Net Pension Liability – As of September 30, 2014:

Total Pension Liability	\$ 65,160,887,182
Plan Fiduciary Net Position	<u>43,134,384,072</u>
Net Pension Liability	<u>\$ 22,026,503,110</u>

Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
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Net Pension Liability as a Percentage of Covered-Employee Payroll	250.11%
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Year one MPERS implementation of GASB Statement No. 68 recognizes a 0.00% change in the employers' proportionate share between beginning net pension liability and ending net pension liability.

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**June 30, 2015**

MPSERS (Plan) Net Pension Liability – As of October 1, 2013:

Total Pension Liability	\$ 62,859,499,994
Plan Fiduciary Net Position	<u>39,427,686,072</u>
Net Pension Liability	<u>\$ 23,431,813,922</u>

Proportionate Share of Reporting Unit's Net Pension Liability – At September 30, 2014, the School District reported a liability of \$33,223,028 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 rolled forward from September 30, 2013. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2014, the School District's proportionate share percent was 0.15083 percent, which is unchanged since the prior measurement date.

Long-Term Expected Return on Plan Assets – The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.00%	4.8%
Alternative Investment Pools	18.00%	8.5%
International Equity	16.00%	6.1%
Fixed Income Pools	10.50%	1.5%
Real Estate and Infrastructure Pools	10.00%	5.3%
Absolute Return Pools	15.50%	6.3%
Short Term Investment Pools	2.00%	-0.2%
	<u>100.00%</u>	

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

Rate of Return – For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – As required by GASB Statement No. 68, the following presents the School District’s proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the School District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$ 43,801,670	\$ 33,223,028	\$ 24,310,367

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

Timing of the Valuation – An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan’s fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan’s fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions – Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

*Actuarial Assumptions:*

- Wage inflation rate: 3.5%
- Investment Rate of returns:
  - MIP and Basic Plans (Non-Hybrid): 8.0%
  - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

*Notes:*

- 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 experience study is included in the actuarial valuation described above.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the MPSERS Comprehensive Annual Financial Report.

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

For the year ended June 30, 2015, the School District recognized total pension expense of \$2,691,351. At June 30, 2015, the employer 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
	<u>\$</u>	<u>\$</u>
Changes in assumptions	1,225,859	-
Net difference between projected and actual earnings on pension plan investments	-	3,672,819
Changes in proportion and differences between employer contributions and proportionate share of contributions	740	-
Employer contributions subsequent to the measurement date	2,599,585	-
	<u>\$ 3,826,184</u>	<u>\$ 3,672,819</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Deferred (Inflows) and Deferred Outflows of Resources by Year**

Plan Year Ending September 30	Amount
2015	\$ 2,000,334
2016	(599,251)
2017	(599,251)
2018	(648,467)
	<u>\$ 153,365</u>

**Post-Employment Benefits**

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPSERS).

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

**Ionia County Intermediate School District**  
**Notes to the Financial Statements**  
**June 30, 2015**

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For the periods July 1, 2014 through September 30, 2014, and October 1, 2014 through June 30, 2015, the employer contribution rate ranged from 5.52% to 6.45% and 2.20% to 2.71%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2015, 2014, and 2013 and were approximately \$428,538, \$911,600, and \$1,172,900, respectively.

**Unfunded Accrued Liability**

During the year ending June 30, 2015, the School District had contributions in the amount of \$1,094,004 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 7.63% for the year.

**Note 10 - Contingent Liabilities**

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year ended June 30, 2015.

**Note 11 - Prior Period Adjustments**

The Michigan Works fund previously recorded unearned revenue in connection with a grant. Upon closeout and final review of the grant it was determined that the revenue should have been recognized in a previous period. The impact of this discovery is to increase beginning fund balance in the statement of revenues, expenditures and changes in fund balance as of July 1, 2014, by \$71,553, restating it from \$2,761,665 to \$2,833,218.

As indicated in Note 1, the School District has adopted Government Accounting Standards Board Statements 68 and 71. These statements require the School District to record their proportionate share of the net pension liability and pension expense. Previously these amounts were not recorded on the School District's statements. The standards require this change be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2014, by \$33,491,792. This, along with the restatement of the Michigan Work fund previously described, which increases beginning net position in the statement of activities as of July 1, 2014, by \$71,553, causes net position to be restated from \$6,095,991 to (\$27,324,248).

**Note 12 - Subsequent Event**

Subsequent to June 30, 2015, the School District has paid the balance of \$500,000 and accrued interest on the short-term state aid anticipation note borrowed in August of 2014 and has subsequently borrowed \$600,000 in short-term state aid anticipation notes with annual interest of 1.25%. Proceeds from the borrowing were distributed to the School District in September of 2015.

## REQUIRED SUPPLEMENTARY INFORMATION

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**Ionia County Intermediate School District**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 380,492	\$ 395,810	\$ 402,138	\$ 6,328
Non-educational sources	125,398	83,064	96,515	13,451
State sources	1,807,898	2,058,640	1,849,455	(209,185)
Federal sources	84,599	178,756	160,478	(18,278)
Interdistrict sources	1,020,004	899,484	871,217	(28,267)
Total revenues	3,418,391	3,615,754	3,379,803	(235,951)
<b>Expenditures</b>				
Instruction				
Basic programs	897,394	973,937	830,971	(142,966)
Added needs	65,897	56,944	56,787	(157)
Supporting services				
Pupil	359,719	282,260	295,600	13,340
Instructional staff	619,233	767,306	765,569	(1,737)
General administration	213,176	196,985	228,068	31,083
School administration	28,991	-	-	-
Business	624,623	681,046	666,837	(14,209)
Operations and maintenance	138,563	137,663	97,782	(39,881)
Pupil transportation services	8,000	62,433	55,890	(6,543)
Central	504,722	450,033	454,100	4,067
Food	13,000	-	-	-
Community services	278,914	270,075	263,674	(6,401)
Intergovernmental payments	106,720	223,040	268,410	45,370
Capital outlay	55,730	22,318	39,628	17,310

**Ionia County Intermediate School District**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under) Budget</u>
	<u>Original</u>	<u>Final</u>		
Debt service				
Principal	\$ 52,960	\$ 52,960	\$ 52,960	\$ -
Total expenditures	<u>3,967,642</u>	<u>4,177,000</u>	<u>4,076,276</u>	<u>(100,724)</u>
Deficiency of revenues over expenditures	<u>(549,251)</u>	<u>(561,246)</u>	<u>(696,473)</u>	<u>(135,227)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	493,027	493,026	701,484	208,458
Transfers out	<u>(57,050)</u>	<u>(57,050)</u>	<u>(57,125)</u>	<u>75</u>
Total other financing sources (uses)	<u>435,977</u>	<u>435,976</u>	<u>644,359</u>	<u>208,533</u>
Net change in fund balance	(113,274)	(125,270)	(52,114)	73,306
Fund balance - beginning	<u>248,375</u>	<u>248,375</u>	<u>248,375</u>	<u>-</u>
Fund balance - ending	<u><u>\$ 135,101</u></u>	<u><u>\$ 123,105</u></u>	<u><u>\$ 196,261</u></u>	<u><u>\$ 73,306</u></u>

**Ionia County Intermediate School District**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - Special Education Fund**  
**For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 8,335,866	\$ 8,400,420	\$ 8,515,180	\$ 114,760
Non-educational sources	67,559	45,000	61,471	16,471
State sources	5,160,222	5,994,267	6,108,326	114,059
Federal sources	2,856,507	2,936,972	3,357,169	420,197
Interdistrict sources	2,567,126	2,566,125	2,395,252	(170,873)
Total revenues	18,987,280	19,942,784	20,437,398	494,614
<b>Expenditures</b>				
Instruction				
Added needs	6,858,048	7,363,613	7,369,434	5,821
Supporting services				
Pupil	8,641,741	8,733,111	8,610,478	(122,633)
Instructional staff	899,072	888,169	907,910	19,741
General administration	139,345	133,631	138,693	5,062
School administration	190,488	198,890	197,964	(926)
Business	75,985	63,321	62,188	(1,133)
Operations and maintenance	337,682	324,072	331,276	7,204
Pupil transportation services	34,450	39,805	40,968	1,163
Central	576,886	552,756	561,251	8,495
Community services	15,928	3,162	16,100	12,938
Intergovernmental payments	922,481	943,670	997,529	53,859
Capital outlay	74,057	69,262	79,476	10,214
Total expenditures	18,766,163	19,313,462	19,313,267	(195)
Excess of revenues over expenditures	221,117	629,322	1,124,131	494,809

**Ionia County Intermediate School District**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule - Special Education Fund**  
**For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
<b>Other Financing Uses</b>				
Transfers out	\$ (484,309)	\$ (615,145)	\$ (479,358)	\$ (135,787)
Net change in fund balance	(263,192)	14,177	644,773	359,022
Fund balance - beginning	2,029,151	2,029,151	2,029,151	-
Fund balance - ending	<u>\$ 1,765,959</u>	<u>\$ 2,043,328</u>	<u>\$ 2,673,924</u>	<u>\$ 359,022</u>

**Ionia County Intermediate School District**  
**Required Supplementary Information**  
**Schedule of the School District's Proportionate Share of the Net Pension Liability**  
**Michigan Public School Employees Retirement Plan**  
**Last 10 Fiscal Years (Measurement Date September 30th)**

	June 30,									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A. Reporting unit's proportion of net pension liability (%)	0.15%									
B. Reporting unit's proportionate share of net pension liability	\$ 33,223,028									
C. Reporting unit's covered-employee payroll	\$ 12,549,379									
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered- employee payroll	264.74%									
E. Plan fiduciary net position as a percentage of total pension liability	66.20%									

**Ionia County Intermediate School District  
 Required Supplementary Information  
 Schedule of the School District's Contributions  
 Michigan Public School Employees Retirement Plan  
 Last 10 Fiscal Years**

		For the Years Ended June 30,									
		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
A.	Statutorily required contributions	\$ 3,043,810									
B.	Contributions in relation to statutorily required contributions	<u>3,043,810</u>									
C.	Contribution deficiency (excess)	<u>\$ -</u>									
D.	Reporting unit's covered- employee payroll	12,782,188									
E.	Contributions as a percentage of covered-employee payroll	23.81%									

## OTHER SUPPLEMENTARY INFORMATION

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**Ionia County Intermediate School District**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2015**

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Food Service	Vocational Education	Michigan Works	Debt Service	
<b>Assets</b>					
Cash	\$ -	\$ 419,904	\$ -	\$ -	\$ 419,904
Accounts receivable	-	1,257	-	-	1,257
Due from other funds	-	186	-	100	286
Due from other governmental units	1,088	118,685	-	-	119,773
Due from agency fund activities	-	500	-	-	500
Prepaid items	-	2,931	-	-	2,931
<b>Total assets</b>	<b>\$ 1,088</b>	<b>\$ 543,463</b>	<b>\$ -</b>	<b>\$ 100</b>	<b>\$ 544,651</b>
<b>Liabilities</b>					
Accounts payable	\$ 43	\$ 18,947	\$ -	\$ 1	\$ 18,991
Due to other funds	706	85,452	-	-	86,158
Due to other governmental units	-	120,013	-	-	120,013
Payroll deductions and withholdings	-	13,896	-	-	13,896
Accrued salaries payable	-	78,539	-	-	78,539
<b>Total liabilities</b>	<b>749</b>	<b>316,847</b>	<b>-</b>	<b>1</b>	<b>317,597</b>
<b>Fund Balance</b>					
Non-spendable					
Prepaid items	-	2,931	-	-	2,931
Restricted for					
Food service	339	-	-	-	339
Debt service	-	-	-	99	99
Vocational education	-	223,685	-	-	223,685
<b>Total fund balance</b>	<b>339</b>	<b>226,616</b>	<b>-</b>	<b>99</b>	<b>227,054</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,088</b>	<b>\$ 543,463</b>	<b>\$ -</b>	<b>\$ 100</b>	<b>\$ 544,651</b>

**Ionia County Intermediate School District**  
**Other Supplementary Information**  
**Nonmajor Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended June 30, 2015**

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Food Service	Vocational Education	Michigan Works	Debt Service	
<b>Revenues</b>					
Local sources	\$ 1,426	\$ 1,277,796	\$ -	\$ -	\$ 1,279,222
State sources	-	578,772	-	-	578,772
Federal sources	2,557	70,214	-	-	72,771
Interdistrict sources	-	47,378	-	-	47,378
<b>Total revenues</b>	<b>3,983</b>	<b>1,974,160</b>	<b>-</b>	<b>-</b>	<b>1,978,143</b>
<b>Expenditures</b>					
Instruction	-	1,165,990	-	-	1,165,990
Supporting services	-	802,615	-	-	802,615
Food services	1,040	-	-	-	1,040
Intergovernmental payments	-	6,629	-	-	6,629
Capital outlay	-	51,256	-	-	51,256
Debt service					
Principal	-	-	-	90,000	90,000
Interest and other expenditures	-	-	-	24,250	24,250
<b>Total expenditures</b>	<b>1,040</b>	<b>2,026,490</b>	<b>-</b>	<b>114,250</b>	<b>2,141,780</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>2,943</b>	<b>(52,330)</b>	<b>-</b>	<b>(114,250)</b>	<b>(163,637)</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	-	114,250	114,250
Transfers out	-	(64,181)	(215,070)	-	(279,251)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>(64,181)</b>	<b>(215,070)</b>	<b>114,250</b>	<b>(165,001)</b>
<b>Net change in fund balance</b>	<b>2,943</b>	<b>(116,511)</b>	<b>(215,070)</b>	<b>-</b>	<b>(328,638)</b>
Fund balance - beginning (restated) (deficit)	(2,604)	343,127	215,070	99	555,692
Fund balance - ending	<b>\$ 339</b>	<b>\$ 226,616</b>	<b>\$ -</b>	<b>\$ 99</b>	<b>\$ 227,054</b>

**Ionia County Intermediate School District  
Other Supplementary Information  
Schedule of Outstanding Bonded Indebtedness  
June 30, 2015**

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Year Ending June 30,	2010 Energy Conservation Bond Fund
2016	\$ 95,000
2017	100,000
2018	100,000
2019	105,000
2020	105,000
Total	\$ 505,000
Principal payments due the first day of	
	May 1
Interest payments due the first day of	
	May 1 and November 1
Interest rate	
	4.00%
Original issue	
	\$ 975,000

**Ionia County  
Intermediate School District**

**Single Audit Report**

**June 30, 2015**

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## **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***

### **Independent Auditors' Report**

Management and the Board of Education  
Ionia County Intermediate School District

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 the Ionia County Intermediate School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Ionia County Intermediate School District's basic financial statements, and have issued our report thereon dated October 22, 2015.

#### **Internal Control Over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies, findings 2015 – 001 and 2015 – 002, described in the accompanying schedule of findings and questioned costs to be material weaknesses.

## Compliance and Other Matters

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

## Ionia County Intermediate School District's Response to Findings

Ionia County Intermediate School District's response to the findings identified in our audit is described in the accompanying corrective action plan. Ionia County Intermediate School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Yeo & Yeo, P.C.

Alma, MI  
October 22, 2015



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## **Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

### **Independent Auditors' Report**

Management and the Board of Education  
Ionia County Intermediate School District

#### **Report on Compliance for Each Major Federal Program**

We have audited Ionia County Intermediate School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ionia County Intermediate School District's major federal programs for the year ended June 30, 2015. Ionia County Intermediate School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

#### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Ionia County Intermediate School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ionia County Intermediate School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Ionia County Intermediate School District's compliance.

## ***Opinion on Each Major Federal Program***

In our opinion, Ionia County Intermediate School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## **Report on Internal Control Over Compliance**

Management of Ionia County Intermediate School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ionia County Intermediate School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ionia County Intermediate School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ionia County Intermediate School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Ionia County Intermediate School District's basic financial statements. We issued our report thereon dated October 22, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

*Yeo & Yeo, P.C.*

Alma, MI  
October 22, 2015

**Ionia County Intermediate School District**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2015**

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	Accrued (Unearned) Revenue At 7/1/2014	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue At 6/30/2015
<b>U.S. Department of Agriculture</b>								
<i>Passed Through the Michigan Department of Education:</i>								
Summer Food Service Program for Children	10.559	140900	\$ 1,326	\$ -	\$ -	\$ 1,326	\$ 1,326	\$ -
Summer Food Service Program for Children	10.559	141900	143	-	-	143	143	-
Summer Food Service Program for Children	10.559	150900	982	-	-	-	982	982
Summer Food Service Program for Children	10.559	151900	106	-	-	-	106	106
Total 10.559			-	-	-	1,469	2,557	1,088
<b>Total U.S. Department of Agriculture</b>			-	-	-	<b>1,469</b>	<b>2,557</b>	<b>1,088</b>
<b>U.S. Department of Labor</b>								
<i>Passed Through Central Area Michigan Works! Consortium:</i>								
Employment Services/Wagner-Peyser - 1325	17.207	1325	63,458	4,951	63,411	4,951	-	-
Trade Adjustment Assistance TAAEA	17.245	1386	36,610	1,096	36,610	1,096	-	-
<i>Workforce Investment Act (WIA) Cluster</i>								
WIA Adult - 1335	17.258	1335	172,549	12,757	170,281	12,757	-	-
WIA Dislocated Worker - NEG - 1344	17.277	1344	19,284	1,892	19,284	1,892	-	-
WIA Dislocated Worker - 1345	17.278	1345	108,121	6,854	105,640	6,854	-	-
Total Workforce Investment Act (WIA) Cluster			21,503	295,205	21,503	-	-	-
<b>Total U.S. Department of Labor</b>			<b>27,550</b>	<b>395,226</b>	<b>27,550</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>U.S. Department of Education</b>								
<i>Passed Through the Michigan Department of Education:</i>								
Title I, Part A - Grants to Local Educational Agencies	84.010	151530/1415	59,735	-	-	36,402	54,756	18,354
Title I, Part A - Grants to Local Educational Agencies	84.010	141530/1314	76,041	13,193	66,000	18,586	5,393	-
Total 84.010			13,193	66,000	54,988	60,149	18,354	-
<i>Passed Through Montcalm County Intermediate School District:</i>								
Career and Technical Education 14-15	84.048		70,214	-	-	70,214	70,214	-
<i>Passed Through the Michigan Department of Education:</i>								
<i>Special Education Cluster</i>								
Special Edu - IDEA Part B Enhancing Opport. for Students with Disabilities	84.027	150480/EOSD	50,000	-	-	40,124	50,000	9,876
Special Edu - IDEA Part B Enhancing Opport. for Students with Disabilities	84.027	140480/EOSD	50,000	554	50,000	554	-	-
Special Education - IDEA Part B Transition	84.027	150490/TC	58,000	-	-	45,865	58,000	12,135
Special Education - IDEA Part B Transition	84.027	140490/TC	58,000	110	57,037	110	-	-
Special Education - IDEA Part B Flowthrough	84.027	150450/1415	2,553,780	-	-	1,436,736	2,172,641	735,905
Special Education - IDEA Part B Flowthrough	84.027	140450/1314	2,553,780	481,884	2,354,985	586,804	198,795	93,875

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**Ionia County Intermediate School District**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2015**

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	Accrued (Unearned) Revenue At 7/1/2014	Prior Year Expenditures	Current Year Receipts	Current Year Expenditures	Accrued (Unearned) Revenue At 6/30/2015
<b>U.S. Department of Education (continued)</b>								
Special Education - IDEA Part B Flowthrough	84.027	120450/1112	2,614,001	\$ 1,160	\$ -	\$ 1,160	\$ -	\$ -
Special Education - IDEA Part B Flowthrough	84.027	130450/1213	2,632,657	119,330	404,378	119,330	-	-
Total 84.027				<u>603,038</u>	<u>2,866,400</u>	<u>2,230,683</u>	<u>2,479,436</u>	<u>851,791</u>
Special Education - IDEA, Part B, Section 619 Preschool Funds	84.173	150460/1415	107,727	-	-	82,237	102,573	20,336
Special Education - IDEA, Part B, Section 619 Preschool Funds	84.173	140460/1314	107,984	30,634	107,984	30,634	-	-
Special Education - IDEA, Part B, Section 619 Preschool Funds	84.173	130460/1213	112,149	6,577	9,072	6,577	-	-
Total 84.173				<u>37,211</u>	<u>117,056</u>	<u>119,448</u>	<u>102,573</u>	<u>20,336</u>
Total Special Education Cluster				<u>640,249</u>	<u>2,983,456</u>	<u>2,350,131</u>	<u>2,582,009</u>	<u>872,127</u>
Special Education - Grants For Infants and Families	84.181	151340/1415	107,695	-	-	81,239	106,610	25,371
Special Education - Grants For Infants and Families	84.181	141340/1314	95,219	12,698	85,572	12,698	-	-
Total 84.181				<u>12,698</u>	<u>85,572</u>	<u>93,937</u>	<u>106,610</u>	<u>25,371</u>
<i>Received Directly From U.S. Department of Education:</i>								
Fund for the Improvement of Education - American History 2012	84.215	U215X080145	1,339,297	19,245	25,831	19,245	-	-
Fund for the Improvement of Education - American History 2013	84.215	U215X080145		36,946	52,515	39,349	2,403	-
Total 84.215				<u>56,191</u>	<u>78,346</u>	<u>58,594</u>	<u>2,403</u>	<u>-</u>
<i>Passed Through Calhoun Intermediate School District:</i>								
Title II, Part D - Education Technology State Grants	84.318	094260	8,000	(3,491)	96	-	27	(3,464)
<i>Passed Through the Michigan Department of Education:</i>								
Title II, Part A - Improving Teacher Quality State Grants	84.367	150520/1415	10,307	-	-	7,042	6,058	(984)
Title II, Part A - Improving Teacher Quality State Grants	84.367	140520/1314	9,321	-	-	1,154	1,154	-
Title II, Part A - Improving Teacher Quality State Grants	84.367	130520/1213	16,754	(784)	433	(784)	-	-
Total 84.367				<u>(784)</u>	<u>433</u>	<u>7,412</u>	<u>7,212</u>	<u>(984)</u>
Child Care and Development Block Grant	93.596	153QUA/1415	50,000	-	-	24,864	34,584	9,720
<b>Total U.S. Department of Education</b>				<b><u>718,056</u></b>	<b><u>3,213,903</u></b>	<b><u>2,660,140</u></b>	<b><u>2,863,208</u></b>	<b><u>921,124</u></b>
<b>U.S. Department of Health and Human Services</b>								
<i>Passed Through Michigan Department of Community Health:</i>								
Medical Assistance Program - Administrative Outreach	93.778		92,011	14,683	56,738	49,956	35,273	-
<b>Total U.S. Department of Health and Human Services</b>				<b><u>14,683</u></b>	<b><u>56,738</u></b>	<b><u>49,956</u></b>	<b><u>35,273</u></b>	<b><u>-</u></b>
<b>Total Federal Awards</b>				<b><u>\$ 760,289</u></b>	<b><u>\$ 3,665,867</u></b>	<b><u>\$ 2,739,115</u></b>	<b><u>\$ 2,901,038</u></b>	<b><u>\$ 922,212</u></b>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**Ionia County Intermediate School District**  
**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2015**

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1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.
2. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports that have been submitted as of June 30, 2015.
3. The amounts reported on the Recipient Entitlement Balance Report agree with the Schedule of Expenditures of Federal Awards for U.S.D.A. donated food commodities.
4. The federal amounts reported on the Form "Grant Auditor Report" (GAR) are in agreement with the Schedule of Expenditures of Federal Awards with the exception of the following:

CFDA #	Project #	Cash Received Per SEFA	Add June 2015 Payments on GAR Recorded as Receivable by District	Cash Paid Per June 30, 2015 GAR
84.010	151530 14/15	\$ 36,402	\$ 11,508	\$ 47,910
84.027	150450 14/15	1,436,736	481,492	1,918,228
84.027	150480 EOSD	40,124	9,876	50,000
84.027	150490 TC	45,865	11,048	56,913
84.173	150460 14/15	82,237	20,302	102,539
84.367	151340 14/15	81,239	20,190	101,429
93.596	153QUA/1415	24,864	6,728	31,592

5. The School District did not receive the requested funds until after sixty days past year end. Therefore, amounts were recorded as unavailable revenue at year end. Following is a reconciliation of the Schedule of Expenditures of Federal Awards to the financial statements:

Federal revenue - financial statements	\$ 3,590,418
<u>Unavailable grant funds recorded for the year ended June 30, 2014</u>	
Special Education Cluster	(633,277)
Fund for the Improvement of Education – American History	(56,191)
<u>Unavailable grant funds recorded for the year ended June 30, 2015</u>	
Child Care and Development Block Grant	88
Expenditures per Schedule of Expenditures of Federal Awards	\$ 2,901,038

**Ionia County Intermediate School District**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2015**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?   X   Yes      No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?      Yes   X   None reported

Noncompliance material to financial statements noted?

     Yes   X   No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?      Yes   X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?      Yes   X   None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

     Yes   X   No

Identification of major programs:

CFDA Number(s)  
84.027 and 84.173

Name of Federal Program or Cluster  
Special Education Cluster

**Ionia County Intermediate School District**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2015**

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Dollar threshold used to distinguish  
between type A and type B programs:                   \$300,000

Auditee qualified as low-risk auditee?                   \_\_\_ yes     X  no

**SECTION II - GOVERNMENT AUDITING STANDARDS FINDINGS**

**2015 - 001 and 2014 - 001 Material Audit Adjustments – Material Weakness**

**Criteria:** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (“GAAP”).

**Condition:** During our audit, there were material adjustments that were made to the District’s trial balance only after audit inquiry. These adjustments included corrections to interfund accounts, due from and to other governmental units, and revenue.

**Cause:** Internal controls did not detect certain adjustments necessary to properly record year end balances.

**Effect:** As a result, the following areas were initially misstated:

- Revenue was understated by \$331,868 in the General Fund, and overstated by \$267,687 in the Special Education Fund and \$64,181 in the Vocational Education Fund.
- Due to other units of government was overstated by \$101,583 in the Special Education Fund, and due from other units of governmental was overstated by \$101,583 in the General Fund. The adjustments made by the School District should have been recorded through the interfund or pooled cash accounts.

**Recommendation:** We recommend that management implement additional internal controls to ensure that all required adjusting entries are made to the accounts to reflect accurate balances. Management has reviewed and approved the necessary adjustments, and their effects are included in the District’s financial statements.

**View of Responsible Officials:** Management is in agreement with this finding and has made the appropriate journal entries to correct the conditions for fiscal year 2015. Management has also prepared a corrective action plan included at page 14.

**Ionia County Intermediate School District**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2015**

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**2015 - 002 and 2014 - 002 Prior Period Adjustment – Material Weakness**

**Criteria:** Management is responsible for reporting reliable financial data.

**Condition:** Fund balance in the Michigan Works Fund was restated to account for revenue that should have been recognized in prior periods.

**Cause:** The error was caused by management's misunderstanding of how revenue recognition should have occurred related to a grant.

**Effect:** Fund balance in the Michigan Works Fund was understated in the prior year by \$71,553.

**Recommendation:** We recommend that management evaluate revenue recognition at the time new grants are received to ensure revenue is properly recognized over the life of the grant.

**View of Responsible Officials:** Management is in agreement with the recommendation listed above and has prepared a corrective action plan included at page 14.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no federal award findings for the year ended June 30, 2015.

**Ionia County Intermediate School District**  
**Schedule of Prior Year Findings and Questioned Costs**  
**June 30, 2015**

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**Government Auditing Standards Findings**

There were the following findings for Governmental Auditing Standards for the year ended June 30, 2014:

**2014 - 001 Material Audit Adjustments – Material Weakness**

**Criteria:** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (“GAAP”).

**Condition:** During our audit, there were material adjustments that were made to the District’s trial balance only after audit inquiry. These adjustments included corrections to accounts payable, due to other governmental units, unearned revenue, unavailable revenue and revenue.

**Cause:** Internal controls did not detect certain adjustments necessary to properly record year end balances.

**Effect:** As a result, the following areas were initially misstated:

- Unearned revenue was overstated by \$84,211 in the General Fund and unavailable revenue was understated by \$633,277 in the Special Education Fund.
- Accounts payable was overstated by \$148,552 and due to other governmental units was understated by \$148,552 in the Special Education Fund.

**Recommendation:** We recommend that management implement additional internal controls to ensure that all required adjusting entries are made to the accounts to reflect accurate balances. Management has reviewed and approved the necessary adjustments, and their effects are included in the District’s financial statements.

**Current year status:** See finding 2015-001, situation still exists.

**2014 - 002 Prior Period Adjustment – Material Weakness**

**Criteria:** Management is responsible for reporting reliable financial data.

**Condition:** Fund balance in the General, Special Education, and Vocational Education Funds was restated due to a retirement expense liability not being recorded in the prior year. A liability to pay the MPERS UAAL retirement expense should have been recorded. Net position in the District’s entity-wide financial statements was restated due to errors in prior years’ capital asset reporting.

**Cause:** Errors were caused by management oversight.

**Ionia County Intermediate School District**  
**Schedule of Prior Year Findings and Questioned Costs**  
**June 30, 2015**

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**Effect:** Fund balance in the following funds was overstated in the prior year when the retirement expense liability wasn't recorded: General Fund - \$36,099, Special Education Fund - \$177,879 and Vocational Education Fund - \$16,364. The net position of the District entity-wide financial statements was understated by \$119,849 because too much depreciation expense was recorded in prior years.

**Recommendation:** We recommend that management evaluate the current year end closing procedures and determine appropriate changes to implement to ensure that all liability transactions are recorded in the proper period. We also recommend that the capital asset schedule prepared by the District is reviewed by management and agreed to the annual financial statements.

**Current year status:** See finding 2015-002, prior period adjustment required for current year.

**2014 - 003 Internal Controls for Bank Reconciliations – Significant Deficiency**

**Criteria:** Management is responsible for maintaining effective internal controls to prevent, or detect and correct misstatements on a timely basis.

**Condition:** During our audit we noted that the bank reconciliations for the accounts payable and payroll cash accounts did not indicate that a review by a member of management had taken place. This was also an issue in the prior year.

**Cause:** Management oversight.

**Effect:** This lack of internal control exposes the School District to potential fraud and uncorrected misstatements that would not be detected or corrected in a timely manner.

**Recommendation:** We recommend that management strengthen procedures surrounding cash reconciliation processes to ensure that all reconciliations, once they are reviewed by a member of management, are initialed and dated to indicate that the appropriate review has taken place.

**Current year status:** Situation corrected.

**Federal Award Findings**

There were no federal award findings for the year ended June 30, 2014.

Jason P. Mellema  
Superintendent

Sarah J. Caverley  
Deputy Superintendent

James L. Lóser  
Assistant Superintendent  
Special Education

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### **Material Weakness 2015-001 –Material Audit Adjustments**

**Condition:** During audit, there were material adjustments that were made to the District’s trial balance only after audit inquiry. These adjustments included corrections to interfund accounts, due from and to other government units, and revenue.

**Corrective Action Plan:** Per auditor recommendation, management will implement additional review and internal controls to ensure that all required adjusting entries are made to reflect accurate balances. Sally Caverley, Deputy Superintendent, will be responsible for implementation of the corrective action plan, which will be completed by the June 30, 2016 financial statement audit.

### **Material Weakness 2015-002 – Prior Period Adjustment**

**Condition:** Fund Balance in the Michigan Works Fund was restated to account for revenue that should have been recognized in prior periods.

**Correction Action Plan:** Per auditor recommendation, management will evaluate revenue recognition at the time new grants are received to ensure revenue is properly recognized over the life of the grant. Sally Caverley, Deputy Superintendent, will be responsible for implementation of the corrective action plan, which will be completed during the fiscal year ending June 30, 2016 and beyond as new grants are received.



7810 N. Alger Road  
Alma, MI 48801  
Phone (989) 463-6108  
Fax (989) 463-8560

October 22, 2015

Management and the Board of Education  
Ionia County Intermediate School District  
2191 Harwood Rd  
Ionia, MI 48846

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Ionia County Intermediate School District as of and for the year ended June 30, 2015, and have issued our report dated October 22, 2015. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

*Yeo & Yeo, P.C.*

Alma, Michigan

## Appendix I

### Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 4, 2015. Professional standards also require that we communicate to you the following information related to our audit.

#### 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 the School District are described in Note 1 of the financial statements. The School District has adopted Government Accounting Standards Statement (GASB) No. 68 and 71, *Accounting and Financial Reporting for Pensions- an amendment of GASB Statement No. 27 and Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68, respectively*. GASB No. 68 is effective July 1, 2014 and GASB 71 is effective in conjunction with GASB 68. Statement No. 68 provides guidance to improve accounting and financial reporting by state and local governments for pensions. Statement No. 71 addresses the application of the transition provisions of Statement No, 68. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimates affecting Ionia County Intermediate School District's financial statements were:

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- Net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

We have evaluated management's estimates in these areas and the process used for making the accounting estimates, the risk of material misstatement, and the indication of possible bias and disclosure and uncertainty in the financial statements.

Disclosures in the financial statements are neutral, consistent and clear.

##### *Accounting Standards and Regulatory Updates*

#### **Audit and FID Submission Deadline**

For the current year, June 30, 2015, the deadline to submit the Financial Information Database (FID) and the school district financial audits will be November 1<sup>st</sup>. This will continue to be the deadline for future fiscal years.

**State Aid 2015-16 Foundation Grant (Secs. 22a, 22b, and 22c)** - The Foundation Grant increases using a 2x funding formula with increases ranging from \$70 and \$140 per pupil. Also, the pupil membership blend will be 90% of the fall count plus 10% of the **previous** February count.

## **Sec. 147c- State Share of Unfunded Liability – Michigan Public School Employees Retirement System (MPSERS)**

For 2015-16, the method in which the State will allocate the State Share of the Unfunded Liability will not change. However, the rate will increase to an estimated 10.53% of payroll. The funding was increased to accommodate the unfunded liability statutory cap of 20.96%. The UAAL rate of 10.53% is not the true percent that will be charged to your district. The amount is based on prior year payroll and could either be more or less depending on the current year payroll specific to your district. 147c payments should be a net zero, as the income (the amount received from State Aid), should equal the 147c expenditures, (the amount that must be remitted to ORS).

**Categorical Offset Payments (20f)- Categorical Offset** guarantees a minimum net increase of \$25 per pupil when including Foundation Allowance and At-Risk increases plus the elimination of Best Practices and Districts Performance grants.

**At-Risk (Sec. 31a)- At- Risk funding** will increase by \$70 million for the 2015-16 fiscal year.

**Best Practice and Performance Funding Grants (Sec. 22f and 22j)- Best Practice funding is eliminated for 2015-16 fiscal year.**

**Early Literacy - 3rd Grade Reading (Sec. 35 and 35a)- Early Literacy funding** provides \$26.4 million for early literacy improvement effort for the 2015-16 year.

## **Budget Transparency**

The Michigan Department of Education has revised the Budget Transparency guidance to include changes made to the legislation under PA 85 of 2015. Below is a summary of the legislative changes for 2015-16:

- A district or intermediate school district (ISD) shall adopt an annual budget in a manner that complies with the uniform budgeting and accounting act.
- Three new data elements have been added to Subsection 2c, which means they apply to all schools including ISDs:
  - A written policy governing procurement of supplies, materials, and equipment.
  - A written policy establishing specific categories of reimbursable expenses.
  - An accounts payable check register for the most recent school fiscal year *or* a statement of the total amount of expenses incurred by board members or employees of the district that were reimbursed by the district for the most recent school fiscal year.
- If a district or ISD does not comply with subsection (2), the department may withhold up to 10% of the state school aid otherwise payable to the district or ISD, beginning with the next payment due to the district or ISD until the district or ISD complies. If the district or ISD does not comply with subsection (2) by the end of the fiscal year, the district or ISD forfeits the amount withheld.
- Other elements that continue to be required include:
  - Current year budgets and amendments, which must include detail by function level and beginning and ending fund balances.
  - Health care plans
  - Health benefit bids
  - Employee compensation information, which must include the Superintendent and other individuals whose wages exceed \$100,000

## **Uniform Grant Guidance (Super Circular)**

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. Districts will need to implement the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR will be the source for guidance that school districts will follow.

## Highlights of the Super Circular:

- Raises the single audit threshold from \$500,000 to \$750,000 (federal expenditures during the June 30, 2016 year-end)
- Increases monitoring and risk assessment necessary by federal program offices
- Focuses heavily on internal controls and policies/procedures, which should be in compliance with COSO (Committee of Sponsoring Organizations of the Treadway Commissions)
- Additional monitoring by pass-through agencies of sub-recipients
- New rules for procurement/property management
- Cost principles are more principles based, with intention to reduce administrative burden

Additional information and resources are available at the following websites:

- OMB [http://www.whitehouse.gov/omb/grants\\_docs](http://www.whitehouse.gov/omb/grants_docs)
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>

## **Uniform Budgeting and Accounting Act (UB&AA)**

The UB&AA establishes budget and accounting requirements for schools.

- The UB&AA states that if it becomes obvious during the year that the likely revenues will be less than the budgeted revenues, the business manager (or school officer) will present recommendations to the Board which, if adopted, would prevent expenditures from exceeding available revenues for the fiscal year. It also states that the business manager of the school shall not incur expenditures against an appropriation account in excess of the amount budgeted by the Board.
- Additionally, funds should not be used for purposes that are inconsistent with the budget.
- Over-expending the budget authorized by the Board will result in noncompliance. *MDE is analyzing the general fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level.*
- Material violations of the UB&AA, including general fund deficits and material noncompliance, should be reported as financial statement findings in the audit report.

## *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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

The following material and immaterial misstatements were detected as a result of our audit procedures and corrected by management:

	General Fund	Special Education Fund	Vocational Education Fund	Other Funds
<u>Material Audit Adjustments</u>				
To correct funds credited with service billings	\$ 331,868	\$ (267,687)	\$ (64,181)	\$ -
<u>Other immaterial audit adjustments</u>				
Miscellaneous	(2,830)	(319)	-	-
To correct unearned revenue	13,812	-	-	-
To correct retirement payable for 147C	5,815	53,169	5,704	-
To correct health insurance accrual	(2,294)	(69,910)	(5,135)	-
Change in fund balance from other immaterial audit adjustments	<u>14,503</u>	<u>(17,060)</u>	<u>569</u>	<u>-</u>
Change in fund balance from client requested adjustments	<u>214,056</u>	<u>(60,981)</u>	<u>-</u>	<u>(215,070)</u>
Total change in fund balance from all adjustments	560,427	(345,728)	(63,612)	(215,070)
<b>Change in fund balance at the beginning of the audit</b>	<u>(612,541)</u>	<u>990,501</u>	<u>(52,899)</u>	<u>2,943</u>
<b>Change in fund balance at the end of the audit</b>	<u>\$ (52,114)</u>	<u>\$ 644,773</u>	<u>\$ (116,511)</u>	<u>\$ (212,127)</u>

#### Material Audit Adjustments with No Effect on Change in Fund Balance

The School District recorded a due to other units of government of \$101,583 in the Special Education Fund and a due from other units of government of \$101,583 in the General Fund. These amounts should have been recorded as due to and due from other funds, or they should have been recorded through the pooled cash accounts.

Management has determined that the effects of the uncorrected misstatements below are immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

The General Fund's change in fund balance was overstated by \$12,499, and the Special Education Fund's change in fund balance was overstated by \$17,734 because the school district did not record prepaid insurance related to an invoice for health insurance that was paid in June 2014 for the July 2014 contract period.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

### *Management's Consultations with Other 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 School District'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 School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

The School District adopted a new accounting standard, and our report will include the following emphasis of matter paragraph:

#### **Adoption of New Accounting Standard**

As described in Note 1 to the financial statements, during the year ended June 30, 2014, the School District adopted GASB Statement No. 68 and GASB Statement No. 71, *Accounting and Financial Reporting for Pensions and Pension Transition for Contributions Made Subsequent to the Measurement Date, respectively*. Our opinions are not modified with respect to this matter.

### *Other Reports*

Other information that is required to be reported to you is included in the: 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*; Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

### *Report on Required Supplementary Information*

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's contributions, and budgetary comparison information, we 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 regarding 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.

### *Report on Other Information*

With respect to the other supplementary information accompanying the financial statements, 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 supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

## Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of Ionia County Intermediate School District as of and for the year ended June 30, 2015, we considered Ionia County Intermediate School District's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of several matters for management's consideration that are opportunities for strengthening internal controls, and improving financial reporting. This letter does not affect our report dated October 22, 2015, on the financial statements of Ionia County Intermediate School District. Our comments and recommendations regarding those matters are:

### **Budget Considerations**

The School District approved a budget prior to the start of the fiscal year and amended the budget near the end of the fiscal year. The general ledger software used by the School District is capable of capturing the approved budget numbers so that budget to actual reports can be available. The School District imported the original budget, but did not import the final budget.

#### Recommendation

We recommend that all budget amendments be captured in the general ledger software. Once the information is inputted, a second individual should double check that the amounts are correct. This would allow management and the Board of Education to use budget to actual reports to monitor the finances. Capturing the final budget in the general ledger also allows for better analysis when preparing year end accrual adjustments as it can help identify if an accrual entry is missing or improperly recorded.

Additionally, we recommend that the School District consider making a budget amendment mid-year. This would allow the School District to account for changes that the administration is aware of once school is in session. Amending the budget mid-year can also help identify if financial problems exist and how severe they might be so that the Board of Education and the administration can work together to improve the actual financial condition.

### **Capital Asset Tracking**

The School District uses an Excel spreadsheet to manually track capital assets. The current year spreadsheet contained errors in the formulas which lead to incorrect accumulated depreciation amounts. Capital assets added for the current year had no depreciation expense calculated for them when they should have.

#### Recommendation

We recommend the spreadsheet be reviewed by someone other than the preparer once all current year activity has been recorded. The reviewer should verify that all additions and disposals are properly reflected, and that formulas used throughout the spreadsheet are accurate. The School District may want to consider outsourcing the manual tracking of capital assets. Ensuring that capital asset activity is properly recorded will lead to increased accuracy in financial reporting, and will reduce the time employees must spend following up on errors.

### **Medicaid Billings**

While reviewing Medicaid billings, we noted instances where service dates associated with billings occurred on dates where the provider took vacation or sick days. Medicaid billings should not be able to occur when providers are not working. The provider's logs in question indicate that the billings were simply entered on the wrong dates, but the district has no other means of verifying that claim.

#### Recommendation

We recommend that the process in place for taking, approving, and reviewing days off be evaluated so that precise records are maintained. Similarly, we recommend that the process for billing Medicaid is evaluated to ensure that accuracy of documentation is improved.

### **Compensated Absence Tracking**

The School District has been incorrectly calculating the accrual for compensated absences for certain individuals with over ten years of service. Certain employees were eligible to be paid out at \$40 per day, but the accrual was only using \$35 per day. The issue was corrected by the School District once discovered by audit procedures.

#### Recommendation

We recommend that the contracts and policies related to compensated absences be reviewed when the accrual is being prepared. Furthermore, someone other than the preparer should review the spreadsheet used in preparing the accrual. The reviewer should ensure that all employees eligible are included, proper amounts have been used, and formulas throughout the spreadsheet are accurate. Ensuring that compensated absence activity is properly recorded will lead to increased financial reporting, and will reduce the time employees must spend following up on errors.

### **Management of Special Education Program**

The special education director (“director”) is involved only to a limited degree in the financial management of special education programming (“program”). The director is not required to be part of the budgeting process, and does not monitor expenses actually incurred to those budgeted.

#### Recommendation

We recommend that the administration empower the special education director to be a key person involved in financial management of the program. The director should be involved in creating budget assumptions, approving the budget and any amendments, and be provided with reports to monitor the actual financial activity of the program to budgeted amounts. This type of increased communication between the director and administration will help identify potential issues in a timelier manner, and will likely result in fewer financial surprises once the fiscal year has ended.

### **Special Education Grants Budget**

Overall, the special education cluster grants were within budgeted expenditure amounts; however, some of the expenditures were charged to accounts that did not have an amount available to expend.

#### Recommendation

We recommend that the parameters of the grants’ budgets be considered when the School District adopts its overall budget. Furthermore, the School District budget should agree to the grants’ budgets at a functional and object level. Actual expenditures incurred should be reviewed to ensure they are recorded in the appropriate general ledger account, and that the budget allows for the expenditure.

### **Special Education Grants Proportionate Share**

Annually, the School District is required to prepare a proportionate share calculation to determine whether or not those students in private schools received a proportionate share of services. The School District prepared the calculation which indicated that the requirement had been met; however incorrect information was used. The proper information was obtained, and the calculation was prepared again using accurate information. The new calculation continued to indicate that the requirement was met.

#### Recommendation

We recommend that the employee responsible for preparing the proportionate share calculation receive training on how to make the calculation and what information to use. Furthermore, someone other than the preparer should review and approve the final calculation.