

**Leland Public School**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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# Management's Discussion and Analysis

For the year ended June 30, 2016

The discussion and analysis of the Leland Public School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2016. Please read this analysis in conjunction with the District's financial statements, which immediately follow this section.

## DESCRIPTION OF REPORTING ENTITY AND SERVICES PROVIDED

Leland School District is one of the few remaining one building schools in Michigan. The District is located in Leelanau County. Leland Public School serves students in grades Kindergarten through 12<sup>th</sup> grade. In addition to a full college preparatory curriculum offered on the Leland campus, Leland staff members teach non-core subjects such as fine arts, foreign language, and technology at the nearby parochial school. Students attending the District are afforded individualized attention due to small class sizes. Educators in the District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Leland Public School District offers a core academic curriculum that meets and/or exceeds State guidelines at all levels. The population for the 2015-2016 school year was 518 pupils with the inclusion of part-time parochial students.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include several kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

## Figure A-1

### District Financial Report Organization

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

#### Notes to Basic Financial Statements

Budgetary Information for Funds  
(Required Supplemental Information)

#### Other Supplemental Information

### DISTRICT-WIDE STATEMENTS

The district-wide statements provide comprehensive information about the entire District using the accrual basis of accounting which is similar to the method used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows, and liabilities and the difference between them, which is net position. The statement of activities accounts for all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two district-wide statements report the District's *net position* and how they have changed. Examining net position is one way to measure the District's financial health or *position*. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the District's operating results, or in other terms, whether the District had a profit or a loss at year end. However, the District's mission is not simply to generate profits, as may be the case for a commercial entity.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The District has two kinds of funds:

### ***Governmental funds:***

All of the District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship or differences between governmental activities (reported in the Statement of Net position and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The District's major governmental funds are the general fund, the 2016 capital projects fund and the 2010 refunding and school improvement debt retirement fund.

### ***Fiduciary Funds:***

The District is the Trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations. For example, the Student Activities Account is accounted for as a fiduciary fund.

## The District as a Whole

Recall that the statement of net position provides the perspective of the District as a whole. Table 1 provides a summary of the District's net position as of June 30, 2016:

**TABLE 1**

	Governmental Activities		
	June 30, 2015	June 30, 2016	% Change
Assets			
Current and other assets	\$ 2,254,192	2,669,050	18.40%
Capital assets	8,275,403	8,020,138	-3.08%
Total assets	10,529,595	10,689,188	1.52%
Deferred Outflow of Resources	952,521	1,323,861	38.98%
Total assets and deferred outflows	\$ 11,482,116	12,013,049	4.62%
Liabilities			
Current liabilities	1,469,849	1,429,053	-2.78%
Net pension obligation	7,461,744	8,895,917	0.00%
Long-term liabilities	4,315,707	3,988,336	-7.59%
Total liabilities	13,247,300	14,313,306	8.05%
Deferred inflow of Resources	824,899	29,466	0.00%
Net Assets Invested in			
Property and Equipment – Net of related debt	3,366,734	3,323,045	-1.30%
Restricted for			
Public Improvements	283,938	790,184	178.29%
Debt Service	39,158	39,898	1.89%
Food Service	18,499	16,121	-12.85%
Unrestricted (Deficit)	(6,298,412)	(6,498,971)	3.18%
Total net position	(2,590,083)	(2,329,723)	-10.05%
Total Liabilities, deferred inflows inflows and net position	\$ 11,482,116	12,013,049	4.62%

The above analysis focuses on the net position (see Table 1). The District's net position was (\$2,590,083) at June 30, 2015 and (\$2,329,723) at June 30, 2016. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use net position for day-to-day operations.

The results of this year's operations for the District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2016. Revenue and expense for fiscal year 2015 is also shown for comparison purposes.

**TABLE 2**

	Governmental Activities		
	June 30, 2015	June 30, 2016	% Change
<b>Program Revenues:</b>			
Charges for services	\$ 131,444	131,325	-0.09%
Operating grants and contributions	790,303	842,042	6.55%
General Revenue			
Property taxes			
Levied for general purpose	3,482,863	3,567,032	2.42%
Levied for debt service	1,037,140	986,044	-4.93%
Levied for sinking fund	158,804	162,515	2.34%
State School Aid- unrestricted	413,558	605,283	46.36%
Unrestricted Federal aid	675,554	719,349	6.48%
Grants and contributions- unrestricted	327,156	400,592	22.45%
Other	16,154	20,527	27.07%
Total Revenues	<u>\$ 7,032,976</u>	<u>7,434,709</u>	<u>5.71%</u>
<b>Functions/Program Expenses</b>			
Instruction	\$ 3,522,773	3,809,196	8.13%
Support services	2,252,941	2,380,047	5.64%
Food Service	234,268	238,952	2.00%
Other transactions	27,980	40,979	46.46%
Interest on Long Term Debt	196,664	175,609	-10.71%
Depreciation (unallocated)	576,507	529,566	-8.14%
Total Expenses	<u>6,811,133</u>	<u>7,174,349</u>	<u>5.33%</u>
Increase (decrease) in Net Position	221,843	260,360	17.36%
Net position, beginning of year	<u>(2,811,926)</u>	<u>(2,590,083)</u>	<u>-7.89%</u>
<b>Net position, end of the year</b>	<u>\$ (2,590,083)</u>	<u>\$ (2,329,723)</u>	<u>-10.05%</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$7,174,349. Certain activities were partially funded by those who benefited from the programs, such as food service and athletics, (\$131,325) or by other grants and contributions (\$842,042). We paid for the remaining “public benefit” portion of our governmental activities with \$4,715,591 in taxes, \$605,283 in State Aid, \$719,349 in Federal Aid and with our other revenues including interest and general entitlements.

As discussed above, the net cost shows the financial burden that was placed on the State and the District’s taxpayers by each of these functions. Since property taxes for operations and unrestricted State Aid constitute the vast majority of District annual operating revenue sources, the School Board and Administration must annually evaluate the needs of the District and balance those needs with State allocated available unrestricted resources.

### **The District’s Funds**

As noted earlier, the District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the District’s overall financial health. The District’s budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the District completed this year, the general fund reported a fund balance of \$1,311,141, which is an increase of \$16,428 from the prior year. The primary reason for the increase was the early receipt of additional IB grant money.



## Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The District revised its budget three times during the fiscal year. Under normal circumstances, the District adjusts its budget to reflect a wide variety of Federal and State funding sources, many of which are not finalized until well after the District's original budget is required to be adopted. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations.

A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. Changes to the general fund budget were as follows:

- More IB grant money received than first budgeted
- Addition of revenue & expense for Robotics
- Reductions in teaching staff salary & benefits due to two on FMLA and one teacher leaving
- Savings on diesel fuel and electricity
- Adjustments for changes in state aid and prior year taxes
- Final payments on prior year Impact Aid
- Elections cost lower than estimated

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2016, the District had \$8,020,138 invested in a range of capital assets including buildings, furniture, equipment and vehicles summarized as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets	\$ 14,710,296	\$ 274,301	\$ (870,618)	\$ 14,113,979
Less: Accum. Depreciation	(6,434,893)	(529,566)	870,618	(6,093,841)
Total capital assets, net	\$ 8,275,403	\$(255,265)	\$ -	\$ 8,020,138

### Debt

At June 30, 2016, the District had \$4,905,683 debt owing.

## **Economic Factors and Next Year's Budgets and Rates**

At the time these financial statements were prepared and audited, the District was aware of a number of circumstances that could significantly affect the financial health of Leland Public School District.

- The Michigan School Employees Retirement System rate has stabilized at about 33.5%. The State of Michigan provides assistance for some portion of the payments. However, the actual cost to school systems is still approximately 26% on the total of all salaries and wages.
- The Affordable Care Act requires Leland Public School to insure part time workers adding thousands of dollars to the budget without additional revenue to support the expense.
- The student foundation grant allowance paid per pupil in 2015-2016 is approximately the same per pupil amount paid in 2006-2007. Therefore, schools are attempting to maintain educational programs by paying 2015-2016 expenses with 2006-2007 level revenues.

### **Contacting the School District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Sandy Thomas, Business Manager, at Leland Public School District, P.O. Box 498, Leland, MI 49654, Telephone (231) 256-9857, Fax (231) 256-9844.



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Leland Public School

### **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 *Leland Public School* (the "School District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

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

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the School District's internal control over financial reporting and compliance.

*Dennis, Gartland & Niergarth*

October 17, 2016

# Leland Public School

## STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 2,367,100
Prepays	17,624
Inventory	3,884
Due from other governments	<u>280,442</u>
Total current assets	2,669,050
Capital assets, net of accumulated depreciation	<u>8,020,138</u>
Total assets	10,689,188
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred loss on refunding	109,086
Pension obligation	<u>1,214,775</u>
Total assets and deferred outflows of resources	<u><u>\$ 12,013,049</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued expenses	\$ 511,706
Current portion of long-term liabilities	<u>917,347</u>
Total current liabilities	1,429,053
Non-current portion of long-term obligations	3,988,336
Net pension obligation	<u>8,895,917</u>
Total liabilities	<u>14,313,306</u>
<b>DEFERRED INFLOWS OF RESOURCES - pension obligation</b>	<u>29,466</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	3,323,045
Restricted for	
Capital projects	790,184
Debt Service	39,898
Food Service	16,121
Unrestricted (deficit)	<u>(6,498,971)</u>
Total net position	<u>(2,329,723)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 12,013,049</u></u>

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

# Leland Public School

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 3,809,196	\$ -	\$ 740,228	\$ (3,068,968)
Supporting Services	2,380,047	19,583	-	(2,360,464)
Food Service	238,952	111,742	101,814	(25,396)
Other	40,979	-	-	(40,979)
Interest on long-term debt	175,609	-	-	(175,609)
Depreciation-unallocated	529,566	-	-	(529,566)
Total governmental activities	\$ 7,174,349	\$ 131,325	\$ 842,042	(6,200,982)
General purpose revenues				
Property taxes				
Levied for general purposes				3,567,032
Levied for Debt Service				986,044
Levied for Sinking Fund				162,515
State school aid - unrestricted				605,283
Unrestricted Federal aid				719,349
Grants and contributions not restricted to specific program				400,592
Investment and other				20,527
Total general purpose revenues				6,461,342
Change in net position				260,360
Net position, beginning of year				(2,590,083)
Net position, end of year				\$ (2,329,723)

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

# Leland Public School

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2016 Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,430,149	\$ 37,688	\$ 598,440	\$ 300,823	\$ 2,367,100
Due from other governments	280,442	-	-	-	280,442
Prepays	17,624	-	-	-	17,624
Due from other funds	186,601	-	-	117,839	304,440
Inventory	1,340	-	-	2,544	3,884
 Total assets	<u>\$ 1,916,156</u>	<u>\$ 37,688</u>	<u>\$ 598,440</u>	<u>\$ 421,206</u>	<u>\$ 2,973,490</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable and accrued expenditures	\$ 487,176	\$ -	\$ -	\$ -	\$ 487,176
Due to other funds	117,839	1,475	-	185,126	304,440
 Total liabilities	<u>605,015</u>	<u>1,475</u>	<u>-</u>	<u>185,126</u>	<u>791,616</u>
<b>FUND BALANCES</b>					
Nonspendable	18,964	-	-	2,544	21,508
Restricted					
Food Service	-	-	-	13,577	13,577
Debt retirement	-	36,213	-	28,215	64,428
Capital projects	-	-	598,440	191,744	790,184
Committed					
Subsequent year expenditures	271,778	-	-	-	271,778
Assigned					
Future technology purchases	63,000	-	-	-	63,000
Employee leave liability	77,974	-	-	-	77,974
Early retirement incentive	21,530	-	-	-	21,530
Unassigned	857,895	-	-	-	857,895
 Total fund balances	<u>1,311,141</u>	<u>36,213</u>	<u>598,440</u>	<u>236,080</u>	<u>2,181,874</u>
 Total liabilities and fund balances	<u>\$ 1,916,156</u>	<u>\$ 37,688</u>	<u>\$ 598,440</u>	<u>\$ 421,206</u>	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$14,113,979 and the accumulated depreciation is \$(6,093,841).

8,020,138

Deferred outflows of resources net of deferred inflows of resources for pension obligations is not a financial resource and, therefore, is not reported in governmental funds.

1,185,309

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

	Bonds payable	\$ 4,735,000	
	Accrued interest on bonds	24,530	
	Unamortized bond refunding loss	(109,086)	
	Unamortized bond premium	71,179	
	Early retirement payable	21,530	
	Accumulated leave liability	77,974	
	Net pension obligation	8,895,917	(13,717,044)

Total net position - governmental activities

\$ (2,329,723)

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



## Leland Public School

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

Year Ended June 30, 2016

	General Fund	2010 Refunding and School Improvement Debt Retirement Fund	2016 Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues					
Property taxes	\$ 3,567,032	\$ 898,894	\$ -	\$ 249,665	\$ 4,715,591
Interest	15,591	3,768	16	1,152	20,527
State revenues	1,233,866	-	-	10,642	1,244,508
Federal revenues	830,994	-	-	91,172	922,166
Other	420,175	-	-	111,742	531,917
Total revenues	6,067,658	902,662	16	464,373	7,434,709
Expenditures					
Current					
Instruction	3,676,486	-	-	-	3,676,486
Supporting Services	2,314,834	-	-	-	2,314,834
Food Service	-	-	-	238,952	238,952
Other	36,910	1,927	-	566	39,403
Debt Service					
Principal	-	750,000	-	70,000	820,000
Interest	-	159,038	-	12,148	171,186
Capital outlay	-	-	-	255,237	255,237
Total expenditures	6,028,230	910,965	-	576,903	7,516,098
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>39,428</b>	<b>(8,303)</b>	<b>16</b>	<b>(112,530)</b>	<b>(81,389)</b>
Other financing sources (uses)					
Operating transfers in	-	-	-	23,000	23,000
Operating transfers out	(23,000)	-	-	-	(23,000)
Proceeds from bond issue	-	-	598,424	-	598,424
Total other financing sources (uses)	(23,000)	-	598,424	23,000	598,424
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>16,428</b>	<b>(8,303)</b>	<b>598,440</b>	<b>(89,530)</b>	<b>517,035</b>
Fund balance, beginning of year	1,294,713	44,516	-	325,610	1,664,839
Fund balance, end of year	\$ 1,311,141	\$ 36,213	\$ 598,440	\$ 236,080	\$ 2,181,874

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

## Leland Public School

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

Year Ended June 30, 2016

**Total Net Change in Fund Balances - Governmental Funds** \$ 517,035

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

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

	Capital outlays	\$ 274,301	
	Depreciation expense	<u>(529,566)</u>	(255,265)

Change in deferred outflows of resources for pension obligation, net of the change in deferred inflows of resources for pension obligations.	1,191,014
--	-----------

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was more than the amounts earned by \$4,642. Early retirement incentives paid were \$21,530.	26,172
--	--------

Repayment of bond and loan principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.	820,000
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Proceeds from the bond issue are a financing source in the governmental funds, but are recorded as a liability in the statement of net position.	(600,000)
--	-----------

Net amortization of bond refunding loss and bond premium	(8,424)
--	---------

Increase in net pension obligation	(1,434,173)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.	<u>4,001</u>
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<b>Changes in Net Position of Governmental Activities</b>	<u><u>\$ 260,360</u></u>
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# Leland Public School

## STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 26,580	\$ 129,856	\$ 156,436
Investments	<u>26,771</u>	<u>-</u>	<u>26,771</u>
Total assets	<u>\$ 53,351</u>	<u>\$ 129,856</u>	<u>\$ 183,207</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES</b>			
Due to student groups	\$ -	\$ 129,856	\$ 129,856
<b>NET POSITION</b>			
Held in trust for scholarships	<u>53,351</u>	<u>-</u>	<u>53,351</u>
Total liabilities and net position	<u>\$ 53,351</u>	<u>\$ 129,856</u>	<u>\$ 183,207</u>

# Leland Public School

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2016

	<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>	
Contributions	\$ 27,800
Interest	<u>1,576</u>
Total additions	29,376
<b>DEDUCTIONS</b>	
Scholarships awarded	<u>54,355</u>
<b>Change in net position</b>	(24,979)
Net position, beginning of year	<u>78,330</u>
Net position, end of year	<u><u>\$ 53,351</u></u>

# Leland Public School

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Introduction*

Leland Public School (the "School District") is a Michigan public school district consisting of one K-12 building. The School District also provides staff for St. Mary's School of Lake Leelanau. The School District primarily serves the Leland community. As of June 30, 2016, the School District employs 39 professional staff and 39 non-professional staff, and has 518 students enrolled within its School District.

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

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2016.

#### *Financial Reporting Entity*

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

### *Fund Financial Statements*

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

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

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

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

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

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

## NOTES TO FINANCIAL STATEMENTS - Continued

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

#### *Activities in Major Funds*

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

The 2010 Refunding and School Improvement Debt Retirement Fund is used to account for the accumulation of resources (property taxes) for, and the payment of, bond principal, interest and related costs.

The 2016 Capital Project Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment.

#### *Other Governmental Funds*

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of this fund.

The 2008-2009 Bond Retirement Fund is used to account for the accumulation of resources for, and the payment of bond principal, interest and related costs.

The Infrastructure Fund is a capital project fund and is used to account for a sinking fund tax levy to be used for construction or repair of various School District properties.

The 2014 Capital Projects Fund is used to account for financial resources (bond proceeds) to be used for the acquisition of equipment.

The Public Improvement Fund is a capital project fund and is used to account for financial resources to be used for the acquisition or construction of capital assets.

#### *Fiduciary Funds*

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

#### ***Cash and Equivalents***

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

## NOTES TO FINANCIAL STATEMENTS - Continued

### ***Inventories***

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

### ***Capital Assets***

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	50 years
Improvements, other than buildings	5 years
Buses and vehicles	7 years
Furniture and equipment	3-20 years

### ***Long-Term Debt and Bond Discounts/Premiums***

In the district-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums are amortized over the terms of the respective bonds using a method that approximates the interest method. Bond issuance costs are expensed as incurred.

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

### ***Deferred Inflows and Outflows***

In addition to assets and liabilities, the statement of financial position includes elements for deferred outflows of resources and deferred inflows of resources. The separate financial statement elements, deferred outflows and inflows of resources, represent a consumption/addition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or inflows of resources (revenue) until then. The School District items that qualify for reporting in this category are the deferred loss on debt refunding reported in the government-wide statement of net position and items related to the pension obligation. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note I for details of deferred outflows and inflows related to the pension obligation.



***Fund Balance***

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

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

***Allocation of Expenses***

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

The School District has elected to not allocate indirect expenses.

***Pension Plan***

For purposes of measuring the net position, liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement System ("MPERS") and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

***Program Revenues***

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

The School District's most significant program revenues are Title I, Title VIII, At-Risk and School Lunch Program, which are reported as operating grants and contributions.

**NOTE B - BUDGETARY POLICY AND PRACTICE**

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

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2016, the School District was not in compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Supporting services	\$ 2,187,868	\$ 2,351,744	\$ 163,876

**NOTE C - CASH AND INVESTMENTS**

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

Bank deposits and cash on hand	\$ 508,446
Certificates of Deposit	26,771
Investment pools ("MILAF")	<u>2,015,090</u>
	<u>\$ 2,550,307</u>

***Custodial Credit Risk - Deposits***

As of June 30, 2016, \$458,297 of the School District's bank deposits were insured. The remaining balance of \$81,473 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS - Continued

*Interest Rate Risk*

In accordance with the School District's investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in short-term securities, liquid asset funds, money market funds, or similar investment pools, and limiting the average maturity in accordance with the School District's cash requirements. MILAF investments are carried at amortized cost and are not subject to any withdrawal restrictions.

The School District's investments have the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Current	1-5	6-10	More than 10
Certificates of Deposit	\$ 26,771	\$ 26,771	\$ -	\$ -	\$ -
Investment pools	<u>2,015,090</u>	<u>2,015,090</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,041,861</u>	<u>\$ 2,041,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Investments*

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

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.
7. Securities issued or guaranteed by agencies of the United States government.
8. Michigan Investment Liquid Asset Fund Plus ("MILAF")

*Credit Risk*

The School District's investment in the MILAF investment pool was rated AAAM by Standard and Poor's.

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

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

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

During the fiscal year, \$10.901 per \$1,000 of equalized non-principle residence property value of \$322 million was levied for general operating purposes. For debt service purposes, \$1.810 per \$1,000 of equalized homestead and non-homestead property value of \$546 million was levied for bonded debt repayments by the Debt Service Fund. For sinking fund purposes, \$0.298 per \$1,000 of equalized homestead and non-homestead property value of \$546 million was levied.

***Intergovernmental Receivables and Unearned Revenue***

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and deferred inflows if revenue is received more than 60 days following year-end (unavailable to pay liabilities of the current period). Revenue received after 60 days is fully recognized as revenue in the district-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2016 are as follows:

Due from the State of Michigan - State Aid	\$ 204,715
Due from Federal Grants	68,600
Other	<u>7,127</u>
	<u>\$ 280,442</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE E - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	June 30, 2015	Additions	Disposals	June 30, 2016
Buildings and improvements	\$11,040,114	\$ 187,571	\$ (95,000)	\$11,132,685
Furniture and equipment	3,106,698	86,730	(775,618)	2,417,810
Buses and vehicles	<u>563,484</u>	<u>-</u>	<u>-</u>	<u>563,484</u>
Total depreciable assets	14,710,296	274,301	(870,618)	14,113,979
Less accumulated depreciation	<u>(6,434,893)</u>	<u>(529,566)</u>	<u>870,618</u>	<u>(6,093,841)</u>
Total capital assets, net	<u>\$ 8,275,403</u>	<u>\$ (255,265)</u>	<u>\$ -</u>	<u>\$ 8,020,138</u>

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

Unallocated	<u>\$ 529,566</u>
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**NOTE F - LONG-TERM LIABILITIES**

Changes in long-term liabilities during the year ended June 30, 2016 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
2010 Refunded general obligation and school improvement bonds	\$ 4,390,000	\$ -	\$ (750,000)	\$ 3,640,000	\$ 770,000
Unamortized bond premium	86,996	-	(15,817)	71,179	15,817
2014 Technology and Bus Bonds	565,000	-	(70,000)	495,000	85,000
2016 Technology and Bus Bonds	-	600,000	-	600,000	25,000
Accumulated leave liability	82,616	-	(4,642)	77,974	-
Early retirement incentives	<u>43,060</u>	<u>-</u>	<u>(21,530)</u>	<u>21,530</u>	<u>21,530</u>
Long-term liabilities	<u>\$ 5,167,672</u>	<u>\$ 600,000</u>	<u>\$ (861,989)</u>	<u>\$ 4,905,683</u>	<u>\$ 917,347</u>

Payments on general obligation and technology and bus bonds are made by Debt Service Funds. The accumulated leave liability and early retirement payable will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

At June 30, 2016, the School District's long-term debt consisted of the following:

\$6,845,000; 2010 Refunding and School Improvement Bonds; remaining installments due annually of \$680,000 to \$770,000 through May 1, 2021; remaining interest rates of 2.25% to 4.25%.	\$ 3,640,000
\$600,000; 2014 School Technology and Bus Bonds; remaining installments due annually of \$85,000 to \$205,000 through May 1, 2019; interest rate of 2.15%.	495,000
\$600,000; 2016 School Technology and Bus Bonds; remaining installments due annually of \$25,000 to \$245,000 through May 1, 2021; interest rate of 2.00% to 2.40%.	<u>600,000</u>
Total bonds payable	4,735,000
Unamortized bond premium	71,179
Accumulated leave liability	77,974
Early retirement payable	<u>21,530</u>
Total long-term liabilities	<u><u>\$ 4,905,683</u></u>

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

Years Ending June 30,	Principal	Interest
2017	\$ 880,000	\$ 157,247
2018	925,000	131,827
2019	955,000	102,820
2020	980,000	71,074
2021	<u>995,000</u>	<u>36,776</u>
	<u><u>\$ 4,735,000</u></u>	<u><u>\$ 499,744</u></u>

Interest expense for the year ended June 30, 2016 was \$175,609, and interest paid for the year ended June 30, 2016 was \$171,186.

***Accumulated Leave Liability***

As of June 30, 2016, a potential liability for sick pay of up to \$861,115 had accumulated to employees; this amount is not vested. However, as an employee becomes eligible for retirement, 10.0% of their sick pay balance plus FICA will be paid to them upon retirement if they have 10 years of service with the School District. The School District has used the retirement value method to estimate the probable amount to be paid of \$77,974.

***Early Retirement Incentives***

During the fiscal year ended June 30, 1998, the School District adopted an early retirement program. The net present value of early retirement incentives due to participants at June 30, 2016 is \$21,530.

***Prior Year Defeasance of Debt***

On December 16, 2010, the School District issued \$6,845,000 in 2010 Refunding and School Improvement Bonds with interest rates ranging from 2.25% to 4.25%, to advance refund \$6,155,000 of outstanding 2001 Building and Site and Refunding Bonds with an interest rate varying between 4.25% and 4.875%. The net proceeds of \$6,219,760 plus \$78,500 from Debt Service Funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the redemption of the \$6,155,000 outstanding 2001 Building and Site Refunding Bonds. The outstanding principal of the defeased bonds was \$3,445,000 at June 30, 2016.

**NOTE G - RISK MANAGEMENT**

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

The School District pays unemployment claims on a reimbursement basis. No significant claims are known to exist.

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

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

**NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

***Receivables and Payables***

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

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ 186,601	\$ 117,839
2010 Debt Retirement Fund	-	1,475
Other Governmental Funds		
Food Service Fund	117,839	124,799
2008-2009 Debt Retirement Fund	-	320
Infrastructure Fund	-	25,219
2014 Capital Projects Fund	-	34,788
	<u>\$ 304,440</u>	<u>\$ 304,440</u>

***Transfers and Payments***

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining Debt Service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

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

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
Major Governmental Funds		
General Fund	\$ -	\$ 23,000
Other Governmental Funds		
Food Service Fund	<u>23,000</u>	<u>-</u>
	<u>\$ 23,000</u>	<u>\$ 23,000</u>



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

***Plan Description***

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

***Benefits Provided***

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit ("DB") pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

***Pension Reform 2010***

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

***Pension Reform 2012***

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

NOTES TO FINANCIAL STATEMENTS - Continued

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

*Regular Retirement*

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

There is no mandatory retirement age.

***Funding Policy***

*Defined Contribution Plan*

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

***Contributions and Funded Status***

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2015 will be amortized over a 21 year period for the 2015 fiscal year.

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Required contributions to the pension plan from the School District were \$702,615 for the year ended September 30, 2015.

The School District's contributions to the MPSERS Defined Contribution Plan were \$8,538, for the year ended June 30, 2016, which is equal to the pension expense recognized by the School District for the year.

*Post-Employment Benefits*

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

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

At June 30, 2016, the School District reported a liability of \$8,895,917 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2015, the School District's proportion was .03642%, which was an increase of 0.00254% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$884,484. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 29,466
Changes of assumptions	219,036	-
Net difference between projected and actual earnings on pension plan investments	45,406	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	492,596	-
School District contributions subsequent to the measurement date	<u>457,737</u>	<u>-</u>
Total	<u>\$ 1,214,775</u>	<u>\$ 29,466</u>

NOTES TO FINANCIAL STATEMENTS - Continued

From the above table, \$457,737 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

Year Ended September 30,	Amount
2016	\$ 157,531
2017	157,531
2018	145,655
2019	266,855

***Actuarial Assumptions***

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

Additional information as of the latest actual valuation follows:

*Summary of Actuarial Assumptions*

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158 for non-university employers.
- Recognition period for assets is 5 years.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

***Long-Term Expected Rate of Return on Investments***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

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

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

***Discount Rate***

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

***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

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

1% Decrease (Non-Hybrid/Hybrid) (7.0% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (8.0% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (9.0% / 8.0%)
\$ 11,469,118	\$ 8,895,917	\$ 6,726,604

***Michigan Public School Employees' Retirement System ("MPERS") Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR"). The 2015 MPERS CAFR is available at: [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr).

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

The School District reported \$68,011 payable to the plan at June 30, 2016 for legally required defined benefit and defined contribution plan contributions.

NOTES TO FINANCIAL STATEMENTS - Continued

**Required Supplemental Information - 10-Year Trend Information**

Schedule of School District's Proportionate Share of Net Pension Liability		
	9/30/2015	9/30/2014
School District's proportion of collective net pension liability	0.03642 %	0.03388 %
School District's proportionate share of net pension liability	\$ 8,895,917	\$ 7,461,744
School District's covered-employee payroll	2,959,363	2,831,673
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	300.6024 %	263.5101 %
Plan fiduciary net position as a percentage of total pension liability	63.17 %	66.20 %

Schedule of School District's Contributions		
	6/30/2016	6/30/2015
Statutorily required employer contributions	\$ 702,615	\$ 652,742
School District contributions made to the Plan	<u>702,615</u>	<u>652,742</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 3,027,169	\$ 2,951,608
Contributions as a percentage of covered-employee payroll	23.21 %	22.11 %

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

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

**NOTE J - COMMITMENTS AND CONTINGENCIES**

***Capital Projects***

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

The 2014 Capital Projects Fund accounts for activity related to acquiring and installing educational technology and other equipment. The projects are funded with two bond issues after May 1, 1994. For these projects, the School District has complied with the applicable provisions of Section 1351a of the Revised School Code.

## NOTES TO FINANCIAL STATEMENTS - Continued

The projects for which the 2014 and 2016 School Technology and Bus Bonds were issued have not been completed as of June 30, 2016. The remaining fund balance in the 2014 and 2016 Capital Projects Fund as of June 30, 2016, was \$20,192 and \$598,440, respectively.

### ***Federal and State Grants***

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

### ***Collectively Bargained Employment Agreements***

The teachers of the School District are organized under the Leland Public School Education Association. The Board of Education and the Leland Public School Education Association have a contract through August 14, 2017.



**REQUIRED SUPPLEMENTARY INFORMATION**

## Leland Public School

### BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variances - Positive (Negative)</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues					
Local and intermediate sources	\$ 3,535,253	\$ 3,556,477	\$ 3,582,623	\$ 21,224	\$ 26,146
State revenues	1,044,603	1,366,689	1,233,866	322,086	(132,823)
Federal revenues	763,813	822,424	830,994	58,611	8,570
Other	<u>118,770</u>	<u>162,000</u>	<u>420,175</u>	<u>43,230</u>	<u>258,175</u>
Total revenues	<u>5,462,439</u>	<u>5,907,590</u>	<u>6,067,658</u>	<u>445,151</u>	<u>160,068</u>
Expenditures					
Instruction	3,526,477	3,831,864	3,676,486	(305,387)	155,378
Supporting Services	<u>2,338,279</u>	<u>2,187,868</u>	<u>2,351,744</u>	<u>150,411</u>	<u>(163,876)</u>
Total expenditures	<u>5,864,756</u>	<u>6,019,732</u>	<u>6,028,230</u>	<u>(154,976)</u>	<u>(8,498)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(402,317)	(112,142)	39,428	290,175	151,570
Other financing uses					
Operating transfers out	<u>(23,000)</u>	<u>(23,000)</u>	<u>(23,000)</u>	<u>-</u>	<u>-</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(425,317)	(135,142)	16,428	290,175	151,570
Fund balance, beginning of year	<u>1,154,777</u>	<u>1,294,713</u>	<u>1,294,713</u>	<u>139,936</u>	<u>-</u>
Fund balance, end of year	<u>\$ 729,460</u>	<u>\$ 1,159,571</u>	<u>\$ 1,311,141</u>	<u>\$ 430,111</u>	<u>\$ 151,570</u>

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

## Leland Public School

### COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2016

	Special Revenue Fund	Debt Service Fund	Capital Project Funds				Total Non-Major Governmental
	Food Service	2008-2009 Debt Retirement	Infrastructure Fund	2014 Capital Projects Fund	Public Improvement	Total	
		Total	Total	Total	Total	Total	
<b>ASSETS</b>							
Cash and cash equivalents	\$ 20,537	\$ 28,535	\$ 196,726	\$ 54,980	\$ 45	\$ 251,751	\$ 300,823
Due from other funds	117,839	-	-	-	-	-	117,839
Inventory	2,544	-	-	-	-	-	2,544
<b>Total assets</b>	<b><u>\$ 140,920</u></b>	<b><u>\$ 28,535</u></b>	<b><u>\$ 196,726</u></b>	<b><u>\$ 54,980</u></b>	<b><u>\$ 45</u></b>	<b><u>\$ 251,751</u></b>	<b><u>\$ 421,206</u></b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Due to other funds	<u>\$ 124,799</u>	<u>\$ 320</u>	<u>\$ 25,219</u>	<u>\$ 34,788</u>	<u>\$ -</u>	<u>\$ 60,007</u>	<u>\$ 185,126</u>
<b>Total liabilities</b>	<b><u>124,799</u></b>	<b><u>320</u></b>	<b><u>25,219</u></b>	<b><u>34,788</u></b>	<b><u>-</u></b>	<b><u>60,007</u></b>	<b><u>185,126</u></b>
<b>FUND BALANCES</b>							
Nonspendable	2,544	-	-	-	-	-	2,544
Restricted							
Food Service	13,577	-	-	-	-	-	13,577
Debt retirement	-	28,215	-	-	-	-	28,215
Capital projects	-	-	171,507	20,192	45	191,744	191,744
<b>Total fund balances</b>	<b><u>16,121</u></b>	<b><u>28,215</u></b>	<b><u>171,507</u></b>	<b><u>20,192</u></b>	<b><u>45</u></b>	<b><u>191,744</u></b>	<b><u>236,080</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 140,920</u></b>	<b><u>\$ 28,535</u></b>	<b><u>\$ 196,726</u></b>	<b><u>\$ 54,980</u></b>	<b><u>\$ 45</u></b>	<b><u>\$ 251,751</u></b>	<b><u>\$ 421,206</u></b>

## Leland Public School

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

Year Ended June 30, 2016

	Special Revenue Fund	Debt Service Fund	Capital Project Funds			Total	Total Non-Major Governmental
	Food Service	2008-2009 Debt Retirement	Infrastructure Fund	2014 Capital Projects Fund	Public Improvement		
Revenues							
Property taxes	\$ -	\$ 87,150	\$ 162,515	\$ -	\$ -	\$ 162,515	\$ 249,665
Interest	18	400	570	164	-	734	1,152
State revenues	10,642	-	-	-	-	-	10,642
Federal revenues	91,172	-	-	-	-	-	91,172
Other	111,742	-	-	-	-	-	111,742
Total revenues	<u>213,574</u>	<u>87,550</u>	<u>163,085</u>	<u>164</u>	<u>-</u>	<u>163,249</u>	<u>464,373</u>
Expenditures							
Food Service	238,952	-	-	-	-	-	238,952
Debt Service							
Principal	-	70,000	-	-	-	-	70,000
Interest	-	12,148	-	-	-	-	12,148
Other	-	360	206	-	-	206	566
Capital outlay	-	-	187,571	67,666	-	255,237	255,237
Total expenditures	<u>238,952</u>	<u>82,508</u>	<u>187,777</u>	<u>67,666</u>	<u>-</u>	<u>255,443</u>	<u>576,903</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(25,378)	5,042	(24,692)	(67,502)	-	(92,194)	(112,530)
Other financing sources							
Operating transfers in	23,000	-	-	-	-	-	23,000
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES</b>	(2,378)	5,042	(24,692)	(67,502)	-	(92,194)	(89,530)
Fund balance, beginning of year	18,499	23,173	196,199	87,694	45	283,938	325,610
Fund balance, end of year	<u>\$ 16,121</u>	<u>\$ 28,215</u>	<u>\$ 171,507</u>	<u>\$ 20,192</u>	<u>\$ 45</u>	<u>\$ 191,744</u>	<u>\$ 236,080</u>

## **FEDERAL PROGRAMS**

## Leland Public School

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2015	Prior Year Expenditures	Current Year Receipts	Adjustments	Current Year Expenditures	Accrued Revenue June 30, 2016
United States Department of Education								
Direct grants								
REAP Grant	84.358A	\$ 42,441	\$ -	\$ -	\$ 42,441	\$ -	\$ 42,441	\$ -
Title VIII - Impact Aid	84.041	719,349	-	-	719,349	-	719,349	-
Passed through Michigan Department of Education								
Title I, Part A Cluster								
151530-1415	84.010	37,034	14,983	59,753	15,783	800	-	-
161530-1516	84.010	-	-	-	-	-	43,817	43,817
Title IIA - Improving Teacher Quality								
150520-1415	84.367	18,588	8,065	4,245	8,065	-	-	-
160520-1516	84.367	-	-	-	-	-	24,783	24,783
Total passed through Michigan Department of Education		<u>55,622</u>	<u>23,048</u>	<u>63,998</u>	<u>23,848</u>	<u>800</u>	<u>68,600</u>	<u>68,600</u>
Total U.S. Department of Education		<u>817,412</u>	<u>23,048</u>	<u>63,998</u>	<u>785,638</u>	<u>800</u>	<u>830,390</u>	<u>68,600</u>

## Leland Public School

### SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Continued

Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor Program Title	CFDA Number	Original Approved Award/Grant Amount	Accrued Revenue June 30, 2015	Prior Year Expenditures	Current Year Receipts	Adjustments	Current Year Expenditures	Accrued Revenue June 30, 2016
United States Department of Agriculture								
Nutrition Cluster								
Passed Through Michigan Department of Education								
National School Lunch Program								
1960-Free and Reduced USDA Entitlement Commodities	10.555	\$ 57,074	\$ -	\$ -	\$ 57,074	\$ -	\$ 57,074	\$ -
	10.555	-	-	-	13,200	-	13,200	-
		57,074	-	-	70,274	-	70,274	-
1970-Breakfast	10.553	20,898	-	-	20,898	-	20,898	-
Total Nutrition Cluster		77,972	-	-	91,172	-	91,172	-
United States Department of Health and Human Services								
Passed Through Traverse Bay Area ISD								
Medicaid - School Based Services	93.778	604	-	-	604	-	604	-
Total Federal Financial Assistance		<u>\$ 895,988</u>	<u>\$ 23,048</u>	<u>\$ 63,998</u>	<u>\$ 877,414</u>	<u>\$ 800</u>	<u>\$ 922,166</u>	<u>\$ 68,600</u>



# Leland Public School

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2016

- Note 1** The Schedule of Expenditures of Federal Awards is prepared using the modified accrual basis of accounting.
- Note 2** Management has reported that expenditures in this Schedule of Expenditures of Federal Awards are equal to those amounts reported in the annual or final cost reports. Unallowed differences, if any, have been disclosed to the auditor.
- Note 3** The financial reports, including claims for advances and reimbursements and amounts claimed or used for matching are timely, complete, accurate and contain information that is supported by the books and records from which the basic financial statements have been prepared. Grant receipts reported on the Schedule of Expenditures of Federal Awards, as passed through the Michigan Department of Education, reconcile to the Grant Auditor's Report (R7120). Unreconciled differences have been disclosed to the auditor.
- Note 4** The School District did not use the 10% de-minimis indirect cost rate allowed under the Uniform Guidance.
- Note 5** A reconciliation of expenditures on the Schedule of Expenditures of Federal Awards with Federal sources reported on the financial statements are as follows:

Federal expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 922,166</u>
Federal sources per financial statements	<u>\$ 922,166</u>



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James G. Shumate, CPA  
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Michael D. Shaw, CPA  
Mary F. Krantz, CPA  
Shelly K. Bedford, CPA  
Heidi M. Wendel, CPA  
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James M. Taylor, CPA

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

Board of Education  
Leland Public School

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 ***Leland Public School*** (the "School District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 17, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001 and 2016-002, that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Dennis, Gartland & Niergarth*

October 17, 2016



Thomas E. Gartland, CPA  
Brad P. Niergarth, CPA  
James G. Shumate, CPA  
Robert C. Thompson, CPA  
Michael D. Shaw, CPA  
Mary F. Krantz, CPA  
Shelly K. Bedford, CPA  
Heidi M. Wendel, CPA  
Shelly A. Ashmore, CPA  
James M. Taylor, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education  
Leland Public School

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

We have audited the *Leland Public School* (the "School District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on the School District's major Federal program for the year ended June 30, 2016. The School District's major Federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, and terms and conditions of its federal awards applicable to its Federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the School District's 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 the 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 the major Federal program. However, our audit does not provide a legal determination of the School District's compliance.

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

In our opinion, Leland Public School complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2016.

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

Management of the 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 the 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 the Uniform Guidance, 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 the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

October 17, 2016

# **Leland Public School**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

June 30, 2016

### **PRIOR YEAR**

Findings 2015-001 and 2015-002 are repeated this year in Section 2 as Findings 2016-001 and 2016-002.

### **CURRENT YEAR**

#### ***Section 1 - Summary of Auditors' Results***

1. The auditor's report represents an unmodified opinion on the financial statements of the Leland Public School.
2. There were two material weaknesses in internal control reported as a result of the audit of the financial statements. See Section 2 - Findings in Accordance with Governmental Auditing Standards.
3. There were no compliance findings disclosed that were material to the School District's financial statements.
4. There were no reported significant deficiencies in internal control over major programs.
5. The report over compliance for major programs was unmodified.
6. There were no audit findings relative to major programs that are required to be reported.
7. The School District's major program was Title VIII - Impact Aid (CFDA No. 84.041).
8. The dollar threshold for distinguishing between Type A and Type B programs was \$750,000.
9. Leland Public School did not qualify as a low risk auditee.

***Section 2 - Findings in Accordance with Governmental Auditing Standards***

**Finding Number 2016-001**

**Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). This is a responsibility of the School District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing accounting data (i.e., maintaining internal books and records) and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

**Condition:** As is the case with many smaller and medium-sized schools, the School District has historically relied on its independent external auditors to adjust the accounting records and assist in the preparation of the basic financial statements as part of its external financial reporting process. Accordingly, the School District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered a part of the School District's internal controls.

**Cause:** This condition was caused by the School District's decision that it is more cost effective to outsource the preparation of its annual financial statements to auditors than to incur the time and expense of obtaining the necessary resources required for the School District to perform this task internally.

**Effect:** As a result of this condition, the School District lacks internal controls over the preparation of financial statements in accordance with GAAP and instead relies, in part, on its external auditors for assistance with this task.

**Management's Response:** The School District has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interest of the School District to outsource this task to its external auditors and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation. To aid in the review and approval process, the business manager of the School District has attended professional development classes related to the preparation of financial statements.

***Section 2 - Findings in Accordance with Governmental Auditing Standards - Continued***

**Finding Number 2016-002**

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

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

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

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

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

***Section 3 - Findings and Questioned Costs in Accordance with the Uniform Guidance***

No findings or questioned costs.