

REED CITY AREA PUBLIC SCHOOLS

REED CITY, MICHIGAN

ANNUAL FINANCIAL REPORT

JUNE 30, 2016



Baird, Cotter & Bishop, P.C.
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS
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REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2016

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August 11, 2016

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Reed City Area Public Schools
Reed City, Michigan

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 Reed City Area Public Schools, Reed City, Michigan as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information on pages iv through x and 37-40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Reed City Area Public Schools' basic financial statements. The combining and individual fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 11, 2016, on our consideration of Reed City Area Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Reed City Area Public Schools internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

The discussion and analysis of the Reed City Area Public School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to provide, in layman's terms, a look at the District's performance and past and current position. Readers should also review the financial statements and the notes to the financial statements to enhance their understanding of the District's financial performance.

Overview of the Financial Statements

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

The basic financial statements include two kinds of statements that present different views of the District.

District-Wide Financial Statements

These statements are full accrual basis statements and provide information about the District's *overall* financial status. They are used to help determine whether or not the District is better off or worse off as the result of the year's activities. The Statement of Net Position reports all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short-term and long-term, regardless of whether they are "currently available" or not. Capital assets and long-term obligations of the District are reported in this statement. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets and liabilities, 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 deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax base, the quality of the education provided and the condition of the District's buildings.

In the district-wide statements, the District's activities are classified as governmental activities. This includes most of the District's basic services, such as regular and special education, food service, athletics, transportation and administration. Property taxes and state aid finance most of these services.

Fund Financial Statements

The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, a district's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Special Revenue Funds for Food Service and Community Services, Debt Service Funds, Capital Project Fund, and Fiduciary Funds.

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

Financial Analysis of the District as a Whole

The following schedule summarizes the net position at fiscal year ended June 30.

<u>June 30,</u>	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Current Assets	\$ 5,386,958	\$ 4,682,362
Non Current Assets		
Capital Assets	18,771,281	18,587,205
Less: Accumulated Depreciation	(7,758,107)	(7,427,104)
Total Non Current Assets	11,013,174	11,160,101
Total Assets	16,400,132	15,842,463
Deferred Outflows of Resources		
Deferred Charges on Refunding	148,735	428,612
Deferred Outflow of Resources Related to Pension	1,898,958	1,627,325
Total Deferred Outflows of Resources	2,047,693	2,055,937
Liabilities		
Current Liabilities	3,558,210	3,707,281
Non Current Liabilities	27,814,865	27,334,296
Total Liabilities	31,373,075	31,041,577
Deferred Inflows of Resources		
Deferred Inflows Related to Pension	904,120	1,802,531
Net Position		
Net Investment in Capital Assets - (Deficit)	302,266	(150,686)
Restricted	392,229	353,663
Unrestricted	(14,523,865)	(15,148,685)
Total Net Position (Deficit)	\$ (13,829,370)	\$ (14,945,708)

REED CITY AREA PUBLIC SCHOOLS
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Restricted assets represent resources that are subject to external restrictions on how they may be used.

During the fiscal year ended June 30, 2016, the District's net position increased by \$1,116,338. A few of the more significant factors affecting net position during the year are discussed below:

1. *Depreciation Expense*

The District is required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2016, \$421,114 was recorded for depreciation expense.

2. *Pension Expense*

GASB 68 now requires the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net pension liability increases or decreases in any given year. For the year ended June 30, 2016, the District reported a decrease in net position related to GASB 68, which indicates that the District's proportionate share of the net pension liability has increased.

3. *Capital Outlay Acquisitions and Disposals*

For the fiscal year ended June 30, 2016, \$321,603 in capital assets were acquired and \$137,527 capital assets were disposed of.

The net effect of the capital asset changes and the current year's depreciation is a decrease to net capital assets in the amount of \$146,927 for the fiscal year ended June 30, 2016.

The following schedule summarizes the results of operations, on a district-wide basis, for the fiscal year ended June 30.

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

<u>June 30,</u>	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 345,894	\$ 327,885
Operating Grants and Contributions	2,992,224	3,353,031
Capital Grants	40,000	0
General Revenues:		
Property Taxes	3,650,828	3,481,810
Investment Earnings	6,593	2,266
State Sources	8,937,805	8,748,554
Other	51,481	61,402
Total Revenues	<u>16,024,825</u>	<u>15,974,948</u>
Expenses		
Instruction	8,279,187	7,515,193
Supporting Services	4,451,950	4,181,236
Community Services	56,797	45,280
Food Service Activities	819,628	804,704
Capital Projects	76,818	0
Interest on Long-Term Debt	779,157	494,132
Other Transactions	23,836	43,128
Unallocated Depreciation	421,114	388,829
Total Expenses	<u>14,908,487</u>	<u>13,472,502</u>
Increase (Decrease) in Net Position	<u>\$ 1,116,338</u>	<u>\$ 2,502,446</u>

The cost of the District's governmental activities for the year was \$14,908,487. State aid and operating grants and contributions provided approximately \$11,930,029, to fund the District's governmental activities. District taxpayers directly financed activities of the District with approximately \$3,650,828 in property taxes. Charges for services provided funds of approximately \$345,894.

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015	Increase (Decrease)
Major Funds			
General Fund	\$ 2,027,703	\$ 1,433,618	\$ 594,085
Nonmajor Funds			
Food Service	203,600	186,440	17,160
Community Services	8,042	10,148	(2,106)
Capital Projects	201,951	66,245	135,706
2001 Debt Retirement	64,714	52,578	12,136
2005 Debt Retirement	0	185,538	(185,538)
2012 Debt Retirement	95,246	84,387	10,859
2015 Debt Retirement	177,143	0	177,143
Total Governmental Funds	<u>\$ 2,778,399</u>	<u>\$ 2,018,954</u>	<u>\$ 759,445</u>

About half of the General Fund increase was a result of revenue related to increased student count. The other half was mainly related to various reductions in expenditures.

The Debt Fund balances, of which the entire amount is restricted, changed primarily due to debt principal and interest payments being different than the property tax revenues.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

During 2015-2016, the District amended the General Fund budget four times, with the Board adopting the final changes in June 2016. The following schedule shows a comparison of the original budget, the final amended budget and the actual totals for the General Fund:

<u>Year Ended June 30, 2016</u>	Original Budget	Final Budget	Actual
Total Revenues	<u>\$ 13,893,995</u>	<u>\$ 14,335,316</u>	<u>\$ 14,367,426</u>
Expenditures:			
Instruction	\$ 8,766,945	\$ 8,606,845	\$ 8,560,231
Supporting Services	4,713,217	4,840,325	4,702,397
Community Services	0	34,152	26,289
Other Transactions	167,085	38,800	23,836
Total Expenditures	<u>\$ 13,647,247</u>	<u>\$ 13,520,122</u>	<u>\$ 13,312,753</u>

Final budgeted revenues and expenses were higher than originally budgeted primarily due to differences in grant income and expenses.

Actual revenues were lower than budgeted due to changes to grant income. Actual expenditures were lower than budgeted due to changes in grant expenses.

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

Capital Assets and Debt Administration

1. Capital Assets

The Capital Projects Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring major equipment necessary for providing educational programs for all students within the District. There was \$321,603 in capital asset additions and \$100,123 in disposals during the current year.

The District's capital assets at year end are summarized as follows, net of accumulated depreciation:

<u>June 30,</u>	<u>2016</u>	<u>2015</u>
Land	\$ 284,694	\$ 284,694
Construction in Progress	0	37,404
Buildings	9,870,072	10,143,758
Land Improvements	22,181	28,219
Machinery and Equipment	204,673	179,573
Transportation Equipment	631,554	486,453
	<u>\$ 11,013,174</u>	<u>\$ 11,160,101</u>

2. Long-Term Debt

At June 30, 2016, the District had \$28,073,070 in debt outstanding. This represents a decrease of \$61,860 from the amount outstanding at the close of the prior fiscal year.

Factors Bearing on the District's Future

At the time the financial statements were prepared, the District was aware of the following items that could significantly affect its future financial health:

- Uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2016-2017 fiscal year.
- The District's infrastructure has aged and repairs, replacements, and improvements are a significant need. Because of the previous financial distress of the District, the delayed maintenance has added up. The Board of Education assessed the needs of the District, made a recommendation to place a bond proposal on the May 3, 2016 ballot, and the voters passed the bond. The passing of the bond will allow the District to make the necessary building improvements, update all entrances for safety and security, and also upgrade energy efficiency and educational technology.
- Uncertain student enrollment. The District has budgeted for a decline of 15 FTE students for 2016-2017 fiscal year. Student enrollment has a significant impact on revenues of the District.

REED CITY AREA PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2016

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to the Business Office, Reed City Area Public Schools, 225 W. Church Ave., Suite A, Reed City, Michigan 49677.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2016

ASSETS

CURRENT ASSETS

Cash	\$ 965,478
Investments	2,140,017
Accounts Receivable	21,660
Taxes Receivable	1,627
Due from External Parties	76
Due from Other Governments	2,115,063
Inventories	13,714
Prepaid Expenses	129,323
	<hr/>
Total Current Assets	5,386,958

NON CURRENT ASSETS

Capital Assets	18,771,281
Less Accumulated Depreciation	(7,758,107)
	<hr/>
Total Non Current Assets	11,013,174
	<hr/>
Total Assets	16,400,132

DEFERRED OUTFLOWS OF RESOURCES

Deferred Charges on Refunding	148,735
Changes of Pension Assumptions	433,187
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	89,800
District Pension Contributions Subsequent to the Measurement Date	1,375,971
	<hr/>
Total Deferred Outflows of Resources	2,047,693

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	33,329
Accrued Expenses	441,428
Accrued Interest Payable	76,118
Salaries Payable	767,022
Note Payable	1,151,949
Due to Other Governments	125,031
Unearned Revenue	76,742
Current Portion of Non Current Liabilities	886,591
	<hr/>
Total Current Liabilities	3,558,210

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2016

NON CURRENT LIABILITIES

Bonds Payable	10,005,000
Deferred Bond Premium - Net	628,386
Employee Early Retirement Obligations	72,000
Compensated Absences	176,417
Installment Purchase Agreement Payable	226,257
Net Pension Liability	17,593,396
Less Current Portion of Non Current Liabilities	<u>(886,591)</u>
 Total Non Current Liabilities	 <u>27,814,865</u>
 Total Liabilities	 <u>31,373,075</u>

DEFERRED INFLOWS OF RESOURCES

Changes in Proportion and Differences Between District Pension Contributions and Proportionate Share of Contributions	368,475
Differences Between Expected and Actual Experience for Pension Plan	58,274
Section 147c Revenue Related to District Pension Contributions Subsequent to Measurement Date	<u>477,371</u>
 Total Deferred Inflows of Resources	 <u>904,120</u>

NET POSITION

Net Investment (Deficit) in Capital Assets	302,266
Restricted for Debt Service	274,043
Restricted for Food Service	118,186
Unrestricted (Deficit)	<u>(14,523,865)</u>
 TOTAL NET POSITION - (DEFICIT)	 <u>\$ (13,829,370)</u>

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	CAPITAL GRANTS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 8,279,187	\$ 0	\$ 1,918,469	\$ 0	\$ (6,360,718)
Supporting Services	4,451,950	140,526	391,539	40,000	(3,879,885)
Community Services	56,797	29,083	24,917	0	(2,797)
Food Service Activities	819,628	176,285	657,299	0	13,956
Capital Projects	76,818	0	0	0	(76,818)
Interest on Long-Term Debt	779,157	0	0	0	(779,157)
Other Transactions	23,836	0	0	0	(23,836)
Unallocated Depreciation	421,114	0	0	0	(421,114)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 14,908,487</u>	<u>\$ 345,894</u>	<u>\$ 2,992,224</u>	<u>\$ 40,000</u>	<u>(11,530,369)</u>
<u>GENERAL REVENUES</u>					
Property Taxes -Levied for General Purposes					2,390,269
Property Taxes -Levied for Debt Service					1,260,559
Investment Earnings					6,593
State Sources					8,937,805
Other					51,481
Total General Revenues					<u>12,646,707</u>
Change in Net Position					1,116,338
<u>NET POSITION</u> - Beginning of Year - (Deficit)					<u>(14,945,708)</u>
<u>NET POSITION</u> - End of Year - (Deficit)					<u>\$ (13,829,370)</u>

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2016

	<u>GENERAL</u> <u>FUND</u>	<u>NONMAJOR</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 268,340	\$ 697,138	\$ 965,478
Investments	2,140,017	0	2,140,017
Accounts Receivable	12,910	8,750	21,660
Taxes Receivable	0	1,627	1,627
Due from Other Funds	76	4,368	4,444
Due from Other Governments	2,106,929	8,134	2,115,063
Inventories	1,217	12,497	13,714
Prepaid Expenditures	56,400	72,923	129,323
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 4,585,889	\$ 805,437	\$ 5,391,326
<hr/>			
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 9,368	\$ 23,961	\$ 33,329
Accrued Expenses	441,428	0	441,428
Salaries Payable	767,022	0	767,022
Note Payable	1,165,007	0	1,165,007
Due to Other Funds	4,368	0	4,368
Due to Other Governments	125,031	0	125,031
Unearned Revenue	45,962	30,780	76,742
	<hr/>	<hr/>	<hr/>
Total Liabilities	2,558,186	54,741	2,612,927
<hr/>			
<u>FUND BALANCES</u>			
Nonspendable:			
Inventory	1,217	12,497	13,714
Prepaid Expenditures	56,400	72,923	129,323
Restricted for:			
Debt Service	0	337,103	337,103
Food Service	0	118,186	118,186
Assigned to:			
Community Services	0	8,036	8,036
Future Capital Projects	0	201,951	201,951
Unassigned	1,970,086	0	1,970,086
	<hr/>	<hr/>	<hr/>
Total Fund Balances	2,027,703	750,696	2,778,399
<hr/>			
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,585,889	\$ 805,437	\$ 5,391,326
<hr/>			

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET POSITION

JUNE 30, 2016

Total Governmental Fund Balances	\$ 2,778,399
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 are not reported in the funds.	
The cost of the capital assets is	\$ 18,771,281
Accumulated depreciation is	<u>(7,758,107)</u>
	11,013,174
Other long-term assets are not available for pay for current period expenditures and, therefore, are deferred in the funds. These assets consist of:	
Deferred Loss on Refunding	148,735
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Bonds Payable	(10,005,000)
Bond Premium	(628,386)
Employees Early Retirement	(72,000)
Compensated Absences	(176,417)
Installment Purchase Agreement	(226,257)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid.	(63,060)
Some liabilities, including net pension obligations, are not due and payable and payable in the current period and, therefore, are not reported in the funds.	
Net Pension Liability	(17,593,396)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Changes in Pension Assumptions	433,187
Changes in Proportionate and Differences Between District Pension Contributions and Proportionate Share of Contributions	(368,475)
District Pension Contributions Subsequent to the Measurement Date	1,375,971
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	89,800
Differences Between Expected and Actual Experience for Pension Plan	(58,274)
Section 147c Revenue Related to District Pension Contributions Subsequent to Measurement Date	<u>(477,371)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ (13,829,370)</u></u>

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

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

YEAR ENDED JUNE 30, 2016

	GENERAL FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 2,616,423	\$ 1,467,122	\$ 4,083,545
State Sources	10,681,099	39,643	10,720,742
Federal Sources	734,040	628,005	1,362,045
Other Transactions	335,864	0	335,864
	<hr/>		
Total Revenues	14,367,426	2,134,770	16,502,196
<hr/>			
<u>EXPENDITURES</u>			
Instruction	8,560,231	0	8,560,231
Supporting Services	4,702,397	0	4,702,397
Community Services	26,289	31,189	57,478
Food Service Activities	0	819,628	819,628
Capital Projects	0	233,118	233,118
Debt Service			
Principal	0	843,393	843,393
Interest and Other	0	573,904	573,904
Other Transactions	23,836	0	23,836
	<hr/>		
Total Expenditures	13,312,753	2,501,232	15,813,985
<hr/>			
Excess (Deficiency) of Revenues Over Expenditures	1,054,673	(366,462)	688,211
<hr/>			
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers In (Out)	(463,588)	463,588	0
Proceeds from the Issuance of Debt	0	8,208,234	8,208,234
Payment to Bond Refunding Escrow Agent	0	(8,140,000)	(8,140,000)
Proceeds from Sale of Capital Assets	3,000	0	3,000
	<hr/>		
Total Other Financing Sources (Uses)	(460,588)	531,822	71,234
<hr/>			
Net Change in Fund Balance	594,085	165,360	759,445
<hr/>			
<u>FUND BALANCE</u> - Beginning of Year	1,433,618	585,336	2,018,954
<hr/>			
<u>FUND BALANCE</u> - End of Year	\$ 2,027,703	\$ 750,696	\$ 2,778,399

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances Total Governmental Funds \$ 759,445

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures. In the Statement of Activities these costs are allocated over their estimated useful lives as depreciation. Additionally, the gain or loss on sale or disposal of capital assets is recorded in the statement of activities.

Capital Outlay	321,603
Depreciation Expense	(421,114)
Net Cost of Capital Assets Sold	(7,013)

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

Accrued Interest Payable - Beginning of Year	73,490
Accrued Interest Payable - End of Year	(63,060)

The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of Long-Term Debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

The net changes in long-term liabilities are:

Repayment of Debt Principal	843,393
Defeasance of Debt	8,140,000
Issuance of Debt	(7,645,000)
Bond Premium	(563,234)
Amortization of Deferred Charges	(215,683)

Employees Early Retirement and Accumulated Sick Pay are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Employees Early Retirement - Beginning of Year	82,000
Employees Early Retirement - End of Year	(72,000)
Accumulated Sick Pay - Beginning of Year	178,223
Accumulated Sick Pay - End of Year	(176,417)

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

Governmental funds report district pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as a pension expense:

Net Pension Liability - Beginning of Year	16,305,057
Net Pension Liability - End of Year	(17,593,396)
Change in Changes of Pension Assumptions	(168,435)
Change in Proportion and Differences Between District Pension Contributions Proportionate Share of Contributions	(372,615)
Change in District Pension Contributions Subsequent to Measurement Date	354,408
Change in Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,892,331
Change in Differences Between Expected and Actual Experience for Pension Plan	(58,274)
Section 147c Revenue Related to District Pension Contributions Subsequent to Measurement Date	<u>(477,371)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,116,338</u>

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2016

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUNDS</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 87,199	\$ 179,937
Notes Receivable (net of allowance for doubtful accounts)	32,225	0
Total Assets	<u>119,424</u>	<u>179,937</u>
<u>LIABILITIES</u>		
Due to Other Funds	0	76
Due to Groups and Organizations	0	179,861
Total Liabilities	<u>0</u>	<u>179,937</u>
<u>NET POSITION</u>		
Restricted for Scholarships and Memorials	<u>\$ 119,424</u>	<u>\$ 0</u>

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2016

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
<u>ADDITIONS</u>	
Donations	\$ 1,489
Interest and Dividends	<u>1,691</u>
Total Additions	3,180
<u>DEDUCTIONS</u>	
Scholarship Awards	<u>900</u>
Change in Net Position	2,280
<u>NET POSITION</u> - Beginning of Year	<u>117,144</u>
<u>NET POSITION</u> - End of Year	<u>\$ 119,424</u>

The notes to the financial statements are an integral part of this statement.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Reed City Area Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District (the "District") is located in Osceola, Lake, Newaygo and Mecosta Counties with its administrative offices located in Reed City, Michigan. The District operates under an elected 7-member board of education and provides services to its students in elementary, middle school, high school, special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

B. Description of Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The School District does not have any business-type activities or component units.

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The District reports the following major governmental fund:

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

Other non-major funds:

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

The *capital projects fund* accounts for the acquisition of fixed assets or construction of major capital projects.

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

Additionally, the District reports the following fund type:

Fiduciary funds are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following fiduciary funds:

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

The *private purpose trust funds* are accounted for using the accrual method of accounting. Private purpose funds account for contributions earmarked for scholarships available to qualifying students of the District.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

E. Measurement Focus and Basis of Accounting

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts - invested in capital assets, net of related debt; restricted net position; and unrestricted net position.

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

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

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

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

The private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

F. Budgetary Information

1. Budgetary Basis of Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

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

Prior to May, the various principals, directors and supervisors review operating budgets by program or building for the fiscal year commencing the following July 1, and submit them to the business manager.

This information is used to develop a budget and resolution for the General Fund and Special Revenue Funds. This includes proposed expenditures and the means of financing them and is compiled on a basis consistent with accounting principles generally accepted in the United States of America. In June, the budget resolution is subjected to a public hearing before the full Board and is adopted within seven days after this hearing and before July 1, the first day of the budgeted fiscal year.

Any revisions which increase or decrease expenditures for a program must be approved by the Board. The superintendent is authorized to transfer budgeted amounts between functions within any fund. The final budget reflects all revisions approved by the Board during the year. Unexpended appropriations lapse to the next fiscal year.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

The budget is integrated with the accounting system of the District and is used as a management control device during the year.

Budgeted amounts are as originally adopted on June 16, 2014, or as amended by the School Board of Education at various times throughout the year.

2. *Excess of Expenditures Over Appropriations*

There was no excess of expenditures over appropriations as of June 30, 2016.

G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. *Cash and Investments*

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

The School's deposits and investments are held separately by several of the School District's funds.

2. *Inventory and Prepaid Items*

Inventories are recorded at cost and consist primarily of food, teaching and office supplies. USDA donated commodities are recorded at fair value. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

3. *Capital Assets*

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings	20-50 years
Land Improvements	10-20 years
Machinery and Equipment	5-20 years
Vehicles	8 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

4. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has four items that qualify for reporting in this category. The first is the deferred charge on refunding reported in the government-wide *Statement of Net Position*. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or funding debt. The other three are related to the pension plan for its employees. Details can be found in footnote 3.E.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category, which is related to the pension plan for its employees. Details can be found in footnote 3.E.

5. *Pension*

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

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

6. *Net Position Flow Assumption*

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

7. *Fund Balance Flow Assumption*

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

8. *Fund Balance Policies*

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

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

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

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

9. Use of Estimates

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

H. Revenues and Expenditures/Expenses

1. State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2016 the foundation allowance was based on pupil membership counts taken in February of 2015 and October of 2015. For fiscal year ended June 30, 2016, the per pupil foundation allowance was \$7,391 for Reed City Area Public Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2015 to August 2016. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

2. Federal Revenue

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

3. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4. *Property Taxes*

Properties are assessed as of December 31. Taxes are levied and become a lien on December 1. These taxes are due on February 14, with the final collection date of February 28, before they are added to the county delinquent tax rolls. Delinquent real property taxes are purchased by the counties of Mecosta, Newaygo, Osceola and Lake and remitted to the District after settlement.

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

<u>Fund</u>	<u>Mills</u>
General Fund - Non-Principal Residence Exemption (PRE)	18.00
General Fund - Non-PRE Commercial PPT	6.00
Debt Service Fund - PRE and Non-PRE	3.91

5. *Compensated Absences*

District employees are granted vacation and sick leave in varying amounts based on length of service. Unused vacation time does not accumulate from year-to-year. Sick leave is accumulated at different rates for various categories of employees. Unused sick leave accumulates from year-to-year to a maximum described in the contract. In the fund financial statements, only the matured liability for compensated absences is reported. The total liability is reported on the district-wide financial statements.

6. *Long-Term Obligations*

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Violations of Legal or Contractual Provisions*

There were no budgetary violations that occurred for the year ended June 30, 2016.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

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

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of June 30, 2016, the District’s bank balance was \$1,332,521 and \$584,431 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. The majority of this risk is in the General Fund. Although the District’s investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

Foreign Currency Risk. The District is not authorized to invest in investments which have this type of risk; therefore, it is not addressed in the investment policy.

Custodial Credit Risk –Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered, or securities held by the District or the District’s agent in the District’s name. Although the District’s investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty’s trust department or its agent in the District’s name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District’s name. At year-end all of the District’s investments were uncategorized as to risk.

At June 30, 2016, the District had the following investments:

	<u>Fair Value</u>
MILAF External Investment Pool - MICMS	\$ 78
MILAF External Investment Pool - MILAX	<u>2,139,939</u>
Total	<u>\$ 2,140,017</u>

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

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Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 965,478	\$ 0	\$ 267,136	\$ 1,232,614
Investments	0	2,140,017	0	2,140,017
	\$ 965,478	\$ 2,140,017	\$ 267,136	\$ 3,372,631

B. Receivables

Receivables as of year-end for the government's individual major funds and nonmajor are as follows:

	General Fund	Nonmajor Funds	Total
Receivables			
Accounts	\$ 12,910	\$ 8,750	\$ 21,660
Taxes	0	1,627	1,627
Due from Other Governments	2,106,929	8,134	2,115,063
Total Receivables	\$ 2,119,839	\$ 18,511	\$ 2,138,350

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

C. Capital Assets

Capital assets activity for the year ended June 30, 2016, was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Assets Not Being Depreciated:				
Land	\$ 284,694	\$ 0	\$ 0	\$ 284,694
Construction in Progress	37,404	0	37,404	0
Total Capital Assets, Not Being Depreciated	322,098	0	37,404	284,694

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	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Other Capital Assets:				
Buildings	15,912,267	0	0	15,912,267
Land Improvements	239,206	0	0	239,206
Machinery and Equipment	670,589	63,679	0	734,268
Transportation Equipment	1,443,045	257,924	100,123	1,600,846
Subtotal	18,265,107	321,603	100,123	18,486,587
Accumulated Depreciation				
Buildings	5,768,509	273,686	0	6,042,195
Land Improvements	210,987	6,038	0	217,025
Machinery and Equipment	491,016	38,579	0	529,595
Transportation Equipment	956,592	102,811	90,111	969,292
Total Accumulated Depreciation	7,427,104	421,114	90,111	7,758,107
Net Other Capital Assets	10,838,003	(99,511)	10,012	10,728,480
Net Capital Assets	\$11,160,101	\$ (99,511)	\$ 47,416	\$11,013,174

Depreciation for the fiscal year ended June 30, 2016 amounted to \$421,114. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

D. Defined Benefit Plan and Post-Retirement Benefits

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

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

The System’s separately issued financial statements are available at www.michigan.gov/mpsers-cafr.

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Benefit Provisions- Pension

Introduction

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

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

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. 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 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Pension Reform 2010

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

Pension Reform 2012

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

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that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

Regular Retirement

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

Annual Amount – Total credited service as of the transition date times 1.5% of final average compensation.

Pension Plus

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

Option 1: Credited service after the transition date times 1.5% times final average compensation.

Option 2: Credited service after the transition date (until total service reaches 30 years) times 1.5% times final average compensation, plus credited service after the transition date and over 30 years times 1.25% times final average compensation.

Option 3: Credited service after the transition date times 1.25% times final average compensation.

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

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

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

Contributions

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

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree other post-employment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

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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. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates

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

The District's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately \$1,672,229. These amounts include contributions funded from state revenue Section 147c restricted to fund MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

Pension Liabilities

At June 30, 2016, the District reported a liability of \$17,593,396 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015 and 2014, the District's proportion was .07203020% and .07402000%.

MPSERS (Plan) Net Pension Liability – As of September 30, 2015 and September 30, 2014

	<u>September 30, 2015</u>	<u>September 30, 2014</u>
Total Pension Liability	\$ 66,312,041,902	\$ 65,160,887,182
Plan Fiduciary Net Position	41,887,015,147	43,134,384,072
Net Pension Liability	<u>\$ 24,425,026,755</u>	<u>\$ 22,026,503,110</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	63.17%	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	292.61%	250.11%

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

For the year ended June 30, 2016, the District recognized total pension expense of \$1,388,106. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 0	\$ 58,274
Changes of assumptions	433,187	0
Net difference between projected and actual earnings on pension plan investments	89,800	0
Changes in proportion and differences between District contributions and proportionate share of contributions	0	368,475
District section 147c revenue related to pension contributions subsequent to the measurement date	0	477,371
District contributions subsequent to the measurement date	1,375,971	0
Total	\$ 1,898,958	\$ 904,120

\$1,375,971 reported as deferred outflows of resources and \$477,371 reported as deferred inflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources (+) and deferred inflows of resources (-) related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2017	\$ (49,544)
2018	(49,544)
2019	(73,196)
2020	268,522
	\$ 96,238

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F. Actuarial Valuations and Assumptions of the Pension Plan

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

Valuation Date:	September 30, 2015
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.50%
Investment Rate of Return	
-MIP and Basic Plans (Non-Hybrid):	8.00%
-Pension Plus Plan (Hybrid):	7.00%
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 Combine 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.
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Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The 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.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report.

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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:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity Pools	28.00%	5.90%
Alternative Investment Pools	18.00%	9.20%
International Equity	16.00%	7.20%
Fixed Income Pools	10.50%	0.90%
Real Estate & Infrastructure Pools	10.00%	4.30%
Absolute Return Pools	15.50%	6.00%
Short-Term Investment Pools	2.00%	0.00%
	<u>100%</u>	

*Long-term rate 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). 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 District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

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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%
\$ 22,682,397	\$ 17,593,396	\$ 13,303,159

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

H. Payables to the Pension Plan

As of June 30, 2016, the District is current on all required pension plan payments. As of June 30, 2016, the District reported payables in the amount of \$448,780 to the pension plan. These amounts represent current payments for June wages paid in July, accruals for summer pay primarily for teachers and also the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

I. Benefit Provisions – Other Post-Employment

Introduction

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

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

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Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

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

Employer Contributions

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015; from 2.20% - 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015; and from 6.40% - 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District's contributions to MPERS for post-employment healthcare contributions for the years ended June 30, 2016 and 2015 were approximately \$355,914 and \$152,659.

J. Risk Management

Reed City Area Public Schools is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' (workers compensation) and natural disasters.

The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation as well as liability insurance. The pool is considered a public entity risk pool. The District pays annual premiums under retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The District has not been informed of any special assessment to make up the deficiency.

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K. Lease Information

Operating Leases

The lease consists of a lease agreement on a combination of copiers and printers located throughout the District. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDING</u>	
2017	\$ 99,325
2018	99,325
2019	99,325
2020	<u>8,277</u>
	<u>\$ 306,252</u>

The District's total copier lease expense for the year was \$98,919. This included a monthly maintenance fee.

L. Long-Term Liabilities

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the governmental long-term liability transactions for the School District for the year ended June 30, 2016:

	EARLY BONDS PAYABLE	RETIREMENT OBLIGATIONS	INSTALLMENT PURCHASE AGREEMENT	COMPENSATED ABSENCES	NET PENSION LIABILITY	TOTAL
Balance, July 1, 2015	\$ 11,255,000	\$ 82,000	\$ 314,650	\$ 178,223	\$ 16,305,057	\$ 28,134,930
Additions	7,645,000	72,000	0	0	2,821,370	10,538,370
Deletions	(8,895,000)	(82,000)	(88,393)	(1,806)	(1,533,031)	(10,600,230)
Balance, June 30, 2016	<u>\$ 10,005,000</u>	<u>\$ 72,000</u>	<u>\$ 226,257</u>	<u>\$ 176,417</u>	<u>\$ 17,593,396</u>	<u>\$ 28,073,070</u>
Total due within one year	<u>\$ 725,000</u>	<u>\$ 72,000</u>	<u>\$ 89,591</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 886,591</u>

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The District's liability obligations at June 30, 2016, are comprised of the following issues:

\$3,030,000 2012 Refunding Bonds due in annual installments of \$260,000 to \$710,000 , plus interest, through May 1, 2020. Interest rate of 3.0%.	\$ 2,360,000
\$7,645,000 2015 Refunding Bonds due in annual installments of \$35,000 to \$805,000 plus interest, through May 1, 2029. Interest rates range from 3.00% to 4.00%.	7,645,000
Early retirement obligations paid annually without interest per individual contracts.	72,000
\$530,500 installment purchase agreement for the purchase of 6 buses. Due in semi- annual installments of \$46,172, including interest, at 1.35%, through October 26, 2018.	226,257
Net Pension Liability	17,593,396
Compensated Absences	<u>176,417</u>
Total Long-Term Debt	<u><u>\$ 28,073,070</u></u>

Year Ending	Bonds Payable		Early Retirement	Installment Purchase Agreement		Amounts
June 30,	Principal	Interest	Obligation	Principal	Interest	Payable
2017	\$ 725,000	\$ 375,300	\$ 72,000	\$ 89,591	\$ 2,753	\$ 1,264,644
2018	745,000	353,550	0	90,804	1,540	1,190,894
2019	760,000	331,200	0	45,862	310	1,137,372
2020	775,000	308,400	0	0	0	1,083,400
2021	795,000	280,000	0	0	0	1,075,000
2022-2026	3,945,000	921,800	0	0	0	4,866,800
2027-2031	2,260,000	180,400	0	0	0	2,440,400
	<u>\$ 10,005,000</u>	<u>\$ 2,750,650</u>	<u>\$ 72,000</u>	<u>\$ 226,257</u>	<u>\$ 4,603</u>	<u>\$ 13,058,510</u>

The annual requirements to amortize the compensated absences are uncertain because it is unknown when the employees will use the sick leave. The annual requirements to amortize the net pension liability are uncertain because it is unknown when the liability will be paid.

Compensated absences, early retirement benefits, and the net pension liability will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

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M. Short-Term Debt

The District has borrowed on state aid anticipation notes in order to meet its cash flow needs as follows:

	<u>STATE AID NOTES</u>
Balance, July 1, 2015	\$ 1,275,000
Additions	2,063,000
Deletions	<u>(2,186,051)</u>
Balance, June 30, 2016	<u>\$ 1,151,949</u>

The notes were issued August 20, 2015. One note of \$428,432 carries an interest rate of 1.080% and another note of \$571,568 carries an interest rate of 1.4625%. Additionally, the District borrowed \$722,382 at 0.760% interest and \$340,618 at 0.640% and made payments into a non-refundable escrow account. As such, the remaining balance at June 30, 2016 was \$1,151,949. The portion paid to escrow is considered defeased and is not shown on the District's financial statements at year-end. Of the remaining balance, \$151,949 was repaid on July 20, 2016 and the remainder of \$1,000,000 will be repaid August 20, 2016. Also, on August 20, 2016 the District issued new State Aid Notes totaling \$1,453,000 due August 20, 2017.

N. Interfund Receivables and Payables

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 76	\$ 4,368
High School Internal Fund	0	76
Food Service Fund	<u>4,368</u>	<u>0</u>
	<u>\$ 4,444</u>	<u>\$ 4,444</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All Interfund balances outstanding at June 30, 2016 are expected to be repaid within one year.

O. Interfund Transfers

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 0	\$ 463,588
Food Service Fund	2,494	0
Other Debt Retirement	92,344	0
Capital Projects Fund	<u>368,750</u>	<u>0</u>
	<u>\$ 463,588</u>	<u>\$ 463,588</u>

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

P. 2015 Refunding Bonds

On August 4, 2015, the District issued \$7,645,000 in General Obligation Bonds with interest rates of 3% to 4% to advance refund \$8,140,000 of outstanding 2005 Refunding Bonds with interest rates of 4% to 4.35%. As a result, \$8,140,000 of the 2005 Refunding Bonds are considered to be defeased and the liability for those bonds has been removed from the non-current liabilities of the District. On November 1, 2015, the bond refunding escrow agent called the entire \$8,140,000 of outstanding 2005 Refunding Bonds and retired them.

The District advance refunded a portion of the 2005 refunding bond issue to reduce its total future debt service payments by \$705,845 and resulted in an economic gain of \$546,864.

Q. Other Information

1. Single Audit

Current federal guidelines require entities with federal expenditures exceeding \$750,000 to have a “single audit” of federally funded programs. This audit is being performed and the reports based thereon will be issued under a separate cover.

R. Subsequent Events

On July 18, 2016 the District sold \$3,850,000 of School Building and Site Bonds with a delivery date of August 9, 2016.

On August 1, 2016 the District signed purchase agreements for the acquisition of lockers for \$5,223 and Middle School ramps for \$9,466.

No adjustment was made to the financial statements for the year ending June 30, 2016, related to these subsequent events.

S. GASB 72 – Fair Market Value Disclosure

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

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

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JUNE 30, 2016

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

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

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

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

NOTE 4 – UPCOMING ACCOUNTING PRONOUNCEMENTS

A. Governmental Accounting Standards Board (GASB) Statement No. 77 – Tax Abatement Disclosures

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

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

This statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future. The District is still evaluating how, if at all, it will be affected by this new pronouncement.

B. Governmental Accounting Standards Board (GASB) Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the

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JUNE 30, 2016

effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members.

This statement is effective for fiscal years beginning after June 15, 2017. However, early implementation is encouraged. The District is evaluating the effects this statement will have on the District's net position.

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REED CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2016

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources	\$ 2,549,126	\$ 2,551,408	\$ 2,616,423
State Sources	10,291,547	10,690,757	10,681,099
Federal Sources	691,810	774,577	734,040
Other Transactions	361,512	318,574	335,864
Total Revenues	13,893,995	14,335,316	14,367,426
<u>EXPENDITURES</u>			
Instruction			
Basic Instruction	6,994,334	6,842,942	6,813,064
Added Needs	1,772,611	1,763,903	1,747,167
Supporting Services			
Pupil	390,275	474,146	468,053
Instructional Staff	377,781	293,752	274,121
General Administration	372,231	368,332	364,493
School Administration	903,302	883,502	879,717
Business	280,053	303,616	239,377
Operating and Maintenance	1,089,488	1,062,339	1,049,285
Pupil Transportation	696,271	752,094	731,404
Central Services	250,228	361,720	356,577
Athletic Activities	353,588	340,824	339,370
Community Services			
Community Activities	0	6,938	1,109
Non Public School Pupils	0	27,214	25,180
Other Transactions	167,085	38,800	23,836
Total Expenditures	13,647,247	13,520,122	13,312,753
Excess (Deficiency) of Revenues Over Expenditures	246,748	815,194	1,054,673
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers (In) Out	(192,377)	(461,094)	(463,588)
Proceeds from Sale of Capital Assets	0	0	3,000
Total Other Financing Sources (Uses)	(192,377)	(461,094)	(460,588)
Net Change in Fund Balance	54,371	354,100	594,085
<u>FUND BALANCE</u> - Beginning of Year	667,734	1,433,626	1,433,618
<u>FUND BALANCE</u> - End of Year	\$ 722,105	\$ 1,787,726	\$ 2,027,703

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 9/30 OF EACH FISCAL YEAR)
JUNE 30, 2016

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of net pension liability (%)									0.0720302%	0.07402%
District's proportionate share of net pension liability									\$ 17,593,396	\$ 16,305,057
District's covered-employee payroll									5,979,433	6,292,956
District's proportionate share of net pension liability as a percentage of its covered-employee payroll									294.23%	259.10%
Plan fiduciary net position as a percentage of total pension liability									63.17%	66.20%

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS

MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED AS OF 6/30 OF EACH FISCAL YEAR)

JUNE 30, 2016

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Statutorily required contributions									\$ 1,672,229	\$ 1,312,195
Contributions in relation to statutorily required contributions *									1,672,229	1,312,195
Contribution deficiency (excess)									\$ 0	\$ 0
Covered-Employee Payroll									\$ 6,068,184	\$ 6,004,562
Contributions as a percentage of covered-employee payroll									27.56%	21.85%

* Contributions in relation to statutorily contributions are the contributions a reporting unit actually made to the System, as distinct from the statutorily required contributions.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR YEAR ENDED JUNE 30, 2016

A. Changes of Benefit Terms:

There were no changes of benefit terms in 2016.

B. Changes of Assumptions:

Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. There were no changes of assumptions in 2016.

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2016

	SPECIAL REVENUE			DEBT RETIREMENT					TOTAL
	FOOD SERVICE FUND	COMMUNITY SERVICES FUND	CAPITAL PROJECT FUND	OTHER DEBT RETIREMENT FUND	2001 DEBT RETIREMENT FUND	2005 DEBT RETIREMENT FUND	2012 DEBT RETIREMENT FUND	2015 DEBT RETIREMENT FUND	
ASSETS									
Cash	127,970	\$ 31,741	\$ 201,951	\$ 0	\$ 64,126	\$ 0	\$ 94,705	\$ 176,645	\$ 697,138
Accounts Receivable	8,750	0	0	0	0	0	0	0	8,750
Taxes Receivable	0	0	0	0	588	0	541	498	1,627
Due from Other Funds	4,368	0	0	0	0	0	0	0	4,368
Due from Other Governments	8,134	0	0	0	0	0	0	0	8,134
Inventory	12,497	0	0	0	0	0	0	0	12,497
Prepaid Expenditures	72,917	6	0	0	0	0	0	0	72,923
TOTAL ASSETS	\$ 234,636	\$ 31,747	\$ 201,951	\$ 0	\$ 64,714	\$ 0	\$ 95,246	\$ 177,143	\$ 805,437
LIABILITIES AND FUND BALANCE									
LIABILITIES									
Accounts Payable	\$ 23,961	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 23,961
Unearned Revenue	7,075	23,705	0	0	0	0	0	0	30,780
Total Liabilities	31,036	23,705	0	0	0	0	0	0	54,741
FUND BALANCE									
Nonspendable:									
Inventory	12,497	0	0	0	0	0	0	0	12,497
Prepaid Expenditures	72,917	6	0	0	0	0	0	0	72,923
Restricted:									
Debt Retirement	0	0	0	0	64,714	0	95,246	177,143	337,103
Food Service	118,186	0	0	0	0	0	0	0	118,186
Assigned:									
Community Services	0	8,036	0	0	0	0	0	0	8,036
Future Capital Projects	0	0	201,951	0	0	0	0	0	201,951
Total Fund Balance	203,600	8,042	201,951	0	64,714	0	95,246	177,143	750,696
TOTAL LIABILITIES AND FUND BALANCE	\$ 234,636	\$ 31,747	\$ 201,951	\$ 0	\$ 64,714	\$ 0	\$ 95,246	\$ 177,143	\$ 805,437

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2016

	SPECIAL REVENUE			DEBT RETIREMENT					TOTAL
	FOOD SERVICE FUND	COMMUNITY SERVICES FUND	CAPITAL PROJECT FUND	OTHER DEBT RETIREMENT FUND	2001 DEBT RETIREMENT FUND	2005 DEBT RETIREMENT FUND	2012 DEBT RETIREMENT FUND	2015 DEBT RETIREMENT FUND	
<u>REVENUES</u>									
Local Sources	\$ 176,995	\$ 29,083	\$ 74	\$ 0	\$ 455,571	\$ 3,904	\$ 418,967	\$ 382,528	\$ 1,467,122
State Sources	29,294	0	0	0	3,739	0	3,441	3,169	39,643
Federal Sources	628,005	0	0	0	0	0	0	0	628,005
Total Revenues	834,294	29,083	74	0	459,310	3,904	422,408	385,697	2,134,770
<u>EXPENDITURES</u>									
Community Services	0	31,189	0	0	0	0	0	0	31,189
Food Service Activities	819,628	0	0	0	0	0	0	0	819,628
Capital Projects	0	0	233,118	0	0	0	0	0	233,118
Debt Service	0	0	0	92,344	447,174	0	411,549	466,230	1,417,297
Total Expenditures	819,628	31,189	233,118	92,344	447,174	0	411,549	466,230	2,501,232
Excess of Revenues Over (Under) Expenditures	14,666	(2,106)	(233,044)	(92,344)	12,136	3,904	10,859	(80,533)	(366,462)
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In (Out)	2,494	0	368,750	92,344	0	(189,442)	0	189,442	463,588
Proceeds from Issuance of Debt	0	0	0	0	0	0	0	8,208,234	8,208,234
Payment to Bond Refunding Escrow Agent	0	0	0	0	0	0	0	(8,140,000)	(8,140,000)
Total Other Financing Sources (Uses)	2,494	0	368,750	92,344	0	(189,442)	0	257,676	531,822
Net Change in Fund Balance	17,160	(2,106)	135,706	0	12,136	(185,538)	10,859	177,143	165,360
<u>FUND BALANCE</u> - Beginning of Year	186,440	10,148	66,245	0	52,578	185,538	84,387	0	585,336
<u>FUND BALANCE</u> - End of Year	\$ 203,600	\$ 8,042	\$ 201,951	\$ 0	\$ 64,714	\$ 0	\$ 95,246	\$ 177,143	\$ 750,696

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND TYPES

JUNE 30, 2016

	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUNDS</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 87,199	\$ 179,937	\$ 267,136
Notes Receivable (net of allowance for doubtful accounts of \$10,000)	32,225	0	32,225
Total Assets	119,424	179,937	299,361
<u>LIABILITIES</u>			
Due to Other Funds	0	76	76
Due to Groups and Organizations	0	179,861	179,861
Total Liabilities	0	179,937	179,937
<u>NET POSITION</u>			
Restricted for:			
Scholarships and Memorials	\$ 119,424	\$ 0	\$ 119,424

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS

JUNE 30, 2016

	<u>JEWELL</u>	<u>EMPLOYEE</u>	<u>TOTAL</u>
	<u>SCHOLARSHIP</u>	<u>SCHOLARSHIP</u>	
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 86,548	\$ 651	\$ 87,199
Notes Receivable (net of allowance for doubtful accounts of \$10,000)	32,225	0	32,225
Total Assets	118,773	651	119,424
<u>LIABILITIES</u>	0	0	0
<u>NET POSITION</u>			
Restricted for:			
Scholarships and Memorials	\$ 118,773	\$ 651	\$ 119,424

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUST FUNDS

YEAR ENDED JUNE 30, 2016

	<u>JEWELL</u> <u>SCHOLARSHIP</u>	<u>EMPLOYEE</u> <u>SCHOLARSHIP</u>	<u>TOTAL</u>
<u>ADDITIONS</u>			
Donations	\$ 0	\$ 1,489	\$ 1,489
Interest and Dividends	1,691	0	1,691
Total Additions	1,691	1,489	3,180
<u>DEDUCTIONS</u>			
Scholarship Awards	0	900	900
Change in Net Position	1,691	589	2,280
<u>NET POSITION</u> - Beginning of Year	117,082	62	117,144
<u>NET POSITION</u> - End of Year	\$ 118,773	\$ 651	\$ 119,424

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS

JUNE 30, 2016

	NORMAN ELEMENTARY ACCOUNT	MIDDLE SCHOOL ACCOUNT	HIGH SCHOOL ACCOUNT	ATHLETIC FUNDRAISING ACCOUNT	BEVERAGE CONSORTIA ACCOUNT	TOTAL
<u>ASSETS</u>						
Cash and Cash Equivalents	\$ 22,420	\$ 35,848	\$ 50,950	\$ 68,692	\$ 2,027	\$ 179,937
<u>LIABILITIES</u>						
Due to Other Funds	0	0	76	0	0	76
Due to Groups and Organizations	22,420	35,848	50,874	68,692	2,027	179,861
Total Liabilities	22,420	35,848	50,950	68,692	2,027	179,937
<u>NET POSITION</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
AGENCY FUND - NORMAN ELEMENTARY SCHOOL ACCOUNT

YEAR ENDED JUNE 30, 2016

	BALANCE 7/1/2015	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2016
1st Grade	\$ 100	\$ 0	\$ 0	\$ 100
2nd Grade	2	0	0	2
3rd Grade	520	0	0	520
4th Grade	150	20	0	170
5th Grade	8	0	0	8
Accelerated Reader	38	0	0	38
Activity	8,224	5,896	7,363	6,757
Book Fair	0	6,687	6,687	0
Dollar General/Hop Sports MS	57	0	0	57
Family Fun Night	232	3,750	2,491	1,491
Family School Service	314	0	0	314
Fitness Program	70	0	0	70
Fun Fours	30	0	0	30
General Mills Foundation / Jo Knack	1,000	0	0	1,000
General Mills Foundation	4,002	0	0	4,002
Interest Fund	217	24	0	241
Library	150	1,073	87	1,136
LIFT	12	0	0	12
Meemic Foundation / Guiney	243	0	0	243
Nutrition Grant	557	0	0	557
Osceola County Foundation Grant	1,650	1,075	1,213	1,512
Pop	1	0	0	1
PTO Fund	241	0	0	241
Safety Patrol	20	0	0	20
Target	1,580	0	0	1,580
TransCanada	1,116	0	0	1,116
United Way Grant	1,202	0	0	1,202
	<u>\$ 21,736</u>	<u>\$ 18,525</u>	<u>\$ 17,841</u>	<u>\$ 22,420</u>

Represented by

Assets

Cash

\$ 21,736

\$ 22,420

Liabilities

Due to Groups and Organizations

\$ 21,736

\$ 22,420

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
AGENCY FUND - MIDDLE SCHOOL ACCOUNT

YEAR ENDED JUNE 30, 2016

	BALANCE 7/1/2015	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2016
6th Grade	\$ 2,473	\$ 2,475	\$ 2,934	\$ 2,014
7th Grade	229	3,565	3,584	210
8th Grade	7,207	17,231	17,692	6,746
ACT Aspire	711	203	459	455
Art Club	401	261	450	212
Band Resales	0	262	223	39
Band Sales	0	33,258	32,778	480
CBI Classroom	0	852	547	305
Counseling	40	536	349	227
EGG	717	666	414	969
Finance Class	4,427	6,795	6,033	5,189
Grant Money	305	0	0	305
Interest	176	44	201	19
Language Arts Books	824	0	0	824
Math Counts	121	1,764	1,447	438
Math Department	18	0	0	18
Osceola Foundation	593	695	696	592
PAT	0	1,504	1,135	369
Peer to Peer	167	0	44	123
Pep Club	2,587	0	474	2,113
Pop Fund	790	2,900	3,503	187
RCMS Green	162	168	66	264
School Improvement	0	306	221	85
Science Department	1,162	1,400	1,415	1,147
Shop Department	292	918	1,141	69
Ski Club	1,388	2,114	2,200	1,302
Student Activity Fund	203	0	203	0
Student Council	10,762	720	3,648	7,834
Track	120	0	0	120
Yearbook	2,290	2,555	1,652	3,193
	<u>\$ 38,165</u>	<u>\$ 81,192</u>	<u>\$ 83,509</u>	<u>\$ 35,848</u>
Represented by				
Assets				
Cash	<u>\$ 38,165</u>			<u>\$ 35,848</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 38,165</u>			<u>\$ 35,848</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
AGENCY FUND - HIGH SCHOOL ACCOUNT

YEAR ENDED JUNE 30, 2016

	BALANCE 7/1/2015	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2016
Advance Placement English	\$ 43	\$ 868	\$ 680	\$ 231
Annual (Yearbook)	3,930	17,590	16,576	4,944
Bailey Scholarship	240	0	0	240
Chicago Trip	558	0	0	558
Choral Music	7	390	228	169
Class of 2006	1,177	0	0	1,177
Class of 2007	526	0	0	526
Class of 2009	30	0	0	30
Class of 2010	2,303	0	0	2,303
Class of 2011	150	0	0	150
Class of 2013	232	0	232	0
Class of 2014	414	0	0	414
Class of 2015	1,115	0	1,115	0
Class of 2016	1,840	5,361	6,193	1,008
Class of 2017	1,560	8,236	8,181	1,615
Class of 2018	393	4,271	965	3,699
Class of 2019	0	1,200	0	1,200
Class of 2020	0	600	0	600
Coke Account	1,896	1,192	1,900	1,188
Counseling	2,138	1,125	446	2,817
Dance Team	58	127	184	1
E.G.G.	87	253	85	255
English/Math	654	0	0	654
Equestrian Team	577	869	1,394	52
Fees	177	0	0	177
FIRST Robotic Team	1,086	9,187	7,450	2,823
Gen Mills P.E. Grant	16	0	0	16
Grant Fund	1,089	300	285	1,104
GRBS Scholarship	2,000	1,000	1,000	2,000
Health Education - Drug Free	1,372	680	283	1,769
High School Improvement	3,609	2,584	3,590	2,603
Industrial Arts	904	2,042	1,746	1,200
Interest	216	94	0	310
Leadership	656	0	0	656
Miss Kadwell Schol Fund	0	2,000	0	2,000
National Art	1,548	779	1,299	1,028

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
AGENCY FUND - HIGH SCHOOL ACCOUNT

YEAR ENDED JUNE 30, 2016

	BALANCE 7/1/2015	RECEIPTS (Including Transfers)	DISBURSEMENTS	BALANCE 6/30/2016
National Honor Society	38	6,839	6,689	188
Pay It Forward	0	610	0	610
Pepsi Cola Fund	1,118	513	666	965
Project Outreach	0	500	230	270
Quizbowl	243	581	464	360
Restitution Account	25	51	0	76
Science	378	0	378	0
Science Dome	1,120	3,282	3,124	1,278
Ski Club	468	0	0	468
Spanish Club	69	0	0	69
Student Council	2,733	6,700	5,612	3,821
Student Parking Permit	387	725	250	862
Transcript Account	0	5	0	5
Vending Machine	100	1,144	597	647
Weight Room	0	4,300	3,089	1,211
Welding	100	0	0	100
Wes Leonard	0	372	0	372
Youth Advisory Committee	5	800	750	55
	<u>\$ 39,385</u>	<u>\$ 87,170</u>	<u>\$ 75,681</u>	<u>\$ 50,874</u>

Represented by

Assets

Cash

\$ 39,385

\$ 50,950

Liabilities

Due to Other Funds

0

76

Due to Groups and Organizations

39,385

50,874

Total Liabilities

39,385

50,950

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND BALANCE
AGENCY FUND - ATHLETIC FUNDRAISING ACCOUNT

YEAR ENDED JUNE 30, 2016

	<u>BALANCE</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u>
	<u>7/1/2015</u>	<u>(Including Transfers)</u>		<u>6/30/2016</u>
Athletic Director	\$ 16,714	\$ 733	\$ 16,248	\$ 1,199
Baseball	142	1,486	1,627	1
Boys Basketball	2,816	11,119	11,390	2,545
Boys Soccer	2,065	1,397	1,276	2,186
Cheer	2,118	0	0	2,118
Cross Country	61	23	0	84
Football	1,483	17,357	15,276	3,564
Girls Basketball	1,023	7,313	7,188	1,148
Girls Soccer	1,670	103	189	1,584
Golf	53	1,030	1,082	1
Invitational	14,708	4,880	3,982	15,606
Little League	258	11,627	10,285	1,600
MHSAA Tournament	14,934	14,841	11,777	17,998
School Store	570	0	0	570
Softball	1,376	4,571	4,260	1,687
Track	3,792	5,359	5,516	3,635
Volleyball	267	1,382	1,649	0
Wrestling	1,646	3,365	2,197	2,814
Annual Golf Outing	10,176	13,161	13,355	9,982
Unclassified	546	73	249	370
	<u>\$ 76,418</u>	<u>\$ 99,820</u>	<u>\$ 107,546</u>	<u>\$ 68,692</u>
Represented by				
Assets				
Cash	<u>\$ 76,418</u>			<u>\$ 68,692</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 76,418</u>			<u>\$ 68,692</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND BALANCE
AGENCY FUND - BEVERAGE CONSORTIA ACCOUNT

YEAR ENDED JUNE 30, 2016

	<u>BALANCE</u>	<u>RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>BALANCE</u>
	<u>7/1/2015</u>	<u>(Including Transfers)</u>		<u>6/30/2016</u>
Beverage Consortia	\$ 2,588	\$ 403	\$ 964	\$ 2,027
Represented by				
Assets				
Cash	<u>\$ 2,588</u>			<u>\$ 2,027</u>
Liabilities				
Due to Groups and Organizations	<u>\$ 2,588</u>			<u>\$ 2,027</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF BONDS PAYABLE

JUNE 30, 2016

2012 REFUNDING BONDS

<u>TITLE OF ISSUE</u>	2012 Refunding Bonds
<u>PURPOSE</u>	Advance refunding of a portion of the 2004 School Building and Site Bonds
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year
<u>AMOUNT OF ISSUE</u>	\$ 3,030,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>			
		<u>TOTAL FISCAL YEAR</u>	<u>SEMI-ANNUAL INTEREST PAYMENTS</u>		<u>PRINCIPAL MAY 1</u>
			<u>NOV 1</u>	<u>MAY 1</u>	
2017	3.000 %	\$ 760,800	\$ 35,400	\$ 35,400	\$ 690,000
2018	3.000 %	750,100	25,050	25,050	700,000
2019	3.000 %	739,100	14,550	14,550	710,000
2020	3.000 %	267,800	3,900	3,900	260,000
		<u>\$ 2,517,800</u>	<u>\$ 78,900</u>	<u>\$ 78,900</u>	<u>\$ 2,360,000</u>

REED CITY AREA PUBLIC SCHOOLS
REED CITY, MICHIGAN

SCHEDULE OF BONDS PAYABLE
JUNE 30, 2016

2015 REFUNDING BONDS

<u>TITLE OF ISSUE</u>	2015 Refunding Bonds		
<u>PURPOSE</u>	Advance refunding of the 2015 School Building and Site Bonds		
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year		
<u>AMOUNT OF ISSUE</u>			\$ 7,645,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>			
		<u>TOTAL FISCAL YEAR</u>	<u>SEMI-ANNUAL INTEREST PAYMENTS</u>		<u>PRINCIPAL MAY 1</u>
			<u>NOV 1</u>	<u>MAY 1</u>	
2017	3.000 %	\$ 339,500	\$ 152,250	\$ 152,250	\$ 35,000
2018	3.000 %	348,450	151,725	151,725	45,000
2019	3.000 %	352,100	151,050	151,050	50,000
2020	4.000 %	815,600	150,300	150,300	515,000
2021	4.000 %	1,075,000	140,000	140,000	795,000
2022	4.000 %	1,053,200	124,100	124,100	805,000
2023	4.000 %	1,016,000	108,000	108,000	800,000
2024	4.000 %	974,000	92,000	92,000	790,000
2025	4.000 %	932,400	76,200	76,200	780,000
2026	4.000 %	891,200	60,600	60,600	770,000
2027	4.000 %	850,400	45,200	45,200	760,000
2028	4.000 %	810,000	30,000	30,000	750,000
2029	4.000 %	780,000	15,000	15,000	750,000
		<u>\$ 10,237,850</u>	<u>\$ 1,296,425</u>	<u>\$ 1,296,425</u>	<u>\$ 7,645,000</u>

