

Airport  
Community  
Schools



Year Ended  
June 30, 2016

Financial  
Statements

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# AIRPORT COMMUNITY SCHOOLS

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## INDEPENDENT AUDITORS' REPORT

October 19, 2016

Board of Education  
Airport Community Schools  
Carleton, 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 *Airport Community Schools* (the "District"), 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.

#### *Independent Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 Airport Community Schools as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison of the general fund and food service special revenue fund for the year then ended in conformity 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 the schedules for the pension plan, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 19, 2016 on our consideration of Airport Community 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 the District's internal control over financial reporting and compliance.

*Rehmann Lobson LLC*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

# AIRPORT COMMUNITY SCHOOLS

## Management's Discussion and Analysis

This section of Airport Community Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section. This summary should not be taken as a replacement for the audit report which consists of the financial statements and other supplemental information that presents all the District's activities.

### Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Airport Community Schools financially as a whole. The government-wide financial statements provide information about the activities of the District as a whole and presents both a short-term and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements explain how services were financed in the short-term as well as what remains for future spending. The fund financial statements report the District's operations in more detail than the government-wide financial statements by providing information about the District's most significant funds - the general fund and the food service fund, and with all other funds presented in one column as nonmajor funds. The remaining statement, the Statement of Fiduciary Assets and Liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents. The following summary indicates how the various parts of this annual report are arranged:

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

Basic Financial Statements

*Government-wide Financial Statements*

*Fund Financial Statements*

*Notes to Financial Statements*

Required Supplementary Information

Other Supplementary Information

### Reporting the District as a Whole - Government-wide Financial Statements:

The Statement of Net Position and the Statement of Activities, which appear first in the District's financial statements, report information on the District as a whole in a manner similar to a private-sector business. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting which takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The relationship between revenues and expenses indicates the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools to assess the overall health of the District.

# AIRPORT COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Reporting the District's Most Significant Funds - Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. However, the District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues. The District's two types of funds, governmental and fiduciary, use different accounting approaches as further described below.

**Governmental funds** - Most of the District's services are reported in governmental funds. Governmental fund reporting focuses on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a district's near-term financing requirements. They are reported using the modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation format in the financial section.

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

**Fiduciary funds** - The District is the trustee, or fiduciary, for its student activity funds. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### Notes to the Financial Statements

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

### Other Information

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

# AIRPORT COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Government-wide Financial Analysis

Recall that the Statement of Net Position provides the perspective of the District as a whole. The following table provides a summary of the District's net position as of June 30, 2016:

	Governmental Activities	
	2016	2015
Current and other assets	\$ 7,875,949	\$ 6,592,376
Capital assets, net	20,144,676	19,845,736
<b>Total assets</b>	<b>28,020,625</b>	<b>26,438,112</b>
Deferred outflows of resources	4,538,762	4,538,088
Long-term liabilities	15,002,175	15,708,665
Other liabilities	37,099,919	32,904,500
<b>Total liabilities</b>	<b>52,102,094</b>	<b>48,613,165</b>
Deferred inflows of resources	111,497	3,336,950
Net position:		
Net investment in capital assets	6,649,174	5,678,632
Restricted	831,365	808,323
Unrestricted (deficit)	(27,134,743)	(27,460,870)
<b>Total net position</b>	<b>\$(19,654,204)</b>	<b>\$(20,973,915)</b>

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in fiscal year 2015. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPSERS net pension liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of \$19,654,204. Of this amount, (\$27,134,743) is unrestricted net position (deficit) and \$831,365 is restricted for various purposes. The operating results of the general fund will have a significant impact on the change in unrestricted net position from year to year.

# AIRPORT COMMUNITY SCHOOLS

## Management's Discussion and Analysis

The results of this year's operations for the District as a whole are reported in the Statement of Activities (see table below), which shows the changes in net position for the fiscal year ended June 30, 2016:

	Governmental Activities	
	2016	2015
Program revenues:		
Charges for services	\$ 1,075,241	\$ 830,396
Operating grants	5,554,503	4,861,923
General revenues:		
Property taxes	3,955,837	3,971,397
Unrestricted state aid	17,125,298	16,634,650
Other general revenues	110,488	177,674
Gain on sale of capital assets	16,987	-
Total revenues	<u>27,838,354</u>	<u>26,476,040</u>
Expenses:		
Instruction	14,455,001	13,474,816
Supporting services	8,618,154	8,527,611
Community service	650,065	418,448
Athletics	451,259	459,445
Food service	1,132,324	1,040,655
Interest on long-term debt	603,304	614,387
Unallocated depreciation	608,536	589,534
Total expenses	<u>26,518,643</u>	<u>25,124,896</u>
Change in net position	1,319,711	1,351,144
Net position:		
Beginning of year	(20,973,915)	7,237,673
Restatement for implementation of GASB 68	-	(29,562,732)
End of year	<u>\$(19,654,204)</u>	<u>\$(20,973,915)</u>

As indicated above, the cost of all of our governmental activities this year was \$26.5 million. Of the \$26.5 million, \$6.6 million was subsidized by revenue generated from charges for services and grants, with the remaining costs financed with general revenues. The District experienced a \$1.3 million increase in net position during fiscal year 2015-2016. This was due to several factors: decrease in maintenance, transportation, and athletic operational spending; recoup of DCTC vocational costs; and excess technology millage revenue over expenditures of approximately \$35,000.

### Fund Financial Analysis

As noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being held accountable for the resources taxpayers and others provide to it and may give more insight into the District's overall financial health.

# AIRPORT COMMUNITY SCHOOLS

## Management's Discussion and Analysis

As the District completed this year, the governmental funds reported a combined fund balance of \$4,534,786 which is an increase of \$564,017 from last year. The increase is directly linked to no wage increase for the 2015-16 fiscal year.

	General Fund	Food Service	Nonmajor Funds	Totals
Net change in fund balances	\$ 960,145	\$ (11,418)	\$ (384,710)	\$ 564,017
Fund balances, beginning of year	2,784,834	190,053	995,882	3,970,769
Fund balances, end of year	<u>\$ 3,744,979</u>	<u>\$ 178,635</u>	<u>\$ 611,172</u>	<u>\$ 4,534,786</u>

The fund balance of the general fund of \$3,744,979 as of June 30, 2016 consists of \$235,231 restricted for future technology expenditures, \$135,224 in nonspendable (prepaid) fund balance, \$38,871 assigned for subsequent year appropriations, and unassigned general fund balance of \$3,335,653 going into the 2016-17 fiscal year.

### General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires the Board of Education to adopt the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule illustrating the District's original and final budget amounts compared with amounts actually paid and received is provided in the basic financial statements. Revisions to the general fund original budget were as follows:

**Revenues** - The original budget for revenues was \$23.9 million and the final budget was \$25.5 million. The \$1.5 million increase was due primarily to the increase in state aid resulting from a higher student count than originally budgeted for, increase in State Aid Section 147c MPSERS UAAL RATE STABILIZATION revenue, and final allocations of federal grant funds for current year and unspent carryover funds from the previous grant year.

**Expenditures** - The original budget for expenditures was \$24.2 million compared to the final budget of \$25.2 million. The \$1 million increase was primarily due to increase in State Aid Section 147c MPSERS UAAL RATE STABILIZATION cost, increases in projected maintenance spending for summer projects, and grant budget increases for final current year allocations and carryover funds.

### Final Budget versus Actual Figures

- Revenues- Final budget for revenues was \$25.5 million compared to actual revenues of \$25.4 million. There were no significant variances between the final budget amounts and actual revenues.
- Expenditures - Final budget for expenditures was \$25.2 million compared to actual expenditures of \$24.4 million. Notable variances between budgeted expenditures and actual were, \$7,881 overage for high school instruction.

# AIRPORT COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Capital Assets

At June 30, 2016, the District had \$20.1 million invested in capital assets net of accumulated depreciation. Depreciation for the 2015-16 fiscal year totaled \$608,536. More detailed information about capital assets is presented in the Notes to Financial Statements.

### Debt

At June 30, 2016, the District had \$13.4 million in outstanding bonds payable. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the District's boundaries.

Other debt outstanding at June 30, 2016 includes a capital lease payable of \$108,856 and accrued compensated absences which had a balance of \$1.5 million at June 30, 2016. More detailed information about long-term liabilities is presented in the Notes to Financial Statements.

### Development of the 2016-17 Fiscal Year Budget

Our elected officials and administration consider many factors when setting the District's 2016-17 fiscal year budgets. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016-17 fiscal year will be 90% of the Fall 2016 and 10% of Spring 2016 student count. Additionally, the State will continue with section 25e process for changes in enrollment between the count dates. The 2016-17 general fund budget was adopted in June 2016, based on an estimate of 2,550 students which is that same as the 2015-16 school year. Approximately 76% of total revenue is from State sources. Based on early enrollment data at the start of the 2016-17 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2016-17 general fund budget.

Since the District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue estimating conference to estimate revenues. Based on the results of the most recent revenue conference, the State estimates that funds should be sufficient to support the appropriations to school districts for the 2016-17 foundation allowance. Upon final validation of the fiscal year's per pupil foundation, categorical funding and student count, the District will amend the budget accordingly.

### Contacting Airport Community Schools Business Office

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, 11270 Grafton Rd., Carleton, MI 48117.

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## BASIC FINANCIAL STATEMENTS

# AIRPORT COMMUNITY SCHOOLS

## Statement of Net Position

June 30, 2016

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 3,506,685
Receivables	4,176,360
Land contract receivable	33,669
Prepaid items	159,235
Capital assets not being depreciated	1,368,674
Capital assets being depreciated, net	<u>18,776,002</u>
<b>Total assets</b>	<u>28,020,625</u>
<b>Deferred outflows of resources</b>	
Deferred charge on refunding	43,683
Deferred pension amounts	<u>4,495,079</u>
<b>Total deferred outflows of resources</b>	<u>4,538,762</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	2,822,132
State aid anticipation note payable	485,714
Unearned revenue	130,517
Long-term debt:	
Due within one year	789,878
Due in more than one year	14,212,297
Net pension liability	<u>33,661,556</u>
<b>Total liabilities</b>	<u>52,102,094</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	<u>111,497</u>
<b>Net position</b>	
Net investment in capital assets	6,649,174
Restricted for:	
Food service	178,635
Debt service	354,931
Capital projects	49,196
Technology	248,603
Unrestricted (deficit)	<u>(27,134,743)</u>
<b>Total net position</b>	<u>\$ (19,654,204)</u>

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

# AIRPORT COMMUNITY SCHOOLS

## Statement of Activities

For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenues
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities</b>				
Instruction	\$ 14,455,001	\$ 510,158	\$ 4,006,600	\$ (9,938,243)
Supporting services	8,618,154	5,748	777,625	(7,834,781)
Community service	650,065	95,410	-	(554,655)
Athletics	451,259	86,565	-	(364,694)
Food service	1,132,324	377,360	770,278	15,314
Interest on long-term debt	603,304	-	-	(603,304)
Unallocated depreciation	608,536	-	-	(608,536)
<b>Total governmental activities</b>	<u>\$ 26,518,643</u>	<u>\$ 1,075,241</u>	<u>\$ 5,554,503</u>	<u>(19,888,899)</u>
<b>General revenues</b>				
Property taxes				3,955,837
Unrestricted state aid				17,125,298
Grants and contributions not restricted to specific programs				104,514
Unrestricted investment earnings				5,974
Gain on sale of capital assets				16,987
<b>Total general revenues</b>				<u>21,208,610</u>
<b>Change in net position</b>				1,319,711
<b>Net position, beginning of year</b>				<u>(20,973,915)</u>
<b>Net position, end of year</b>				<u>\$ (19,654,204)</u>

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

# AIRPORT COMMUNITY SCHOOLS

## Balance Sheet

Governmental Funds

June 30, 2016

	General	Food Service	Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and cash equivalents	\$ 2,525,776	\$ 386,937	\$ 593,972	\$ 3,506,685
Accounts receivable	67,667	2,848	-	70,515
Land contract receivable	-	-	33,669	33,669
Due from other governments	4,064,060	41,785	-	4,105,845
Due from other funds	6,489	103,283	-	109,772
Prepays	135,224	4,125	-	139,349
Inventory	-	19,886	-	19,886
<b>Total assets</b>	<b>\$ 6,799,216</b>	<b>\$ 558,864</b>	<b>\$ 627,641</b>	<b>\$ 7,985,721</b>
<b>Liabilities</b>				
Accounts payable	\$ 270,440	\$ 363,933	\$ 9,980	\$ 644,353
Salaries and benefits payable	2,079,696	883	-	2,080,579
Due to other funds	103,283	-	6,489	109,772
State aid anticipation note payable	485,714	-	-	485,714
Unearned revenue	115,104	15,413	-	130,517
<b>Total liabilities</b>	<b>3,054,237</b>	<b>380,229</b>	<b>16,469</b>	<b>3,450,935</b>
<b>Fund balances</b>				
Nonspendable:				
Prepays and inventory	135,224	24,011	-	159,235
Restricted:				
Technology	235,231	-	-	235,231
Food service	-	154,624	-	154,624
Debt service	-	-	452,131	452,131
Capital projects	-	-	49,196	49,196
Committed -				
Capital projects	-	-	109,845	109,845
Assigned -				
Subsequent year appropriations	38,871	-	-	38,871
Unassigned	3,335,653	-	-	3,335,653
<b>Total fund balances</b>	<b>3,744,979</b>	<b>178,635</b>	<b>611,172</b>	<b>4,534,786</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,799,216</b>	<b>\$ 558,864</b>	<b>\$ 627,641</b>	<b>\$ 7,985,721</b>

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

# AIRPORT COMMUNITY SCHOOLS

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2016

Fund balances - total governmental funds	\$ 4,534,786
<p>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>	
Capital assets	29,823,681
Accumulated depreciation	(9,679,005)
<p>Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.</p>	
Bonds and capital leases payable	(13,523,856)
Unamortized bond premium	(15,329)
Unamortized loss on refunding	43,683
Accrued interest on long-term debt	(97,200)
Compensated absences	(1,462,990)
<p>Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.</p>	
Net pension liability	(33,661,556)
Deferred outflows related to the net pension liability	4,495,079
Deferred inflows related to the net pension liability	(111,497)
Net position of governmental activities	<u>\$ (19,654,204)</u>

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

## AIRPORT COMMUNITY SCHOOLS

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

Governmental Funds

For the Year Ended June 30, 2016

	General	Food Service	Nonmajor Governmental Funds	Total
<b>Revenues</b>				
Local sources	\$ 5,482,191	\$ 367,376	\$ 1,249,899	\$ 7,099,466
State sources	19,339,149	43,960	-	19,383,109
Federal sources	602,490	736,302	-	1,338,792
<b>Total revenues</b>	<b>25,423,830</b>	<b>1,147,638</b>	<b>1,249,899</b>	<b>27,821,367</b>
<b>Expenditures</b>				
Current:				
Instruction	14,539,010	-	-	14,539,010
Supporting services	8,698,328	-	-	8,698,328
Athletics	448,201	-	-	448,201
Food service	-	1,159,056	-	1,159,056
Community services	643,326	-	-	643,326
Capital outlay	-	-	558,703	558,703
Debt service:				
Principal repayment	129,316	-	550,000	679,316
Interest and fiscal charges	5,504	-	590,906	596,410
<b>Total expenditures</b>	<b>24,463,685</b>	<b>1,159,056</b>	<b>1,699,609</b>	<b>27,322,350</b>
Revenues over (under) expenditures	960,145	(11,418)	(449,710)	499,017
<b>Other financing sources</b>				
Proceeds from sale of capital assets	-	-	65,000	65,000
<b>Net changes in fund balances</b>	<b>960,145</b>	<b>(11,418)</b>	<b>(384,710)</b>	<b>564,017</b>
Fund balances, beginning of year	2,784,834	190,053	995,882	3,970,769
<b>Fund balances, end of year</b>	<b>\$ 3,744,979</b>	<b>\$ 178,635</b>	<b>\$ 611,172</b>	<b>\$ 4,534,786</b>

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

# AIRPORT COMMUNITY SCHOOLS

## Reconciliation

Net Changes in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ 564,017

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

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

Capital assets purchases/constructed	955,489
Depreciation expense	(608,536)
Net book value of capital asset disposals	(48,013)

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

Principal payments on long-term liabilities	679,316
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Some expenses reported in the statement of activities do not require the use of financial resources and therefore are not reported as expenditures in the funds.

Change in net pension liability and related deferred amounts	(241,820)
Change in accrued interest payable on bonds	820
Amortization of refunding premium	1,022
Amortization of deferred charge on refunding	(8,736)
Change in the accrual for compensated absences	26,152

Change in net position of governmental activities	<u>\$ 1,319,711</u>
---	---------------------

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

# AIRPORT COMMUNITY SCHOOLS

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

Budget and Actual - General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenues</b>				
Local sources:				
Property taxes	\$ 2,914,620	\$ 2,780,499	\$ 2,795,004	\$ 14,505
Earnings on investments and deposits	2,400	5,531	5,974	443
Other local revenues	2,084,173	2,663,243	2,681,213	17,970
<b>Total local sources</b>	<b>5,001,193</b>	<b>5,449,273</b>	<b>5,482,191</b>	<b>32,918</b>
State sources:				
State school aid - unrestricted	16,422,753	17,158,084	17,125,298	(32,786)
Special education	893,550	1,042,767	1,042,768	1
At risk	586,893	605,681	600,167	(5,514)
Preschool	343,355	386,886	356,221	(30,665)
Career/Technical	-	21,862	79,117	57,255
Other	63,831	134,507	135,578	1,071
<b>Total state sources</b>	<b>18,310,382</b>	<b>19,349,787</b>	<b>19,339,149</b>	<b>(10,638)</b>
Federal sources:				
Title I	464,681	580,519	375,305	(205,214)
Title II-A	113,557	112,240	91,680	(20,560)
Homeless	-	-	152	152
Medicaid	10,165	2,101	4,817	2,716
USF	-	-	121,077	121,077
Upward bound	11,160	7,835	9,459	1,624
<b>Total federal sources</b>	<b>599,563</b>	<b>702,695</b>	<b>602,490</b>	<b>(100,205)</b>
<b>Total revenues</b>	<b>23,911,138</b>	<b>25,501,755</b>	<b>25,423,830</b>	<b>(77,925)</b>
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs:				
Elementary	3,607,376	3,855,205	3,846,988	(8,217)
Middle/Junior High	3,274,940	3,318,597	3,315,486	(3,111)
High School	3,496,708	3,604,153	3,611,036	6,883
Preschool/GSRP	405,698	441,303	384,205	(57,098)
Added needs	3,337,392	3,463,242	3,381,295	(81,947)
<b>Total instruction</b>	<b>14,122,114</b>	<b>14,682,500</b>	<b>14,539,010</b>	<b>(143,490)</b>

continued...

# AIRPORT COMMUNITY SCHOOLS

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

Budget and Actual - General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Expenditures (concluded)				
Supporting services:				
Instructional staff	952,169	1,088,197	912,657	(175,540)
Pupil services	1,103,823	1,076,999	1,061,719	(15,280)
General administration	337,783	364,655	340,649	(24,006)
School administration	1,445,160	1,455,035	1,442,657	(12,378)
Business services	470,816	510,855	503,778	(7,077)
Central services	662,355	666,863	623,943	(42,920)
Operations and maintenance	2,298,072	2,391,437	2,198,792	(192,645)
Pupil transportation	1,613,361	1,695,300	1,614,133	(81,167)
Total supporting services	<u>8,883,539</u>	<u>9,249,341</u>	<u>8,698,328</u>	<u>(551,013)</u>
Athletics	<u>485,705</u>	<u>491,444</u>	<u>448,201</u>	<u>(43,243)</u>
Community services	<u>601,211</u>	<u>675,881</u>	<u>643,326</u>	<u>(32,555)</u>
Debt service:				
Principal repayment	124,017	129,276	129,316	40
Interest and fiscal charges	10,869	6,049	5,504	(545)
Total debt service	<u>134,886</u>	<u>135,325</u>	<u>134,820</u>	<u>(505)</u>
Total expenditures	<u>24,227,455</u>	<u>25,234,491</u>	<u>24,463,685</u>	<u>(770,806)</u>
Net change in fund balance	(316,317)	267,264	960,145	692,881
Fund balance, beginning of year	<u>2,784,834</u>	<u>2,784,834</u>	<u>2,784,834</u>	-
Fund balance, end of year	<u>\$ 2,468,517</u>	<u>\$ 3,052,098</u>	<u>\$ 3,744,979</u>	<u>\$ 692,881</u>

concluded.

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

## AIRPORT COMMUNITY SCHOOLS

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

Budget and Actual - Food Service

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenues				
Local sources	\$ 390,142	\$ 455,474	\$ 367,376	\$ (88,098)
State sources	41,569	45,239	43,960	(1,279)
Federal sources	778,070	787,789	736,302	(51,487)
Total revenues	1,209,781	1,288,502	1,147,638	(140,864)
Expenditures				
Food service	1,168,524	1,265,178	1,159,056	(106,122)
Net change in fund balance	41,257	23,324	(11,418)	(34,742)
Fund balance, beginning of year	190,053	190,053	190,053	-
Fund balance, end of year	\$ 231,310	\$ 213,377	\$ 178,635	\$ (34,742)

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

# AIRPORT COMMUNITY SCHOOLS

## Statement of Fiduciary Assets and Liabilities

June 30, 2016

	Agency Funds
Assets	
Cash and cash equivalents	\$ 410,846
Liabilities	
Accounts payable	\$ 4,348
Due to student groups and activities	406,498
Total liabilities	\$ 410,846

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

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## NOTES TO FINANCIAL STATEMENTS

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for the agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or one year for expenditure-driven grants. 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.

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

Property taxes, intergovernmental revenue, 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. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those accounted for and reported in another fund.

The *food service special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for food service.

Additionally, the District reports the following fund types:

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

*Capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

The *agency funds* account for assets held for student activity groups and organizations and are custodial in nature.

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

The effect of interfund activity has been eliminated from the government-wide financial statements.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Equity

### *Deposits and Investments*

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

Investments are reported at fair value.

### *Receivables and Payables*

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

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Capital Assets*

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

	Years
Buildings and improvements	25-50
Licensed vehicles	5-10
Equipment	5-20

### *Deferred Outflows of Resources*

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

### *Compensated Absences*

It is the District's policy to permit employees to accumulate various earned but unused vacation and sick pay benefits. These are accrued when incurred in the District wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### *Deferred Inflows of Resources*

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

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Long-Term Obligations*

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

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

### *Fund Equity*

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance* is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports *assigned fund balance* (when applicable) for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board has given the CFO the authority to assign fund balance. *Unassigned fund balance* is the residual classification for the general fund.

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

### *Pensions*

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

## 2. BUDGETARY INFORMATION

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

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### 3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year ended June 30, 2016, the District incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control for high school and principal repayments functions in the general fund in the amount of \$6,883 and \$40, respectively.

### 4. SINKING FUND

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

### 5. DEPOSITS AND INVESTMENTS

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

Statement of Net Position	
Cash and cash equivalents	\$ 3,506,685
Statement of Fiduciary Assets and Liabilities	
Cash and cash equivalents	<u>410,846</u>
Total	<u>\$ 3,917,531</u>
Deposits	
Deposits (checking accounts and certificates of deposit)	<u>\$ 3,917,531</u>

#### Statutory Authority

State statutes authorize the District to invest in:

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

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

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

### Deposit and investment risk

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

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Districts’ investment policy does not have specific limits in excess of state law on investment credit risk. The District had no investments at year-end.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$3,803,268 of the District’s bank balance of \$4,053,268 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk. The District had no investments at year-end.

## 6. RECEIVABLES

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

	General	Food Service	Total
Receivables			
Accounts	\$ 67,667	\$ 2,848	\$ 70,515
Intergovernmental	4,064,060	41,785	4,105,845
	<u>\$ 4,131,727</u>	<u>\$ 44,633</u>	<u>\$ 4,176,360</u>

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### 7. CAPITAL ASSETS

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,331,374	\$ -	\$ 35,889	\$ 1,295,485
Construction in progress	3,876	69,313	-	73,189
	<u>1,335,250</u>	<u>69,313</u>	<u>35,889</u>	<u>1,368,674</u>
Capital assets, being depreciated:				
Buildings and improvements	23,640,175	416,774	-	24,056,949
Land improvements	1,027,377	44,389	-	1,071,766
Equipment and furniture	2,012,042	336,770	44,766	2,304,046
Vehicles	87,144	27,343	-	114,487
Educational media	846,859	60,900	-	907,759
	<u>27,613,597</u>	<u>886,176</u>	<u>44,766</u>	<u>28,455,007</u>
Less accumulated depreciation for:				
Buildings and improvements	6,461,948	452,587	-	6,914,535
Land improvements	544,803	38,375	-	583,178
Equipment and furniture	1,189,767	111,396	32,642	1,268,521
Vehicles	59,734	6,178	-	65,912
Educational media	846,859	-	-	846,859
	<u>9,103,111</u>	<u>608,536</u>	<u>32,642</u>	<u>9,679,005</u>
Total capital assets being depreciated, net	<u>18,510,486</u>	<u>277,640</u>	<u>12,124</u>	<u>18,776,002</u>
Governmental activities capital assets, net	<u>\$ 19,845,736</u>	<u>\$ 346,953</u>	<u>\$ 48,013</u>	<u>\$ 20,144,676</u>

Depreciation expense of \$608,536 was reported as “unallocated depreciation,” and was not allocated to specific functions.

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### 8. PAYABLES

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

	General	Food Service	Nonmajor	Total
<b>Fund Financial Statements</b>				
Accounts payable	\$ 270,440	\$ 363,933	\$ 9,980	\$ 644,353
Salaries and benefits payable	2,079,696	883	-	2,080,579
	<u>\$ 2,350,136</u>	<u>\$ 364,816</u>	<u>\$ 9,980</u>	2,724,932
<b>Government-wide Financial Statements</b>				
Accrued interest on long-term debt				97,200
				<u>\$ 2,822,132</u>

### 9. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

At June 30, 2016, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ 6,489	\$ 103,283
Food service	103,283	-
Nonmajor governmental funds	-	6,489
	<u>\$ 109,772</u>	<u>\$ 109,772</u>

The District reports interfund balances between many of its funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the statements of net position/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### 10. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absences transactions of the District for the year ended June 30, 2016:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
General obligation bonds	\$ 13,965,000	\$ -	\$ 550,000	\$ 13,415,000	\$ 560,000
Capital lease	215,216	-	106,360	108,856	108,856
Refunding bond premium	16,351	-	1,022	15,329	1,022
Other installment debt	22,956	-	22,956	-	-
Compensated absences	1,489,142	94,286	120,438	1,462,990	120,000
	<u>\$ 15,708,665</u>	<u>\$ 94,286</u>	<u>\$ 800,776</u>	<u>\$ 15,002,175</u>	<u>\$ 789,878</u>

Bonds payable at June 30, 2016, are comprised of the following issues:

#### General Obligation Bonds

\$5,000,000 2011A School Building and Site Bonds, due in annual installments of \$25,000 to \$460,000 through May 1, 2031; interest at 3.00% to 5.25%	\$ 4,910,000
\$1,875,000 2011B School Building and Site Bonds, due in annual installments of \$55,000 to \$240,000 through May 1, 2027; interest at 4.70% to 5.20%	1,795,000
\$4,640,000 2011C School Building and Site Bonds, due in annual installments of \$40,000 to \$910,000 through May 1, 2031; interest at 4.60% to 5.00%	4,600,000
\$3,045,000 2014 Refunding Bonds, due in annual installments of \$400,000 to \$475,000 through May 1, 2021; interest at 0.40% to 2.50%	<u>2,110,000</u>
<b>Total general obligation bonds payable</b>	<u><u>\$ 13,415,000</u></u>

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

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

Year Ended June 30,	Principal	Interest	Total
2017	\$ 560,000	\$ 583,201	\$ 1,143,201
2018	590,000	576,191	1,166,191
2019	615,000	565,679	1,180,679
2020	650,000	551,759	1,201,759
2021	685,000	533,906	1,218,906
2022-2026	4,285,000	2,167,182	6,452,182
2027-2031	6,030,000	955,881	6,985,881
	<u>\$ 13,415,000</u>	<u>\$ 5,933,799</u>	<u>\$ 19,348,799</u>

### Capital Leases

In fiscal year 2014, the District entered into a lease agreement for financing the purchase of technology equipment for \$557,049 over five years with an interest rate of 4.5%. This lease agreement qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. Total accumulated depreciation on this equipment at year end was \$362,582.

The future minimum lease obligation and the net present value of these minimum lease payments as of June 30, 2016, is as follows:

Year Ended June 30,	Amount
2017	\$ 111,410
Less interest	<u>(2,554)</u>
	<u>\$ 108,856</u>

## 11. SHORT-TERM DEBT

During the year, the District financed certain of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued. The \$485,714 note balance at June 30, 2016 bears interest rates at .76% and .64% and matures on July 20, 2016.

Changes in short-term state aid notes for the year ended June 30, 2016, were as follows:

	Beginning Balance	Additions	Deduction	Ending Balance
State aid note	<u>\$ 442,966</u>	<u>\$ 3,400,000</u>	<u>\$ 3,357,252</u>	<u>\$ 485,714</u>

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### 12. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2016, net investment in capital assets was comprised of the following:

Capital assets not being depreciated	\$ 1,368,674
Capital assets being depreciated, net	<u>18,776,002</u>
	<u>20,144,676</u>
Related debt:	
Bonds payable	13,415,000
Capital lease	108,856
Deferred loss on refunding	(43,683)
Refunding bond premiums	<u>15,329</u>
	<u>13,495,502</u>
Net investment in capital assets	<u>\$ 6,649,174</u>

### 13. RISK MANAGEMENT

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

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

### 14. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on July 1 and December 1 and are due on September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. District property tax revenues are recognized when levied to the extent that they result in current receivables (collected within sixty days after year end). Amounts received subsequent to August 31 are recognized as revenue when collected.

### 15. RETIREMENT PLAN

#### *Plan Description*

The Michigan Public School Employees' Retirement System (the "System" or MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (the "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.

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

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 financial statements are available at [www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr).

### *Benefits Provided*

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

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

### *Contributions and Funded Status*

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

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

The table below summarizes pension contribution rates in effect for fiscal year 2015.

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	22.52% - 23.07%
Member Investment Plan (MIP)	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 contribution to MPERS under all pension plans for the year ended June 30, 2016 was \$3,125,313.

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

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

At June 30, 2016, the District reported a liability of \$33,661,556 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District’s proportion of the net pension liability was determined by dividing each employer’s statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District’s proportion was 0.13782%, which was an increase of 0.00078% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$3,018,862. 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	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 111,497	\$ (111,497)
Changes in assumptions	828,819	-	828,819
Net difference between projected and actual earnings on pension plan investments	171,815	-	171,815
Changes in proportion and differences between employer contributions and proportionate share of contributions	645,508	-	645,508
	<u>1,646,142</u>	<u>111,497</u>	<u>1,534,645</u>
District contributions subsequent to the measurement date	2,848,937	-	2,848,937
	<u>2,848,937</u>	<u>-</u>	<u>2,848,937</u>
<b>Total</b>	<u><u>\$ 4,495,079</u></u>	<u><u>\$ 111,497</u></u>	<u><u>\$ 4,383,582</u></u>

\$2,848,937 reported as deferred outflows of resources related to pensions resulting from employer 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	\$ 268,197
2018	268,197
2019	223,243
2020	<u>775,008</u>
Total	<u><u>\$ 1,534,645</u></u>

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Actuarial Assumptions*

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.

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

Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus plan (hybrid)	7.5%
Projected salary increases	3.5% - 12.3%, including wage inflation at 3.5%
Cost of living adjustments	3% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.

### *Long-Term Expected Return on Plan Assets*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	5.90%	1.64%
Alternative investment pools	18.00%	9.20%	1.66%
International equity	16.00%	7.20%	1.15%
Fixed income pools	10.50%	0.90%	0.09%
Real estate and infrastructure pools	10.00%	4.30%	0.43%
Absolute return pools	15.50%	6.00%	0.93%
Short-term investment pools	2.00%	0.00%	0.00%
	<u>100.00%</u>		5.90%
Inflation			<u>2.10%</u>
Investment rate of return			<u>8.00%</u>

### Discount Rate

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

### Sensitivity of 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% (7.0% for the Hybrid 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 higher:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 43,398,374	\$ 33,661,556	\$ 25,453,019

# AIRPORT COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Pension Plan Fiduciary Net Position*

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

### *Payable to the Pension Plan*

At June 30, 2016, the District reported a payable of \$382,997 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016.

### *Other Postemployment Benefits*

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the *Premium Subsidy* plan, a defined benefit postemployment healthcare plan, which is funded by employers on a pre-funded basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 2.71% to 6.83% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

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

The District's contributions to MPSERS for other postemployment benefits amounted to \$1,166,364 for the year ended June 30, 2016.

## 16. SUBSEQUENT EVENTS

On August 22, 2016, the District borrowed \$1,199,265 and \$1,800,735 in State Aid Anticipation Notes. The notes bear interest at a rate of 1.00% and 0.76%, respectively, and are due on July 20, 2017.



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## REQUIRED SUPPLEMENTARY INFORMATION

# AIRPORT COMMUNITY SCHOOLS

## Required Supplementary Information MPERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30,	
	2015	2016
District's proportion of the net pension liability	\$ 30,184,873	\$ 33,661,556
District's proportionate share of the net pension liability	0.13704%	0.13782%
District's covered-employee payroll	\$ 11,662,150	\$ 11,530,631
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	258.83%	291.93%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%

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

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

# AIRPORT COMMUNITY SCHOOLS

## Required Supplementary Information MPSERS Cost-Sharing Multiple-Employer Plan

### Schedule of District Contributions

	Year Ended June 30,	
	2015	2016
Contractually required contribution	\$ 2,598,666	\$ 3,125,313
Contributions in relation to the contractually required contribution	<u>(2,598,666)</u>	<u>(3,125,313)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 11,895,630	\$ 11,601,050
Contributions as a percentage of covered employee payroll	21.85%	26.94%

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

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**COMBINING FUND  
FINANCIAL STATEMENTS**

# AIRPORT COMMUNITY SCHOOLS

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Debt Service	Capital Projects	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 458,620	\$ 135,352	\$ 593,972
Land contract receivable	-	33,669	33,669
<b>Total assets</b>	<b>\$ 458,620</b>	<b>\$ 169,021</b>	<b>\$ 627,641</b>
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 9,980	\$ 9,980
Due to other funds	6,489	-	6,489
<b>Total liabilities</b>	<b>6,489</b>	<b>9,980</b>	<b>16,469</b>
<b>Fund balances</b>			
Restricted	452,131	49,196	501,327
Committed	-	109,845	109,845
<b>Total fund balances</b>	<b>452,131</b>	<b>159,041</b>	<b>611,172</b>
<b>Total liabilities and fund balances</b>	<b>\$ 458,620</b>	<b>\$ 169,021</b>	<b>\$ 627,641</b>

# AIRPORT COMMUNITY SCHOOLS

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

Nonmajor Governmental Funds  
For the Year Ended June 30, 2016

	Debt Service	Capital Projects	Total
Revenues			
Local sources:			
Property taxes	\$ 1,077,893	\$ 26	\$ 1,077,919
Earnings on investments and deposits	-	686	686
Other local revenues	82,914	88,380	171,294
Total revenues	<u>1,160,807</u>	<u>89,092</u>	<u>1,249,899</u>
Expenditures			
Capital outlay	-	558,703	558,703
Debt service:			
Principal repayment	550,000	-	550,000
Interest and fiscal charges	590,906	-	590,906
Total expenditures	<u>1,140,906</u>	<u>558,703</u>	<u>1,699,609</u>
Revenues over (under) expenditures	19,901	(469,611)	(449,710)
Other financing sources			
Proceeds from sale of capital assets	-	65,000	65,000
Net changes in fund balances	19,901	(404,611)	(384,710)
Fund balances, beginning of year	<u>432,230</u>	<u>563,652</u>	<u>995,882</u>
Fund balances, end of year	<u>\$ 452,131</u>	<u>\$ 159,041</u>	<u>\$ 611,172</u>

# AIRPORT COMMUNITY SCHOOLS

## Combining Balance Sheet Nonmajor Capital Project Funds June 30, 2016

	Capital Projects	Sinking Fund	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 86,156	\$ 49,196	\$ 135,352
Land contract receivable	33,669	-	33,669
<b>Total assets</b>	<b>\$ 119,825</b>	<b>\$ 49,196</b>	<b>\$ 169,021</b>
<b>Liabilities</b>			
Accounts payable	\$ 9,980	\$ -	\$ 9,980
<b>Fund balances</b>			
Restricted	-	49,196	49,196
Committed	109,845	-	109,845
<b>Total fund balances</b>	<b>109,845</b>	<b>49,196</b>	<b>159,041</b>
<b>Total liabilities and fund balances</b>	<b>\$ 119,825</b>	<b>\$ 49,196</b>	<b>\$ 169,021</b>

# AIRPORT COMMUNITY SCHOOLS

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Capital Project Funds For the Year Ended June 30, 2016

	Capital Projects	Sinking Fund	Total
Revenues			
Local sources:			
Property taxes	\$ -	\$ 26	\$ 26
Earnings on investments and deposits	663	23	686
Other local revenues	88,380	-	88,380
Total revenues	89,043	49	89,092
Expenditures			
Capital outlay	558,703	-	558,703
Revenues over (under) expenditures	(469,660)	49	(469,611)
Other financing sources			
Proceeds from sale of capital assets	65,000	-	65,000
Net changes in fund balances	(404,660)	49	(404,611)
Fund balances, beginning of year	514,505	49,147	563,652
Fund balances, end of year	\$ 109,845	\$ 49,196	\$ 159,041

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