TAHQUAMENON AREA SCHOOLS
Luce County, Michigan

Annual Financial Report

For the year ended June 30, 2015

Hungerford Nichols CPAs + Advisors
Where good ideas add up

TAHQUAMENON AREA SCHOOLS
Table of Contents

For the year ended June 30, 2015

TAHQUAMENON AREA SCHOOLS
Table of Contents (Continued)

For the year ended June 30, 2015

Supplementary Information

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

October 19, 2015

The Board of Education
Tahquamenon Area Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Tahquamenon Area Schools (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of Tahquamenon Area Schools as of June 30, 2015, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note G to the financial statements, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* for the fiscal year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 11 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 Tahquamenon Area Schools' basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015 on our consideration of Tahquamenon Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Tahquamenon Area Schools' internal control over financial reporting and compliance.

Hungerford Nichols

Certified Public Accountants

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MANAGEMENT’S DISCUSSION AND ANALYSIS

As management of the Tahquamenon Area Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of four parts: Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

    - *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

    - *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data; Required Supplementary Information includes pension information schedules; Other Supplementary Information follows and includes combining and individual fund statements and schedules.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. 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 it has 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 is 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, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities*: The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

New Accounting Pronouncements Implemented

The District implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing (pension) liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. These changes resulted in a reduction of $8,427,747 in district-wide net position as of July 1, 2014, (to record the beginning net pension liability of $9,151,164 less the pension contributions made after the measurement date of $723,416) and now include the *net pension liability* of the District of $8,602,327 at June 30, 2015.

Condensed District-wide Financial Information

The Statement of Net Position provides financial information on the District as a whole.

	2015	2014
Assets		
Current assets	$ 1,556,901	$ 1,934,309
Other assets	6,870	7,485
Net capital assets	5,231,427	5,318,166
Total Assets	**6,795,198**	**7,259,960**
Deferred Outflows of Resources	**1,263,848**	—
Liabilities		
Current liabilities	2,291,193	1,823,318
Long-term liabilities	3,709,612	4,067,392
Net pension liability	8,602,327	—
Total Liabilities	**14,603,132**	**5,890,710**
Deferred Inflows of Resources	**950,991**	—
Net Position		
Net investment in capital assets	2,366,525	1,903,166
Restricted	348,137	656,814
Unrestricted (deficit)	(10,209,739)	(1,190,730)
Total Net Position	**$ (7,495,077)**	**$ 1,369,250**

The Statement of Activities presents changes in net position from operating results:

	2015	2014
Program Revenues		
Charges for services	$ 249,683	$ 221,899
Operating grants	1,750,391	1,293,736
General Revenues		
Property taxes	3,705,041	3,759,904
State school aid, unrestricted	2,127,209	2,354,000
Interest and investment earnings	8,463	10,183
Other	66,759	105,523
Total Revenues	7,907,546	7,745,245
Expenses		
Instruction	4,696,706	4,269,641
Supporting services	2,465,961	2,585,800
Community services	127,192	375,914
Food service	368,560	193,599
Other	33,209	—
Interest on long-term debt	138,417	80,316
Depreciation – unallocated	514,080	439,447
Total Expenses	8,344,125	7,944,717
Decrease in net position	(436,579)	(199,472)
Net Position - Beginning of Year, as restated	(7,058,498)	1,568,722
Net Position - End of Year	**$ (7,495,077)**	**$ 1,369,250**

Financial Analysis of the District as a Whole

Total expenses exceeded revenues by $436,579 on the Statement of Activities, decreasing total net position (as restated) from a deficit of $7,058,498 at June 30, 2014 to a deficit of $7,495,077 at June 30, 2015. Unrestricted net assets (as restated) decreased by $561,262 to a deficit of $10,209,739 at June 30, 2015.

The District's total revenues were $7.9 million. Property taxes and unrestricted State aid accounted for most of the District's revenues, contributing 74% of the total. The remainder came from State and federal aid for specific programs, fees charged for services, interest earnings and other local sources.

The total cost of all programs was $8.3 million. The District's expenses are predominantly related to instructing, caring for (pupil services) and transporting students (65 percent). The District's administrative and business services accounted for 10 percent, and operation and maintenance services accounted for 6 percent of total costs.

The current position of the District's finances can be credited to continued declining enrollment, increased staff costs and repair and maintenance of our building. For fiscal year 2015, the District has ended in deficit.

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. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. As a general rule, fund balances from one fund are prohibited from being expended on expenditures of another fund.

The District utilizes two kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information following the governmental funds' statements explain the relationship (or differences) between them.

- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship and Student Activities Funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Rockford Public School's funds are described as follows:

Major Funds

- The General Fund is our primary operating fund. The General Fund had total revenues of $6,707,127, total expenditures of $6,816,612, and total other financing uses of $30,564. The General Fund ended the fiscal year with a fund deficit of $130,074, down from a fund balance of $9,975 at June 30, 2014.

Nonmajor Funds

- The Food Service Fund, which administers the hot lunch program of the District, had total revenues of $408,815 and total expenditures of $375,561 in 2014-15, increasing its fund balance to $48,149 at June 30, 2015 from $14,895 at June 30, 2014.

- The Public Library Fund, which administers the library program for Luce County, had total revenues of $139,129 and total expenditures of $129,670 in 2014-15, increasing its fund balance to $126,633 at June 30, 2015 from $117,174 at June 30, 2014.

- The District operates two Debt Service Funds to finance the repayment of general obligation bonds. Total revenues were $652,077, and total expenditures were $660,815. The ending fund balances totaled $159,856, down from $168,594 at June 30, 2014.

- The 2010 Construction Capital Projects Fund accounts for bond proceeds and voter approved capital improvement projects. Total revenues were $1,013, with total expenditures of $468,132 for the fiscal year. The fund balance at year end was $32,453, down from $499,572 at June 30, 2014.

- The Scholarship Fund is operated as a Private Purpose Trust Fund of the District. The assets of this fund are being held for the benefit of District students. Balances on hand at June 30, 2015 totaled $130,253.

- The Student Activities Fund is operated as an Agency Fund of the District. The assets of this fund are being held for the benefit of District students. Balances on hand at June 30, 2015 totaled $209,989.

General Fund Budgetary Highlights

During the course of the year, the District continuously reviews the annual operating budget after the June adoption. Changes in the budget are due to the following:

- Changes made in the fall to account for the final student enrollment, which determines how much state foundation grant will be received during the fiscal year.

- Final amendments are made in June for increases in appropriations to prevent budget overruns and reductions in expenses put into place by the administration.

Capital Asset and Debt Administration

Capital Assets

By the end of 2015, the District had a $10,575,978 investment in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.)

At June 30, 2015, the District's investment in capital assets (net of accumulated depreciation), was $5,231,427. Capital asset additions totaled $427,341 for the fiscal year with accumulated depreciation increasing $514,080, leaving a net decrease in the book value of capital assets of $86,739.

The District's net investment in capital assets, including land, land improvements, buildings and additions, vehicles and furniture and equipment, is detailed as follows:

Land	$ 74,232
Buildings and additions	4,485,494
Vehicles	392,020
Furniture and equipment	279,681
Net Capital Assets	$ 5,231,427

Long-term Debt

At year end, the District had $4.7 million in general obligation bonds and other long-term debt outstanding – a net decrease of $93,292 from June 30, 2014.

The District's bond rating for general obligation debt was affirmed by Standard and Poor's as AA- with stable outlook. 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 a District's boundaries.

The District's other obligations include early retirement incentive and accumulated sick leave. We present more detailed information about our long-term liabilities in Note G in the Notes to Basic Financial Statements.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstances that could significantly affect its financial health in the future:

- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program and the Michigan Merit Exam) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students will be more important as certain portions of funding are tied to it.

- Cost increases exceeding the general rate of inflation continue to be expected for the District relative to health care and pension contribution obligations in 2015-16 and beyond. These costs represent a significant portion of the District's budget and their rate of increase is a concern to management. Surges in prices of energy commodities such as diesel, gasoline and natural gas have abated and prices have even declined. If this trend is sustained, it may provide some relief from the rate of growth in overall operating costs going forward.

- The District and bargaining units negotiated a one-year agreement expiring at the end of the 2014-15 school year. The current contract provides health insurance utilizing MESSA ABC High-Deductible Plan as the standard plan with staff paying 20% of the premium. Recent changes to laws regulating the bidding and procurement of health insurance may change the way insurance is provided to the bargaining units.

- The District is currently in deficit, many staff and suppply cuts have been planned for the 2016 fiscal year, however, the staff cuts may be affected by the unforseen needs of individual students. Also, building repair and maintenance issues increase as the building ages and bond funds are depleted.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Tahquamenon Area Schools, 700 Newberry Avenue, Newberry, 49868.

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BASIC FINANCIAL STATEMENTS

TAHQUAMENON AREA SCHOOLS
Statement of Net Position
June 30, 2015

	Governmental Activities
Assets	
Cash equivalents, deposits and investments (Note B)	$ 736,411
Accounts receivable	10,000
Due from other governmental units (Note C)	713,762
Inventory	2,894
Prepaid expenses	93,834
Land contract receivable	6,870
Capital assets not being depreciated (Note E)	74,232
Capital assets being depreciated, net (Note E)	5,157,195
Total Assets	6,795,198
Deferred Outflows of Resources	
Deferred pension amounts	1,263,848
Liabilities	
Accounts payable	183,942
State aid loan payable (Note F)	575,000
Due to other governmental units	69,441
Payroll withholdings payable	8,231
Accrued expenses	125,296
Accrued interest payable	20,954
Salaries payable	355,974
Long-term liabilites (Note G):	
Due within one year	952,355
Due in more than one year	3,709,612
Net pension liability	8,602,327
Total Liabilities	14,603,132
Deferred Inflows of Resources	
Deferred pension amounts	950,991
Net Position	
Net investment in capital assets	2,366,525
Restricted for:	
Capital outlay	32,453
Debt service	140,902
Library	126,633
Food service	48,149
Unrestricted (deficit)	(10,209,739)
Total Net Position	$ (7,495,077)

See accompanying notes to basic financial statements.

TAHQUAMENON AREA SCHOOLS
Statement of Activities
For the year ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants	Net (Expense) Revenue and Changes In Net Position
Governmental Activities				
Instruction	$ 4,696,706	$ -	$ 1,236,062	$ (3,460,644)
Supporting services	2,465,961	97,581	61,687	(2,306,693)
Community services	127,192	9,184	129,476	11,468
Food service	368,560	142,918	265,682	40,040
Other	33,209	-	-	(33,209)
Interest on long-term debt	138,417	-	57,484	(80,933)
Depreciation - unallocated*	514,080	-	-	(514,080)
Total Governmental Activities	$ 8,344,125	$ 249,683	$ 1,750,391	(6,344,051)
	General Revenues			
	Taxes:			
	Property taxes, levied for general operations			3,112,673
	Property taxes, levied for debt service			592,368
	State school aid, unrestricted			2,127,209
	Interest and investment earnings			8,463
	Other			66,759
	Total General Revenues			5,907,472
	Change in Net Position			(436,579)
	Net Position - Beginning of year, as restated (Note K)			(7,058,498)
	Net Position - End of Year			$ (7,495,077)

*This amount excludes direct depreciation expenses of the various programs.

See accompanying notes to basic financial statements.

TAHQUAMENON AREA SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2015

	General	Nonmajor	Total
Assets			
Cash equivalents, deposits and investments (Note B)	$ 318,695	$ 417,716	$ 736,411
Accounts receivable	10,000	-	10,000
Due from other funds (Note D)	92,924	5,928	98,852
Due from other governmental units (Note C)	680,285	33,477	713,762
Inventory	-	2,894	2,894
Prepaid expenditures	93,834	-	93,834
Total Assets	$ 1,195,738	$ 460,015	$ 1,655,753
Liabilities and Fund Balances			
Liabilities			
Accounts payable	$ 177,942	$ -	$ 177,942
State aid anticipation loan payable (Note F)	575,000	-	575,000
Due to other funds (Note D)	11,928	92,924	104,852
Due to other governmental units	69,441	-	69,441
Payroll withholdings payable	8,231	-	8,231
Accrued expenditures	125,296	-	125,296
Accrued interest payable	2,000	-	2,000
Salaries payable	355,974	-	355,974
Total Liabilities	1,325,812	92,924	1,418,736
Fund Balances (Note A)			
Nonspendable	93,834	2,894	96,728
Restricted	-	339,697	339,697
Committed	-	24,500	24,500
Unassigned (deficit)	(223,908)	-	(223,908)
Total Fund Balances (Deficit)	(130,074)	367,091	237,017
Total Liabilities and Fund Balances	$ 1,195,738	$ 460,015	$ 1,655,753

See accompanying notes to basic financial statements.

TAHQUAMENON AREA SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2015

Total governmental fund balances		$ 237,017
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is $10,575,978 and accumulated depreciation is $5,344,551.		5,231,427
Certain assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds:		
Land contract receivable		6,870
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	$ (2,885,000)	
Bond discount	13,228	
Early retirement incentive	(1,425,254)	
Accumulated sick leave	(364,941)	(4,661,967)
Accrued interest on long-term debt is not included as a liability in governmental funds.		(18,954)
Net pension liability and related deferred outflows/inflows of resources are not included as assets/liabilities in governmental funds:		
Net pension liability	(8,602,327)	
Deferred outflows	1,263,848	
Deferred inflows	(950,991)	(8,289,470)
Total net position - governmental activities		$ (7,495,077)

See accompanying notes to basic financial statements.

TAHQUAMENON AREA SCHOOLS
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2015

	General	Nonmajor	Total
Revenues			
Local sources	$ 3,282,169	$748,392	$4,030,561
Non-educational entity sources	-	127,141	127,141
State sources	2,972,247	16,463	2,988,710
Federal sources	360,389	309,038	669,427
Interdistrict sources	92,322	-	92,322
Total Revenues	6,707,127	1,201,034	7,908,161
Expenditures			
Current:			
Instruction	4,342,159	-	4,342,159
Supporting services	2,473,326	-	2,473,326
Community services	1,127	129,670	130,797
Food service	-	375,561	375,561
Capital outlay	-	468,132	468,132
Debt service:			
Principal repayment	-	530,000	530,000
Interest and fiscal charges	-	130,815	130,815
Total Expenditures	6,816,612	1,634,178	8,450,790
Excess (Deficiency) of Revenues Over Expenditures	(109,485)	(433,144)	(542,629)
Other Financing Sources (Uses)			
Other	(30,564)	-	(30,564)
Net Change in Fund Balances	(140,049)	(433,144)	(573,193)
Fund Balances, Beginning of Year	9,975	800,235	810,210
Fund Balances, End of Year	$ (130,074)	$ 367,091	$ 237,017

See accompanying notes to basic financial statements.

TAHQUAMENON AREA SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2015

Net change in fund balances - total governmental funds		$ (573,193)
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 these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:		
Capital outlays	$ 427,341	
Depreciation expense	(514,080)	(86,739)
Land contract receivable collections in the current year were recoginzed as revenue in a prior year on the Statement of Activities.		(615)
Bond discount is amortized over the life of the bond issue on the Statement of Acitivities.		(2,645)
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not effect the Statement of Activities:		
Repayment of general obligation bonds		530,000
Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid.		(7,602)
In the Statement of Net Position, early retirement incentive and accumulated sick leave are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned ($585,336) exceeded the amounts used/paid ($151,253).		(434,063)
The changes in net pension liability and related deferred outflows/inflows of resources are not included as revenues/expenditures in governmental funds.		138,278
Total changes in net position - governmental activities		$ (436,579)

See accompanying notes to basic financial statements.

TAHQUAMENON AREA SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2015

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenues				
Local sources	$ 3,158,897	$ 3,209,427	$ 3,282,169	$ 72,742
State sources	2,702,122	2,917,169	2,972,247	55,078
Federal sources	465,081	496,656	360,389	(136,267)
Interdistrict sources	126,000	188,768	92,322	(96,446)
Total Revenues	6,452,100	6,812,020	6,707,127	(104,893)
Expenditures				
Current:				
Instruction:				
Basic programs	2,924,218	3,248,081	3,269,206	(21,125)
Added needs	1,196,220	1,114,733	1,072,953	41,780
Supporting services:				
Pupil services	203,183	206,532	203,580	2,952
Instructional staff services	239,665	227,738	118,900	108,838
General administrative services	295,915	274,165	267,617	6,548
School administrative services	344,143	360,618	351,713	8,905
Business services	190,003	188,612	186,137	2,475
Operation and maintenance services	497,658	517,313	524,955	(7,642)
Pupil transportation services	513,399	531,755	511,144	20,611
Central services	134,307	156,729	142,169	14,560
Other supporting services	114,229	117,618	167,111	(49,493)
Community services	6,621	1,459	1,127	332
Total Expenditures	6,659,561	6,945,353	6,816,612	128,741
Excess (Deficiency) of Revenues Over Expenditures	(207,461)	(133,333)	(109,485)	23,848
Other Financing Sources (Uses)				
Other	-	-	(30,564)	(30,564)
Net Change in Fund Balances	(207,461)	(133,333)	(140,049)	(6,716)
Fund Balances, Beginning of Year	9,975	9,975	9,975	-
Fund Balances, End of Year	$ (197,486)	$ (123,358)	$ (130,074)	$ (6,716)

See accompanying notes to basic financial statements.

TAHQUAMENON AREA SCHOOLS
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2015

	Private Purpose Trust Fund	Agency Fund
Assets		
Cash equivalents, deposits and investments	$ 130,253	$ 203,989
Due from other funds	-	6,000
Total Assets	130,253	$ 209,989
Liabilities		
Accounts payable	-	$ 7,354
Due to student groups	-	202,635
Total Liabilities	-	$ 209,989
Net Position		
Held in trust for:		
Individuals and organizations	$ 130,253	

See accompanying notes to basic financial statements.

TAHQUAMENON AREA SCHOOLS
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the year ended June 30, 2015

	Private Purpose Trust Fund
Additions	
Interest earnings	$ 84
Donations	100
Total Additions	184
Deductions	
Endowment activities - scholarships	17,576
Change In Net Position	(17,392)
Net Position, Beginning of Year	147,645
Net Position, End of Year	$ 130,253

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

Note A – Summary of Significant Accounting Policies

Tahquamenon Area Schools was organized under the School Code of the State of Michigan, and services a population of approximately 734 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Tahquamenon Area Schools (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District's significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District's financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-wide and Fund Financial Statements

District-wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District's net position is reported in three parts: net investment in capital assets, restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., 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 District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as is the fiduciary fund financial statement. 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 grantor or provider have been met.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with State law and accounting principles generally accepted in the United States of America.

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of a school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

Major Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Nonmajor Funds:

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Public Library Special Revenue Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record the bond proceeds, investment earnings and the disbursement of the monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

The Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of Section 1351a of the State of Michigan's School Code.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Trust Funds—Trust Fund net position and results of operations are not included in the district-wide financial statements. Trust funds are reported using the economic resources measurement focus.

Agency Funds—Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

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

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Tahquamenon Area Schools has also adopted a budget for its Public Library Special Revenue Fund. A school district's Budget Appropriations Act (the "budget") must be adopted before the beginning of each fiscal year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Tahquamenon Area Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Director of Business Services to establish proposed operating budgets for the fiscal year commencing the following July 1.

- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.

- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.

- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.

- The original General and Public Library Funds’ budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).

- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory/Prepaid Expenditures

Inventories are valued at cost (first-in, first-out), and are accounted for using the consumption method. Inventories of the Food Service Fund consist of food and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

8. Capital Assets

Capital assets, which include land, land improvements, buildings, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed $5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

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

Land improvements, buildings and additions, furniture and equipment, and vehicles are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and additions	40-50 years
Furniture and equipment	3-10 years
Vehicles	5-10 years

9. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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 issuance 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 expenditures.

10. Early Retirement Incentive/Accumulated Vacation/Sick Leave

Early retirement incentive and accumulated vacation/sick leave at June 30, 2015 have been computed and recorded in the basic financial statements of the District. Eligible District employees who select early retirement are entitled to a termination leave payment based on their age and years of service. Employees who leave the District are also entitled to reimbursement for a portion of their unused vacation/sick days. At June 30, 2015, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for early retirement incentive and accumulated sick leave amounted to $1,425,254 and $364,941, respectively.

11. Deferred Outflows/Inflows 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 future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two such items that qualify for reporting in this category: the deferred charge on a previous year's bond refunding and the deferred outflows relating to the recognition of net pension liability on the financial statements.

In addition to liabilities, the Statement of Net 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 future period(s) and so will *not* be recognized as in inflow of resources (revenue) until that time. The District has only one type of item that qualifies for reporting in this category: the deferred inflows of resources relating to the recognition of net pension liability on the financial statements.

12. Net Position

Net position represents the difference between assets and liabilities. Net position net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

13. Fund Balance

The District had adopted Governmental Accounting Standards Board (GASB) Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end. The Library Special Revenue Fund has a committed fund balance of $24,500 for technology purchases, facility improvements and unemployment.
- Assigned – resources that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes. Tahquamenon Area Schools' Board of Education has delegated authority to assign fund balances for a specific purpose to the Superintendent and the Assistant Superintendent of Finance. Assigned fund balance does not lapse at year end.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

As of June 30, 2015, Tahquamenon Area Schools had not established a policy for its use of unrestricted fund balance amounts; it considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used, but reserves the right to selectively spend unassigned resources first to defer the use of other classified funds.

13. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

14. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- 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.

- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally charted bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.

- Securities issued or guaranteed by agencies or instrumentalities of the United States government.

- United States government or Federal agency obligation repurchase agreements.

- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.

- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.

- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2015 related to cash equivalents are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	$ 736,411
Fiduciary Funds:	
Trust and Agency Funds	334,242
	$ 1,070,653

Cash Equivalents

Depositories actively used by the District during the year are detailed as follows:

1. mBank

Cash equivalents consist of bank public funds checking and savings accounts.

June 30, 2015 balances are detailed as follows:

Cash equivalents	$ 1,070,653

Custodial Credit Risk Related to Cash Equivalents
Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Protection of District cash equivalents is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents was $1,070,653, and the bank balance was $1,233,833. Of the bank balance, $409,992 was covered by federal depository insurance, and $823,841 was uninsured.

Credit Risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District's investment policy does not specifically address credit risk, but minimizes its credit risk by limiting investments to the types allowed by the State.

Interest Rate Risk
The District minimizes 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 funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of Credit Risk
The District minimizes concentration of credit risk which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The District's investment policy places no restrictions on the amount or percentage that may be invested in any one type of security.

Foreign Currency Risk
The District in not authorized to invest in investments which have this type of risk.

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2014 ad valorem State Education Taxes generated within the Tahquamenon Area Schools, and paid to the State of Michigan, totaled $1,728,755.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a “blended count” of District pupil membership in October, 2014 and February, 2015. The 2014-15 "Foundation Allowance" for Tahquamenon Area Schools was $7,126 for 734 “Full Time Equivalent" students, generating $2,906,182 in state aid payments to the District of which $528,140 was paid to the District in July and August, 2015 and included in “Due From Other Governmental Units” of the General and Food Service Special Revenue Funds of the District.

Property taxes for the District are levied July 1 (the tax lien date) by the Townships of Columbus, Hulbert, Lakefield, McMillan, Pentland and Portage, and are due 75 days after levy dates. The taxes are then collected by each governmental unit and remitted to the District. The Counties of Chippewa, Luce, Mackinac and Schoolcraft, through their Delinquent Tax Revolving Funds, advance all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill “Local Enhancement Millage” which must be shared between all local districts in each respective county intermediate district.

As Tahquamenon Area Schools' electors had previously (May 6, 2014) approved an operating millage extension, the 18 mill non-homestead property tax was levied in the District for 2014.

The District levied 2.0 mills for debt service purposes in 2014, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRE.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted “Local Enhancement Millage” nor any additional voted millage for the retirement of debt.

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

Note D – Interfund Receivables/Payables and Transfers

Amounts due from (to) other funds, representing interfund receivables and payables for year end expenditure allocations not reimbursed at June 30, 2015, are detailed as follows:

	Due From	Due To
Major Fund		
General Fund:		
Special Revenue Fund:		
Food Service	$ 92,924	$ 5,928
Agency Fund:		
Student Activities Fund	—	6,000
Total Major Fund	92,924	11,928
Nonmajor Fund		
Special Revenue Fund:		
Food Service:		
General Fund	5,928	92,924
Fiduciary Fund		
Agency Fund:		
Student Activities Fund:		
General Fund	6,000	—
Total All Funds	$ 104,852	$ 104,852

Note E – Capital Assets

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

	Balances July 1, 2014	Additions	Deductions	Balances June 30, 2015
Capital assets not being depreciated:				
Land	$ 74,232	$ —	$ —	$ 74,232
Capital assets being depreciated:				
Buildings and improvements	8,588,397	$ —	$ —	8,588,397
Furniture and equipment	682,905	342,606	—	1,025,511
Vehicles	803,103	84,735	—	887,838
Total capital assets being depreciated	10,074,405	$ 427,341	$ —	10,501,746
Less accumulated depreciation for:				
Buildings and improvements	3,988,756	$ 114,147	$ —	4,102,903
Furniture and equipment	425,700	320,130	—	745,830
Vehicles	416,015	79,803	—	495,818
Total accumulated depreciation	4,830,471	$ 514,080	$ —	5,344,551
Total capital assets being depreciated, net	5,243,934			5,157,195
Net Capital Assets	$ 5,318,166			$ 5,231,427

Depreciation expense for the District was $514,080. The District determined that is was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note F – Short-term Debt

On August 18, 2014, the District repaid the $500,000 State aid anticipation loan. On March 24, 2015, the District borrowed $575,000 for cash flow purposes, in anticipation of State aid (interest at 1%). The loan is due in full on August 31, 2015. Net interest cost on the loan was $2,000 for the fiscal year. This was included as an expenditure in General Fund Other Business Services as required by the Michigan Department of Education.

	Debt Outstanding July 1, 2014	Debt Added	Debt Retired	Debt Outstanding June 30, 2015
State Aid Anticipation Loans	$ 500,000	$ 575,000	$ 500,000	$ 575,000

Note G – Long-term Debt

Changes in long-term debt for the year ended June 30, 2015 are summarized as follows:

	Debt Outstanding July 1, 2014	Debt Added	Debt Retired	Debt Outstanding June 30, 2015
General obligation bonds:				
2010A Bonds	$ 1,265,000	$ —	$ 210,000	$ 1,055,000
June 16, 2010	2,150,000	—	320,000	1,830,000
Bond discount	(15,873)	—	(2,645)	(13,228)
Early retirement incentive	881,203	544,051	—	1,425,254
Accumulated sick leave	474,929	41,285	151,273	364,941
	$ 4,755,259	$ 585,336	$ 678,628	$ 4,661,967

Long-term debt outstanding at June 30, 2015 is comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
$2,000K 2010 General Obligation Series A:				
Annual maturities of $210K to $215K	May 1, 2020	4.5 – 5.40	$ 1,055,000	$ 210,000
$3,225K 2010 General Obligation Series B:				
Annual maturities of $335K to $400K	May 1, 2020	3.0 – 3.60	1,830,000	335,000
Bond discount			(13,228)	(2,645)
Other Obligations				
Early retirement incentive			1,425,254	300,000
Accumulated sick leave			364,941	110,000
			$ 4,661,967	$ 952,355

The annual requirements to pay principal and interest on long-term bonds and installment purchase agreements outstanding are as follows:

Year Ending June 30	Principal	Interest	Total
2016	$ 545,000	$ 113,723	$ 658,723
2017	560,000	94,223	654,223
2018	575,000	73,223	648,223
2019	590,000	50,440	640,440
2020	615,000	26,010	641,010
	$ 2,885,000	$ 357,619	$ 3,242,619

Note H – Retirement Plan

Summary of Significant Accounting Policies

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, the Statements identify the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actual present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Cost sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans – pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

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 School Employees Retirement System (MPSERS) and additions to/deductions from MPSERS fiduciary net position have been determined on the same basis as they are reported by MPSERS. 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.

Plan Description

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPSERS) (the "System"), a cost sharing, multiple employer, state-wide, defined benefit public employee retirement system 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. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/orsschools/.

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

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

Membership

At September 30, 2014, the System's membership consisted of the following:

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

Benefits Provided

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

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

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of 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 account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

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

Option 1 members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members; 4% contribution
- Member Investment Plan (MIP)-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Deferred Compensation plan for future service as of their transition date. As a DC 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 to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in the 457 account. Upon retirement, if they meet age and service requirements (including their total years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

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

Regular Retirement

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan (MIP) member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a BasicPlan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012 and is shown below:

Option 1: FAC x total years of service x 1.5%
Option 2: FAC x 30 years of service x 1.5% + FAC x years of service beyond 30 x 1.25%
Option 3: FAC x years of service as of transition date x 1.5% + FAC x years of service after transition date x 1.25%
Option 4: FAC as of transition date x years of service as of transition date x 1.5%

A MIP member who became a member of MPSERS prior to July 1, 2010 may retire at:

- age 46 with 30 or more years of credited service; or
- age 60 with 10 or more years of credited service; or
- age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.

A Pension Plus member who became a member of MPSERS after June 30, 2010 may retire at age 60 with 10 or more years of credited service.

A Basic Plan member may retire at:

- age 55 with 30 or more years of service; or
- age 60 with 10 or more years of service.

There is no mandatory retirement age.

Early Retirement

A member may retire with an early permanently reduced pension:

- after completing at least 15 but less than 30 years of credited service; and
- after attaining age 55; and
- with credited service in each of the 5 school years immediately preceding the pension effective date.

Deferred Retirement

If a member terminates employment before attaining the age qualification, but after accruing 10 or more years of credited service, the member becomes a deferred member and is eligible for a pension at the time the age qualification is attained.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled due to any non-duty related cause and who has not met the age requirement for a regular pension is eligible for a non-duty disability pension computed in the same manner as an age and service pension, upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by two percent for each year retired; first year 100%, next year 102%, etc.).

Duty Disability Benefit

A member who becomes totally and permanently disabled as a result of a duty-related cause, who has not met the age and service requirement for a regular pension, and who is in receipt of weekly workers' compensation is eligible for a duty disability pension computed in the same manner as an age and service pension (but based upon a minimum of 10 years of service) upon recommendation from the member's personal physician and the Retirement Board physician and the approval of the Retirement Board. An Annual Certification of Disability is conducted each January. Upon prior approval, total disability benefits plus authorized outside earnings are limited to 100% of final average compensation (increased by 2% for each year retired; first year 100%, next year 102%, etc.).

Forms of Payment

The election of a pension option is made at the time of application. Once a member has retired, the option choice is irrevocable. The pension effective date is the first of the calendar month following the date the member has satisfied the age and service requirements, has terminated public school employment and has the completed application forms on file with the System for a period of 15 days. A retroactive pension can be paid for no more than 12 calendar months. Thus, delay in filing the application can result in a loss of some retroactive pension benefits. An application may select only one of the following options.

Straight Life Pension – the Straight Life Pension pays the largest level pension a retiree can receive during his or her lifetime and stops with the month of the retiree's death. There are no monthly benefits for a beneficiary. The pension benefit is computed with no beneficiary rights. If the retiree made contributions while an employee and has not received the total accumulated contributions before death, a refund of the balance of the contributions is made to the beneficiary of record. If the retiree did not make any contributions, there will not be payments to any beneficiary.

Survivor Options - Under the Survivor Options, 100% Survivor Pension, 100% Equated, 75% Survivor Pension, 75% Equated, 50% Survivor Pension and 50% Equated, the reduction is an actuarial determination dependent upon the combined life expectancies of a retiree and a beneficiary, and varies from case to case. A beneficiary may only be a spouse, brother, sister, parent or child (including an adopted child) of a retiring member. If the beneficiary predeceases a retiree, the pension will revert to either the Straight Life or Straight Life Equated amount ("pop-up" provision). If, however, a retiree was single at the time of retirement and subsequently married, the retiree can request to nominate a new spouse if they elected the straight life option at retirement. Also, if a retiree was married at the time of retirement and has since been widowed and remarried, the retiree can request to nominate a new spouse as a pension beneficiary as long as they elected a survivor option for the spouse at the time of retirement.

100% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, the same amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

75% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 75% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

50% Survivor Pension – pays a reduced pension to a retiree. The month after a retiree's death, 50% of the pension amount will be paid to a designated beneficiary for the remainder of his or her lifetime.

Equated Plan – The Equated Plan may be combined with the Straight Life, 100% Survivor, 75% Survivor, or 50% Survivor pension by any member under age 61, except a disability applicant. The Equated Plan provides a higher pension every month until age 62, at which time the monthly pension is permanently decreased to a lower amount than the Straight Life, 100%, 75%, or 50% Survivor alone would provide.

The intent of the Equated Plan is for the retiree's pension to decrease at age 62 by approximately the same amount as that person's Social Security benefit will provide. The System pension until age 62 should be about the same as the combined System pension and Social Security after age 62.

The projected Social Security pension the retiring member obtains from the Social Security Administration and furnishes to the System is used in the Equated Plan calculation. The actual Social Security pension may vary from the estimate.

NOTE: The reduction in the pension at age 62 pertains to the Equated Plan only and affects only the retiree. A beneficiary under 100% Equated, 75% Equated or 50% Equated will receive the 100%, 75%, or 50% Survivor amount the month following the retiree's death as if the Equated Plan had not been chosen. A beneficiary does not participate in the Equated Plan.

Survivor Benefit

A non-duty survivor pension is available if a Member Investment Plan (MIP) member has 10 years of credited service or, if age 60 or older, with five years of credited service; the date they became a MIP member does not matter. The Basic Plan provides a survivor pension with 15 years of credited service or, if age 60 or older, with 10 years of credited service. An active member may nominate as a survivor beneficiary a spouse, child(ren) (including adopted child(ren)), brother, sister, or parent. If other than the spouse is nominated and a spouse exists, the spouse must waive this benefit. If no beneficiary has been nominated, the beneficiary is automatically the spouse; or, if there is no spouse, unmarried children under age 18 share the benefit equally until age 18. The benefit is computed as a regular pension but reduced in accordance with an Option 2 (100% survivor pension factor). The pension begins the first of the month following the member's death. In the event of death of a deferred member, the System begins payment to the nominated beneficiary at the time the member would have attained the minimum age qualification.

A duty survivor pension is payable if weekly Workers' Compensation is being paid to the eligible beneficiary due to the member's death. A spouse receives the benefit (based on a minimum of 10 years of service credit) reduced in accordance with a 100% survivor pension factor. If there is no spouse, unmarried children under age 18 share the benefit equally until age 18; if there is no spouse or child(ren), a disabled and dependent parent is eligible.

Post-Retirement Adjustments

A retiree who became a Member Investment Plan (MIP) member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

On January 1, 1990, pre-October 1, 1981 retirees received an increase that ranged from 1% to 22% dependent upon the pension effective date. On October 1, 1990, the base pension of all retirees with an effective pension date of January 1, 1987, or earlier was increased to include all prior post-retirement benefits.

On January 1, 1986, all recipients through calendar year 1985 received a permanent 8% increase that established the 1986 base pension. In addition, each October, retirees with a pension effective date of January 1, 1987, or earlier receive a fixed increase equal to 3% of the base pension. Both increases are deducted from the distribution of excess investment income, if any. Beginning in 1983, eligible recipients receive an annual distribution of excess investment income, if any.

Contributions

The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided". 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) (See Note I). 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 the 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 will be amortized over a 22 year period for the 2014 fiscal year.

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

The District's contributions to MPSERS under all pension plans for the year ended June 30, 2015, inclusive of the MSPERS UAAL Stabilization and one-time prepayment, totaled $985,383.

Total MPSERS plan actual employer contributions for retirement benefits were $1,364.1 million for fiscal year 2014. The fiscal year 2014 annual covered payroll was $8.79 billion. Required employer contributions based on previous year actuarial valuations for pensions included:

- $390.0 million for fiscal year 2014 for the normal cost of pensions representing 4.5% (before reconciliation) of annual covered payroll for fiscal year 2014.
- $1,541.9 million for fiscal year 2014 for amortization of unfunded actuarial liability representing 17.8% (before reconciliation) of annual covered payroll for fiscal year 2014.

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

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was $29.7 million and the discounted long-term receivable was $83.6 million at September 30, 2014.

MPSERS Plan Net Pension Liability

Total Pension Liability	$ 65,160,887,182
Plan Fiduciary Net Position	43,134,384,072
Net Pension Liability	$ 22,026,503,110
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered Employee Payroll	250.11%

Proportionate Share of Reporting Unit's Net Pension Liability

At June 30, 2015, the District reported a liability of $8,602,327 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of 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, 2014, the District's proportion was .03905444%.

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

For the year ended June 30, 2015, the District recognized pension expense of $669,813. At June 30, 2015, 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
Changes in assumptions	$ 317,407	$ —
Net difference between projected and actual earnings on pension plan investments	—	950,991
Changes in proportion and differences between District contributions and proportionate share of contributions	—	—
District contributions subsequent to the measurement date*	946,441	—
Total	$ 1,263,848	$ 950,991

*This amount, reported as deferred outflows 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, 2016.

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
2016	$ 155,212
2017	155,212
2018	155,212
2019	167,948

Valuation Assumptions

The rate of investment return was 8.0% a year, compounded annually net of investment and administrative expenses of the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

The assumed real return is the rate of return in excess of wage inflation. Considering other assumptions used in the valuation, the 8.0% nominal rate of translates to a net real return of 4.5% a year for the Non-Hybrid groups. Considering other assumptions used in the valuation, the 7.0% nominal rate translates to a net real return of 3.5% a year for the Hybrid group.

The rate of pay increase used for individual members is 3.5%. This assumption is used to project a member's current pay to the pay upon which System benefits will be based. The current assumption was first used for the September 30, 2004 valuation of the System.

Actuarial Cost Method – Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an Individual Entry-Age Actuarial Cost Method having the following characteristics:

- the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability (UAAL).

Financing of Unfunded Actuarial Accrued Liabilities – Unfunded actuarial accrued liabilities (full funding credit if assets exceed liabilities) were amortized by level (principal and interest combined) percent-of-payroll contributions over a reasonable period of future years.

Amortization of UAAL Resulting from the Early Retirement Incentive (ERI) Program of 2010 – it has been reported that 1.36% of payroll will be contributed beginning in fiscal year 2013 for a 10 year period to amortize the UAAL associated with the ERI program of 2010. In order to avoid duplication of the employer contributions, the present value of future ERI amortization payments is subtracted from the unfunded actuarial accrued liability (UAAL) to determine the remaining UAAL contribution.

Actuarial Value of System Assets – The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in over a closed five year period. During periods when investment performance exceeds the assumed rate, actuarial value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, actuarial value of assets will tend to be greater than market value. The actuarial value of assets was reset to marked value as of September 30, 2006, with five-year smoothing restarted at that time. The actuarial value of assets is developed separately for the Non-Hybrid and Hybrid portions of the System. The total actuarial value of assets is the sum of these two components.

Mortality Assumptions

The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. The final rates used include no margin for future mortality improvement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.

Experience Study

The annual actuarial report of the System used for these statements is dated September 30, 2014. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2014 valuation were based on the results on an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Discount Rate

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

- The expected rate of return on pension plan investments is 8.0%.
- The municipal bond rate is 3.480% (based on the weekly rate closeout to but not later that the measurement date of the 20-year Bond Buyer Index as published by the Federal Reserve).
- The resulting single discount rate is 8.0%.
- The Plan Fiduciary Net Position is projected to be sufficient to make Projected Benefit Payments until 2114.

Long-Term Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Investment Category	**Target Allocation**	**Long-term Expected Real Rate of Return**	**Expected Monthly Weighted Rate of Return**
Domestic Equity Pools	28.0%	4.8%	1.34%
Private Equity Pools	18.0%	8.5%	1.53%
International Equity Pools	16.0%	6.1%	.98%
Fixed Income Pools	10.5%	1.5%	.16%
Real Estate & Infrastructure Pools	10.0%	5.3%	.53%
Real Return, Opportunistic, and Absolute Pools	15.5%	6.3%	.98%
Short-term Investment Pools	2.0%	(0.2%)	(.02)%
Totals	**100.0%**		**5.50%**
Inflation			2.50%
Investment Rate of Return			**8.00%**

Sensitivity 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, 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 (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1% Decrease (7.0%)	**Current Discount Rate (8.0%)**	**1% Increase (9.0%)**
District's proportionate share of the net pension liability	$ 11,341,420	$ 8,602,327	$ 6,294,602

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 September 30, 2014 Comprehensive Annual Financial Report, available here: http://michigan.gov/orsschools.

Payables to the Pension Plan

Payables to the pension plan totaling $141,548 at June 30, 2015 arise from the normal legally required contributions based on the accrued salaries payable at year-end, expected to be liquidated with expendable available financial resources.

Note H – Other Postemployment Benefits

Plan Description and Employee Contributions

Benefit provisions of the post-employment healthcare plan are established by State statute which may be amended. Retirees have the option of health coverage, which, through 2015, is currently funded on a cash disbursement 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. 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.

Public Act 300 of 2012 granted all active members of MPSERS 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.

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 Section 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) account no later than their first pay date after February 1, 2013.

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare.

Members who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the healthcare funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet the eligibility requirements may request a refund of their contributions.

Under Public Act 300 of 2012, the State no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2% employee contribution into a Section 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be $2,000 for participants who are at least 60 years of age at termination or $1,000 for participants who are less than 60 years of age at termination.

Employer contributions

Required contributions for post-employment health care benefits ranged from 2.20% to 2.71% of covered payroll for the fiscal year ended June 30, 2015.

Post-employment Plan Status

At September 30, 2014, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole was $14.5 billion. The MPSERS net assets available for these benefits were $2.0 billion leaving an unfunded actuarial accrued liability of $12.5 billion. The funded ratio of actuarial liability was 14%; covered payroll totaled $8.3 billion, and unfunded actuarial liability was 151.0% of covered payroll.

Note I – Risk Management and Benefits

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2015, there were no material pending claims against the District. The District paid $12,589 in premiums for the year ended June 30, 2015.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2015, there were no material pending claims against the District. The District paid $4,680 in premiums to the Fund for the year ended June 30, 2015.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

There were no significant reductions in insurance coverage in the 2014-15 fiscal year.

Note J – Stewardship, Compliance and Accountability

The following District fund had actual expenditures exceed final budgeted expenditures for the year ended June 30, 2015, as follows:

	Budget	Actual	Variance
General Fund			
Instruction:			
Added needs	$ 3,248,081	$ 3,269,206	$ 21,125
Supporting services:			
Operation and maintenance services	517,313	524,955	7,642
Other supporting services	117,618	167,111	49,493
Community services	1,459	1,127	607
Food Service Special Revenue Fund			
Food Service	—	375,561	375,561

The District has an unrestricted net position deficit of $10,209,739 and a total net position deficit of $7,495,077 as of June 30, 2015. These deficit net positions result primarily from recording a net pension liability of $8,427,747 at July 1, 2014 (see Note K).

The District has a fund deficit of $130,074 in the General Fund at June 30, 2015. The District is currently working with the Michigan Department of Education to create a deficit reduction plan.

Note K – Restatement of Net Position

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, were implemented by the District during the fiscal year ended June 30, 2015. Changes/additions to deferred outflows of resources, deferred inflows of resources and net pension liability required by the Statements decreased beginning net position by $8,427,747 at July 1, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

TAHQUAMENON AREA SCHOOLS
Required Supplementary Information
Schedule of the District's Proportionate Share of the Net Pension Liability
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2015

	Year Ended June 30, 2015
District's proportion of the net pension liability	0.03905444%
District's proportionate share of the net pension liabilty	$ 8,602,327
District's covered-employee payroll	$ 3,330,386
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	258.30%
Plan fiduciary net position as a percentage of the total pension liability	66.20%

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

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

TAHQUAMENON AREA SCHOOLS
Required Supplementary Information
Schedule of District Contributions
MPSERS Cost-sharing Multiple-employer Plan
June 30, 2015

	Year Ended June 30, 2015
Contractually required contribution	$ 985,383
Contributions in relation to the contractually required contribution	985,383
Contribution deficiency (excess)	$ -
District's covered-employee payroll	$ 3,292,431
Contributions as a percentage of covered employee payroll	29.93%

Note: GASB Statement No 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

See accompanying notes to required supplementary information.

Note A – Net Pension Liability and Contributions

Changes of benefit terms: There were no changes of benefit terms in 2014-15

Changes of assumptions: There were no changes of benefit assumptions in 2014-15

SUPPLEMENTARY INFORMATION

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NONMAJOR GOVERNMENTAL FUNDS

TAHQUAMENON AREA SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2015

	Special Revenue		Debt
	Food Service	Public Library	2010 (A)
Assets			
Cash equivalents, deposits and investments	$ 98,774	$ 126,633	$ 94,780
Due from other funds	5,928	-	-
Due from other governmental units	33,477	-	-
Inventory	2,894	-	-
Total Assets	$ 141,073	$ 126,633	$ 94,780
Liabilities and Fund Balances			
Liabilities			
Due to other funds	$ 92,924	$ -	$ -
Fund Balances			
Nonspendable	2,894	-	-
Restricted	45,255	102,133	94,780
Committed	-	24,500	-
Total Fund Balances	48,149	126,633	94,780
Total Liabilities and Fund Balances	$ 141,073	$ 126,633	$ 94,780

Service 2010 (B)	Capital Projects 2010 Construction	Total
$ 65,076	$ 32,453	$ 417,716
-	-	5,928
-	-	33,477
-	-	2,894
$ 65,076	$ 32,453	$ 460,015
$ -	$ -	$ 92,924
-	-	2,894
65,076	32,453	339,697
-	-	24,500
65,076	32,453	367,091
$ 65,076	$ 32,453	$ 460,015

TAHQUAMENON AREA SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2015

	Special Revenue		Debt
	Food Service	Public Library	2010 (A)
Revenues			
Local sources:			
Property taxes	$ -	$ -	$ 207,287
Interest earnings	215	469	1,011
Food sales	142,918	-	-
Other local sources	-	9,184	-
Total local sources	143,133	9,653	208,298
Non-educational entity sources	-	127,141	-
State sources	14,128	2,335	-
Federal sources	251,554	-	57,484
Total Revenues	408,815	139,129	265,782
Expenditures			
Current:			
Food service	375,561	-	-
Community services	-	129,670	-
Capital outlay	-	-	-
Debt service:			
Principal repayment	-	-	210,000
Interest and fiscal charges	-	-	62,415
Total Expenditures	375,561	129,670	272,415
Net Change in Fund Balances	33,254	9,459	(6,633)
Fund Balances, Beginning of Year	14,895	117,174	101,413
Fund Balances, End of Year	$ 48,149	$ 126,633	$ 94,780

Service 2010 (B)	Capital Projects 2010 Construction	Total
$ 385,081	$ -	$ 592,368
1,214	1,013	3,922
-	-	142,918
-	-	9,184
386,295	1,013	748,392
-	-	127,141
-	-	16,463
-	-	309,038
386,295	1,013	1,201,034
-	-	375,561
-	-	129,670
-	468,132	468,132
320,000	-	530,000
68,400	-	130,815
388,400	468,132	1,634,178
(2,105)	(467,119)	(433,144)
67,181	499,572	800,235
$ 65,076	$ 32,453	$ 367,091

TAHQUAMENON AREA SCHOOLS
Public Library Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2015

	Budget	Actual	Variance
Revenues			
Local sources	$ 9,536	$ 9,653	$ 117
Non-educational entity sources	148,404	127,141	(21,263)
State sources	3,522	2,335	(1,187)
Total Revenues	161,462	139,129	(22,333)
Expenditures			
Current:			
Community services	146,916	129,670	17,246
Net Change in Fund Balances	14,546	9,459	(5,087)
Fund Balances, Beginning of Year	117,174	117,174	-
Fund Balances, End of Year	$ 131,720	$ 126,633	$ (5,087)

<u>AGENCY FUND</u>

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

TAHQUAMENON AREA SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2015

	Balances July 1, 2014	Additions	Deductions	Balances June 30, 2015
Assets				
Cash equivalents, deposits and investments	$ 122,663	$ 261,720	$ 180,394	$ 203,989
Due from other funds	-	6,000	-	6,000
Total Assets	$ 122,663	$ 267,720	$ 180,394	$ 209,989
Liabilities				
Accounts payable	$ 4,137	$ 179,640	$ 176,423	$ 7,354
Due to student groups	118,526	211,976	127,867	202,635
Total Liabilities	$ 122,663	$ 391,616	$ 304,290	$ 209,989