

**ADAMS TOWNSHIP SCHOOL DISTRICT**

**FINANCIAL REPORT  
With Supplementary Information**

**JUNE 30, 2015**





**ADAMS TOWNSHIP SCHOOL DISTRICT  
JUNE 30, 2015**

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**ADMINISTRATION**

Superintendent .....	Tim Keteri
High School Principal .....	Mike Benda
Elementary Principal .....	Kim Harris

**BOARD OF EDUCATION**

President .....	Darren Niemi
Vice President .....	John Pastore
Treasurer .....	Steve Nicholas
Secretary .....	Annette Butina
Trustee .....	Chad Snell
Trustee .....	Kristen Archambeau
Trustee .....	Justin Marier

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# RUKKILA | NEGRO AND ASSOCIATES

*Certified Public Accountants, PC*

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Adams Township School District  
Painesdale, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Adams Township School 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 of material misstatement.

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Adams Township School District as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension requirements on pages 6 through 12 and 41 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The additional information on pages 45 through 50 are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional information on pages 45 through 50 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2015 on our consideration of the Adams Township School District's 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 the Adams Township School District's internal control over financial reporting and compliance.

**Rukkila, Negro & Associates,  
Certified Public Accountants, PC**

October 29, 2015

**ADAMS TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

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This section of Adams Township School District's annual financial report presents management's discussion and analysis of the District's financial performance during the year ended June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follows this section.

**Financial Highlights**

- The District's General Fund ended the year within budget. The fund balance increased by \$11,809 to \$24,545. That is compared to a decrease last year of \$159,864. Revenues and other sources in the General Fund totaled \$3,962,482 and expenditures totaled \$3,950,673, compared to \$4,018,636 and \$4,178,500 last year.
- The District's enrollment increased by ten (10) students this year. Last year state membership was 443 and this year it is 453.
- The District implemented GASB No. 68, Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27. This statement changed how governments measure and report the long-term obligations and annual costs associated with the pension benefits they provide. Reflected on these statements is the proportionate share of the unfunded liability for active and retired members of the MPSERS defined benefit program. As a result of the unfunded liability being recorded, the total net position on page 13 is negative. This only affects the district-wide statements.

**Overview of the Financial Statements**

The annual report consists of a series of financial statements including other requirements as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.
- The Government-wide Financial Statements consists of a Statement of Net Position and a Statement of Activities. These provide information about the activities of the District as a whole and represent an overall view of the District's finances.

*Statement of Net Position and the Statement of Activities*

These statements provide information that help determine how the District is doing financially as a result of the year's activities. The statements are shown using a full accrual basis.

The District's net position and the changes in the net position during the year are reported by these two statements. Increases or decreases in the District's net position is one way to determine if the financial position of the District is improving or deteriorating. However, non-financial factors will need to be considered as well to determine the overall financial position of the District.

- The Statement of Fiduciary Net Position, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

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

**Overview of the Financial Statements (Continued)**

- Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. These statements also report the District's operations in more detail than the Government-wide Financial Statements by providing information about the most significant funds.

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Service Fund, Capital Projects Fund, and School Food Service funds.

Major Funds: Under GASB Statement 34, the audit focus shifted from type of governmental fund to major funds. Major funds are the largest funds in terms of assets, liabilities, revenues or expenses/expenditures. This allows the reader to see more detailed activity of the major funds. For the District, the General and Debt Service Funds meet this requirement

Non-major Funds: In the basic financial statements, non-major funds are consolidated into one column. These are smaller funds. Detailed information about non-major funds can be found after the notes to the financial statements.

- Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information, other than Management Discussion and Analysis, provides information about the required budgetary comparison information on the General Fund.
- Other supplementary information provides detailed information about the General, Debt Retirement, Capital Projects Fund, and School Food Service Funds.

**ADAMS TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

**Summary of Net Position**

	<u>2015</u>	<u>2014</u>
Assets		
Current and other assets	\$ 894,205	\$ 790,306
Restricted cash	182,733	76,586
Restricted investments	28,403	663,312
Capital assets - Net of accumulated depreciation	<u>6,341,791</u>	<u>6,588,387</u>
Total Assets	<u>7,447,132</u>	<u>8,118,591</u>
Deferred Outflows of Resources - Pension	464,377	241,761
Liabilities		
Current liabilities	1,581,844	1,422,636
Long-term liabilities	5,578,952	6,605,043
Net pension liability	<u>4,566,629</u>	<u>4,848,484</u>
Total Liabilities	<u>11,727,425</u>	<u>12,876,163</u>
Deferred Inflows of Resources - Pension	504,843	-
Net Position		
Net investment in capital assets	171,519	(441,462)
Restricted	187,387	726,753
Unrestricted	<u>(4,679,665)</u>	<u>(4,715,602)</u>
Total Net Position	<u>\$ (4,320,759)</u>	<u>\$ (4,430,311)</u>

**Changes in Net Position**

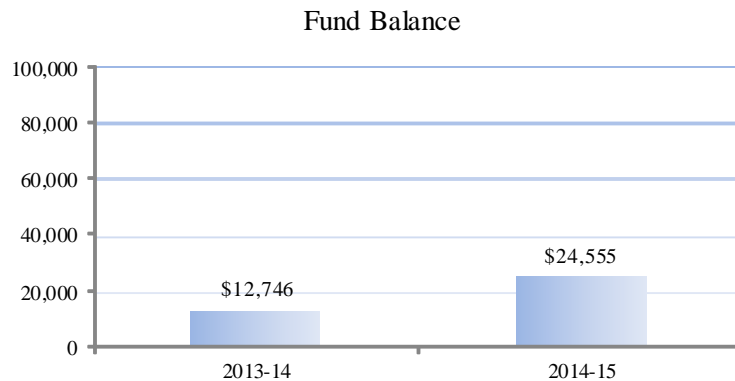
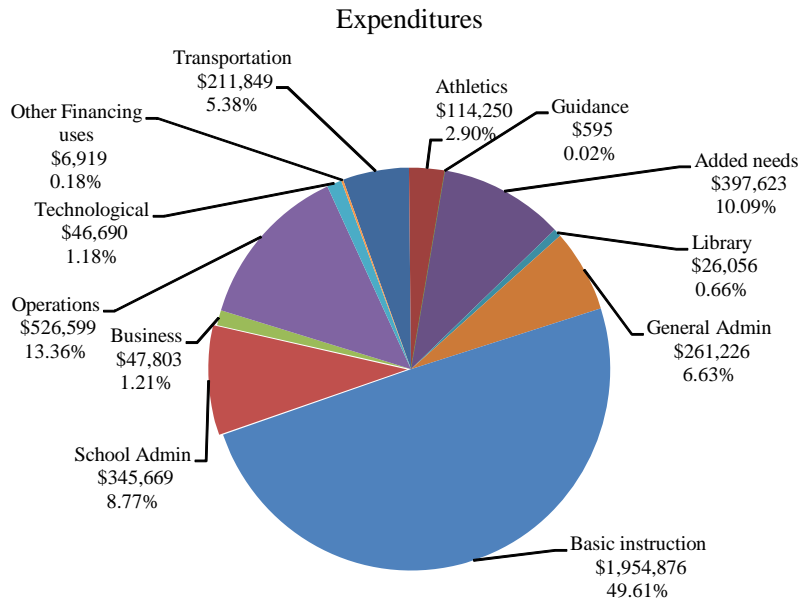
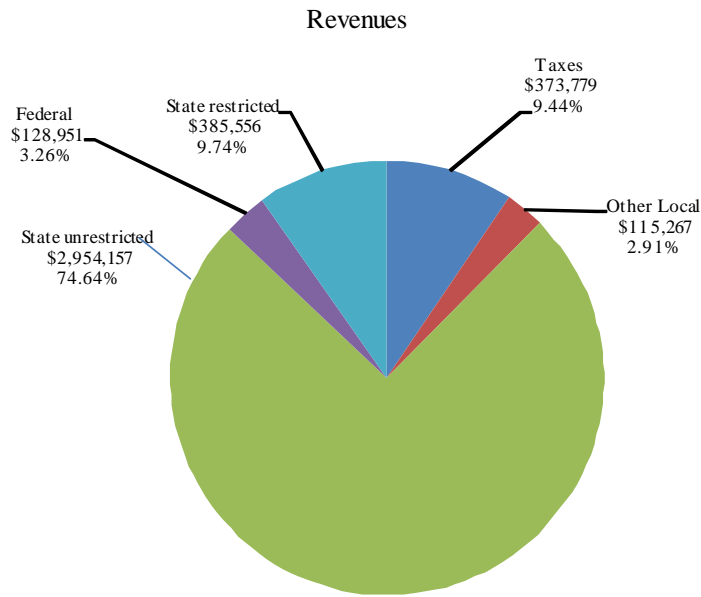
	<u>2015</u>	<u>2014</u>
Program Revenue:		
Charges for services	\$ 75,282	\$ 77,216
Grants and contributions	771,093	972,839
General Revenue:		
Property taxes	926,979	893,584
School Aid - unrestricted	2,953,457	2,744,767
Other	<u>38,113</u>	<u>76,176</u>
Total Revenue	<u>4,764,924</u>	<u>4,764,582</u>
Functions/Program Expenses		
Instruction	2,568,795	2,520,712
Support services	1,467,578	1,451,037
Capital projects	-	16,859
School food services	249,193	235,343
Athletics	114,174	134,133
Interest on long-term debt	246,908	249,500
Other debt	<u>8,724</u>	<u>1,913</u>
Total Expenses	<u>4,655,372</u>	<u>4,609,497</u>
Change in Net Position	109,552	155,085
Net Position - Beginning, as restated	<u>(4,430,311)</u>	<u>(4,585,396)</u>
Net Position - Ending	<u>\$ (4,320,759)</u>	<u>\$ (4,430,311)</u>

See Note O of the Notes to the Financial Statements of this report for additional information of the implementation of GASB Statement No. 68 and the corresponding restatement of the beginning net position for the governmental activities.



**ADAMS TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

The following charts highlight the District's General Fund activities:



**ADAMS TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

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**Significant Transactions and Changes in Individual Funds**

A comparison of revenues/transfers, expenditures/transfers and fund balances is as follows:

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>
<b>General Fund:</b>			
Revenues/Transfers	\$ 3,962,482	\$ 4,018,636	\$ (56,154)
Expenditures/Transfers	\$ 3,950,673	\$ 4,178,500	\$ (227,827)
Fund Balance	\$ 24,555	\$ 12,746	\$ 11,809
<b>Debt Service Fund:</b>			
Revenues/Transfers	\$ 566,555	\$ 577,907	\$ (11,352)
Expenditures/Transfers	\$ 1,094,652	\$ 1,064,663	\$ 29,989
Fund Balance	\$ 181,302	\$ 709,399	\$ (528,097)
<b>Capital Projects Fund:</b>			
Revenues/Transfers	\$ 87	\$ 97	\$ (10)
Expenditures/Transfers	\$ -	\$ 64,207	\$ (64,207)
Fund Balance	\$ 21,695	\$ 21,608	\$ 87
<b>School Food Service Fund:</b>			
Revenues/Transfers	\$ 238,050	\$ 223,375	\$ 14,675
Expenditures/Transfers	\$ 249,406	\$ 235,343	\$ 14,063
Fund Balance	\$ (15,610)	\$ (4,254)	\$ (11,356)

General Fund - Revenues decreased overall by \$56,154 which consisted of a combination of decreases in contributions and increases in state sources. Significant increases to revenue included property taxes with an increase of \$25,608, state aid increased \$145,235, special education increased \$43,690, and UAAL Stabilization/Cost offset increased \$69,809. The significant decrease to revenue included contributions of \$229,181 and athletics which decreased by \$40,547.

Expenses in the General Fund decreased overall by \$227,827 which included a combination of increases instruction and decreases in Facility/Site improvement. Basic instruction expenditures increased by \$81,061, general administration increased by \$43,027, and school administration increased by \$16,334. The decrease of \$279,246 in facility/site improvement was due to the prior year having large expenses for the building of the parking lot.

Debt Service Fund - The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bond issue-related debt of the District. During the year, \$30,000 was paid to the School Bond Loan Fund.

Capital Projects Fund - The Capital Projects Fund is used for the purpose of setting aside money from the General Fund for future building repairs/improvements, and technology updates. By doing this, when a major capital purchase is needed, all the money does not have to come out of the General Fund at one time. The Capital Projects Fund is also used for recording bond proceeds and the expenditures for bond issues.

School Food Service Fund - The Food Service program for the District ended the year with a deficit of \$15,610. The original budget the school had prepared showed a deficit fund balance of \$11,891 and the amended budget had a deficit fund balance of \$1,094. The amended budget increased revenues by \$9,390 while the expenditures were decreased by \$3,170. The deficit Fund Balance is covered by the General Fund.

**ADAMS TOWNSHIP SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2015**

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**General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the annual budget prior to the start of the fiscal year on July 1. Any amendments to the original budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the fiscal year ended June 30, 2015, the original budget was adopted on June 11, 2014. Since the original budget is adopted two months before the District is in session, we often have many unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. The District amended its budget twice during the fiscal year. The final budget was adopted on June 17, 2015.

	Original Budget	Final Budget	Actual	Variance with final budget	% Variance
Revenues	\$ 3,758,397	\$ 3,973,644	\$ 3,957,710	\$ (15,934)	-0.4%
Expenditures					
Instruction	\$ 2,153,661	\$ 2,358,561	\$ 2,352,499	\$ 6,062	0.3%
Supporting services	1,554,148	1,615,476	1,587,656	27,820	1.8%
Total expenditures	\$ 3,707,809	\$ 3,974,037	\$ 3,940,155	\$ 33,882	
Other financing sources (uses)	\$ (5,000)	\$ (5,750)	\$ (5,746)	\$ 4	0%

Changes to the original budget for revenues was for increases in contributions, property taxes, special education, and MPERS UAAL Stabilization/Cost off set.

Original budget expenditures adjustments for instruction were made for the increase in special education expenses and teacher salaries, retirement, and health insurance. Supporting services expenditures increased because of repair costs and an increase in purchased service.

Other financing sources was adjusted for additional proceeds received from insurance and a loan for a tractor.

**Capital Assets and Debt Administration**

Capital Assets: The District's capital assets only change was a net decrease of \$246,596 due to depreciation.

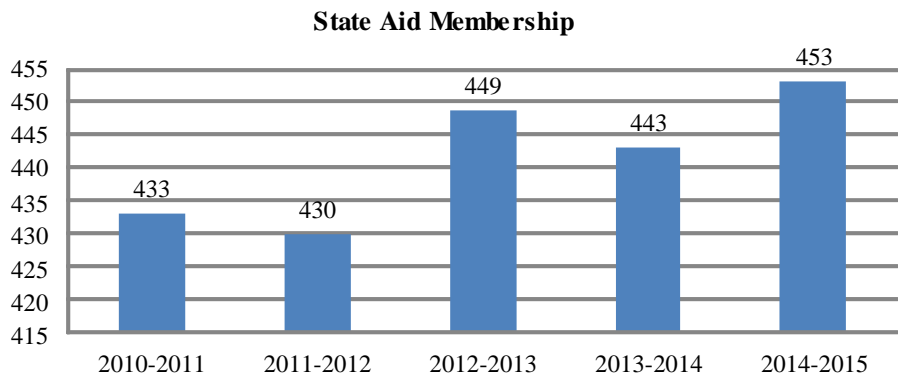
Additional information on the District's capital assets can be found on page 25 of this report.

Long-term Debt: At the end of the current fiscal year, the District's total long term debt was \$5,489,658. The District's total debt decreased by \$908,260.

Additional information on the District's long-term debt can be found on page 26 of this report.

**Known Facts, Decisions, or Conditions Having Significant Effect on Future Operations**

The graph depicts a increase of ten students enrolled from the previous year, using the State Aid Membership Count.



Our elected officials and administration consider many factors when setting the District’s fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil.

Approximately 69% of total General Fund revenues are from the foundation allowance. Under State law, the District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State’s ability to fund local school operations.

**Contacting the District’s Financial Management**

This financial report is designed to provide our citizens and taxpayers with a general overview of the District’s finances. If you have questions about this report or need additional information, contact the Business Office, Adams Township School District.

District-wide Financial Statements:  
Statement of Net Position

District-wide Financial Statements:  
Statement of Activities

Fund Financial Statements:  
Governmental Funds:  
Balance Sheet

Fund Financial Statements:  
Governmental Funds:  
Statement of Revenue, Expenditures, and Changes in Fund Balance



**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2015**

ASSETS:	
Cash	\$ 31,804
Accounts Receivable	3,070
Due from General Fund	<u>1,257</u>
Total Assets	<u>\$ 36,131</u>
LIABILITIES:	
Accounts Payable	\$ 3,126
Due to General Fund	7,616
Due to student groups	<u>25,389</u>
Total Liabilities	<u>\$ 36,131</u>

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

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**REPORTING ENTITY**

Adams Township School District (the "District") is governed by the Adams Township School District Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement Numbers 14 and 39.

Excluded from the reporting entity:

Adams Township School District Foundation, Inc.

The potential component unit has a separately elected board and provides assistance with development, implementation, and/or maintenance of educational programs which significantly contribute to the education and personal growth of Adams Township School students. The foundation is excluded from the reporting entity because the District does not have the ability to exercise influence or control over the operations, approve budgets, or provide funding.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (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 or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues and are reported as general revenues.

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

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The District does allocate indirect costs.

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

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

Governmental Funds - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements, are recorded only when payment is due.

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

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

The District reports the following major governmental funds:

- General Fund - The General Fund is the general operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.
- Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Non-major fund:

- Special Revenue Funds - Special Revenue Funds are used to account for the activities of specific school service revenue sources such as the School Food Service.
- Capital Projects Fund - The Capital Projects Fund is used to account for all revenues and expenditures associated with the District's capital structures.

Fiduciary Funds - The Trust and Agency Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. This fund is used to account for assets that the District holds for others in an agency capacity (primary student activities).

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Scholarship Fund is used to account for assets held by the District in a trustee capacity or as an agent for individuals or private organizations designated for scholarship purposes. The Fund distributes the assets according to scholarship requirements.

Fiduciary funds are not included in the government-wide statements.

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

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION**

Modified Accrual Method - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is done.

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

State Revenue- The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts and the local county treasurer.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2014 to August 2015. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

Foundation		\$ 7,126.00
Less Local Support:		
Assumed Local Revenue	361,027	
Divided by General Education K-12 membership	<u>450.13</u>	
Calculated Local Support		<u>(802.05)</u>
Foundation Grant Allowance Per Pupil		<u>\$ 6,323.95</u>

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

*Other Accounting Policies*

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Property Taxes - Property taxes levied by the District are collected by Adams and Bohemia Townships and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 of each year and are due upon receipt of the billing by the taxpayer and becomes a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2015, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General	18.00
Debt Retirement	11.45

Receivables and Payables - Activity between funds are reported as “due to/from other funds.” All receivables, including property taxes receivable, are shown net of allowance for uncollectibles.

Inventory - The District utilizes the purchase method of recording inventories of food supplies, materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are purchased.

Capital Assets - Capital assets, which include land, buildings, equipment, site improvements, and vehicles are reported in the applicable governmental activities column in the government-wide financial statements. Fixed assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair & maintenance that do not add to the value or materially extend asset lives are not capitalized.

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

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Equipment	5-10 years

Accrued Benefits - The liabilities for accrued benefits reported in the district-wide statements of \$97,125, consist of retirement incentives.

Teachers - The District's contract with the Copper Country Education Association includes a retirement incentive payment to retiring teachers with at least 10 years of service. The minimum benefit is \$4,500 and is increased each 10 years by \$1,500 with a maximum of \$7,500. As of June 30, 2015, there were eleven (11) teachers who qualified for the early retirement incentive, with a liability of \$82,500.

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Twelve Month Employees** - The District's contract with the Adams Township School District Support Personnel Association includes a retirement incentive payment to eligible retiring twelve month employees with at least 10 years of service. The minimum benefit is \$4,500 and is increased each 10 years by \$1,500 with a maximum of \$7,500. As of June 30, 2015, there was no potential liability to the District.

**School Year Employees** - The District's contract with the Adams Township School District Support Personnel Association MEA/NEA includes a retirement incentive payment to eligible retiring school year employees and teachers with at least 10 years of service. The minimum benefit is \$3,375 and is increased each 10 years by \$1,125 with a maximum of \$5,625. As of June 30, 2015, there were four (4) support staff employees who qualified for the early retirement incentive, with a potential liability to the District of \$14,625.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of Net Position.

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

Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position - Deferred outflows are reported in a separate section following assets, and deferred inflows are reported in a separate section following liabilities. The statement of net position then arrives at net position which includes the net effects of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

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

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

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

**ADAMS TOWNSHIP SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

**NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. A public hearing is held to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978) enacted at a regular meeting by School Board approval. The Act provides that a local unit shall not incur expenditures in excess of the amount appropriated.
4. During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.
5. Budget appropriations lapse at the end of the fiscal year.

In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. Violations, if any, for the general fund are noted in the required supplementary information section.

**NOTE C - DEPOSITS AND INVESTMENTS**

At year-end, the District's cash deposits (checking, savings and certificates of deposit) and investments were reported in the basic financial statements in the following categories and breakdown between deposits and investments for the District is as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Unrestricted cash	\$ 180,385	\$ -	\$ 180,385
Restricted cash	182,733	31,804	214,537
Total cash and cash equivalents	363,118	31,804	394,922
Restricted investments	28,403	-	28,403
Total cash and investments	\$ 391,521	\$ 31,804	\$ 423,325

As of June 30, 2015 the District had the following investments:

Investment Type	Fair Value	Rating
Federal National Mortgage/Treasury	\$ 28,403	AAA

*Investment and Deposit Risk*

**Interest Rate Risk** – In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements. The District's investments held at year end do not have maturity dates.

**Credit Risk** – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments below. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

**NOTE C - DEPOSITS AND INVESTMENTS (Continued)**

Custodial Credit Risk - Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. State law does not require and the District does not have a policy for deposit custodial credit risk. As of June 30, 2015 the District’s bank balance was 100% insured.

Custodial Credit Risk - Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. The custodial credit risk of these investments cannot be determined.

Concentration of Credit Risk – State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments below. The District’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above and are external investment pools.

Michigan law authorizes the District to deposit and invest in:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bill or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- Certificates of deposits issued by the State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States, United States government or federal agency obligation repurchase agreements, and bankers’ acceptance issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.



**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

**NOTE D - FIXED ASSETS**

Fixed Asset activity of the District's governmental activities was as follows:

	Balance 07/1/14	Additions	Deletions	Balance 06/30/15
Capital assets, not being depreciated				
Land	\$ 2	\$ -	\$ -	\$ 2
Capital assets, being depreciated				
Building and additions	8,128,561	\$ -	\$ -	8,128,561
Improvements other than building	300,468	-	-	300,468
Equipment	573,726	-	-	573,726
Vehicles	22,976	-	-	22,976
Subtotal	<u>9,025,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>9,025,733</u>
Accumulated depreciation:				
Building and additions	2,130,262	\$ 189,327	\$ -	2,319,589
Improvements other than building	15,373	15,023	-	30,396
Equipment	282,569	39,374	-	321,943
Vehicles	9,142	2,872	-	-
	<u>2,437,346</u>	<u>\$ 246,596</u>	<u>\$ -</u>	<u>2,683,942</u>
Net capital assets	<u>\$ 6,588,387</u>			<u>\$ 6,341,791</u>

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

Governmental activities		
Instruction		\$ 237,901
Operations		7,068
Transportation		1,627
Total governmental activities		<u>\$ 246,596</u>

**NOTE E - RECEIVABLES**

Receivables and due from governmental units at June 30, 2015 that are expected to be collected within one year consist of the following:

	General	School Food	Total
Federal	\$ 21,665	\$ -	\$ 21,665
State	600,702	1,193	601,895
Local	72,902	7,971	80,873
	<u>\$ 695,269</u>	<u>\$ 9,164</u>	<u>\$ 704,433</u>

**NOTE F - INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Amounts due from (to) other funds represent the balance of monies due from or to other funds for expenditures made or fund balance transfers approved. There were no transfers as of June 30, 2015. The amounts of inter-fund activities as of June 30, 2015 are as follows:

Fund	Inter-fund Receivable	Fund	Inter-fund Payable
General	\$ 26,940	General	\$ 31,395
Debt Retirement	31,395	School Food Service	26,940
TOTAL	<u>\$ 58,335</u>	TOTAL	<u>\$ 58,335</u>

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE G - ACCRUED EXPENSES**

Accrued expenses as of June 30, 2015, for the District is as follows:

Fund Financial Statements:	General Fund
Accrued payroll	\$ 226,181
Accrued benefits	125,345
Total	<u>\$ 351,526</u>

**NOTE H - LONG TERM DEBT**

Michigan Finance Authority

On August 20, 2014, the District obtained three one year operating loans from the Michigan Finance Bond Authority, which are pledged by future state aid payments and will provide funds for general operating expenditures. State Aid Note, Series A \$250,000, State Aid Note, Series B \$192,500, State Aid Note, Series C \$157,500 have interest rates of .42%, 1.05%, and 1.235% respectively. The balance as of June 30, 2015 was \$389,692. Interest is due semi-annually and principal due at maturity on August 20, 2015.

On August 20, 2015, the District obtained three one-year operating loans from the Michigan Finance Authority, which are pledged by future state aid payments and will provide funds for general operating expenditures. State Aid Note, Series A \$169,893, State Aid Note, Series B \$80,107, State Aid Note, Series C \$149,951, and State Aid Note, Series D, \$200,049 have interest rates of .76%, .64%, 1.08%, and 1.4625% respectively. Interest is due semi-annually and principal due at maturity. Series A and B notes mature on July 20, 2016. Series C and D notes mature on August 22, 2016.

2007 Advance Refunding

On February 6, 2007 the District issued \$3,530,000 of general obligation unlimited tax refunding bonds to advance refund \$3,400,000 of outstanding unlimited tax and obligation bonds. The proceeds of the bonds were used to provide for the payment of the principal of, interest on and redemption premium on the 1997 Refunding Bonds and 2001 Building and Site Bonds Series A.

Optional Redemption: The Bonds or portions of the Bonds in multiples of \$5,000 maturing on or after May 1, 2018, are subject to redemption at the option of the District in such order as the District may determine and by lot within any maturity, on any date occurring on or after May 1, 2017, at par plus accrued interest to the date fixed for redemption.

Mandatory Redemption of Term Bonds: The Bonds maturing on May 1, 2019, May 1, 2024 and May 1, 2031 are term bonds (the "Term Bonds") subject to mandatory redemption, in part, by lot, on the redemption dates and in the principal amounts set forth below and at a redemption price equal to the principal amount thereof, without premium, together with interest thereon to the redemption date. When Term Bonds are purchased by the District and delivered to the Paying Agent for cancellation or are redeemed in a manner other than by mandatory redemption, the principal amount of the Term Bonds affected shall be reduced by the principal amount of the Bonds so redeemed or purchased in order determined by the District.

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

**NOTE H - LONG TERM DEBT (Continued)**

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2015-2016	\$ 45,881	\$ 45,881	\$ 200,000	\$ 291,762
2016-2017	41,881	41,881	200,000	283,762
2017-2018	37,881	37,881	200,000	275,762
2018-2019	33,881	33,881	200,000	267,762
2019-2020	29,881	29,881	200,000	259,762
2020-2021	25,881	25,881	200,000	251,762
2021-2026	72,024	72,024	730,000	874,048
2026-2031	21,676	21,676	335,000	378,352
	<u>\$ 308,986</u>	<u>\$ 308,986</u>	<u>\$ 2,265,000</u>	<u>\$ 2,882,972</u>

2011 School Building And Site Bonds

On June 8, 2011, the District issued \$1,715,000 of unlimited tax general obligation school bonds for the purpose of remodeling, furnishing and refurbishing, equipping and re-equipping school facilities in part for energy conservation purposes; acquiring, installing and equipping educational technology improvements in school facilities; and developing and improving sites.

The bond issue (denominations of \$5,000 or multiples thereof) matures as indicated below and bears an interest rate not exceeding 6% per annum, payable. The Bonds are not subject to redemption prior to maturity. The District is required to make yearly payments through the maturity date, May 1, 2031.

Fiscal Year	November 1 Interest	May 1		Total
		Interest	Principal	
2015-2016	\$ 30,919	\$ 30,919	\$ 65,000	\$ 126,838
2016-2017	29,944	29,944	65,000	124,888
2017-2018	28,969	28,969	70,000	127,938
2018-2019	27,744	27,744	70,000	125,488
2019-2020	26,519	26,519	75,000	128,038
2020-2021	25,206	25,206	75,000	125,412
2021-2026	103,220	103,220	465,000	671,440
2026-2031	45,454	45,454	645,000	735,908
	<u>\$ 317,975</u>	<u>\$ 317,975</u>	<u>\$ 1,530,000</u>	<u>\$ 2,165,950</u>

School Bond Qualification and Loan Program

The District has borrowed from the School Bond Qualification and Loan program for the purpose of making principal and interest payments on bond issues. In accordance with Act 108, Public Acts of Michigan, 1961, as amended, the State of Michigan can lend the District funds to make debt payments if, for any reason, the district is unable to pay the principal and interest on bonds when due. The loans will be repaid from taxes levied for that purpose. Repayment will commence subsequent to the repayment of the District's bond issues. However, repayments shall be made earlier if taxes levied and collected in any particular year exceed those required to repay the bonds. The interest rate associated with loans is established by the State at the time of borrowing and remains fixed for that specific borrowing until repayment.

School Bond Loan Fund: At June 30, 2015, the principal balance due to the School Bond Loan Fund was \$1,191,705 and accrued interest in the amount of \$1,056,678. The interest rate is 3.41183%.

School Loan Revolving Fund: At June 30, 2015, the principal outstanding was \$97,383 and \$391 of accrued interest. The interest rate is 3.41183%.

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

**NOTE H - LONG TERM DEBT (Continued)**

John Deere 3520 Tractor

On January 15, 2015, the District borrowed \$23,500 for a John Deere 3520 Tractor. The note has an interest rate of 2.75%.

Fiscal Year	January 15		Total
	Interest	Principal	
2015-2016	\$ 437	\$ 7,831	\$ 8,268
2016-2017	221	8,047	8,268
<b>TOTAL</b>	<b>\$ 658</b>	<b>\$ 15,878</b>	<b>\$ 16,536</b>

Long-term liabilities activity, as reported in and liquidated through the following funds for the fiscal year ended June 30, 2015, was as follows:

	Balance July 31, 2014	Increase	Decrease	Balance June 30, 2015	Current Portion
2007 Refunding Bonds	\$ 2,465,000	\$ -	\$ 200,000	\$ 2,265,000	\$ 200,000
2011 Building & Site Bonds	1,595,000	-	65,000	1,530,000	65,000
2001 Series B-QZAB	635,000	-	635,000	-	-
School Bond Loan	1,191,705	-	-	1,191,705	-
School Revolving Loan	121,008	-	23,625	97,383	-
Michigan Finance Authority Tractor	366,705	600,000	577,013	389,692	389,692
	<u>23,500</u>	<u>-</u>	<u>7,622</u>	<u>15,878</u>	<u>7,831</u>
	6,397,918	600,000	1,508,260	5,489,658	\$ 662,523
Accrued Interest	998,636	78,045	6,375	1,070,306	
Accrued Benefits	112,125	-	15,000	97,125	
<b>TOTAL</b>	<b>\$ 7,508,679</b>	<b>\$ 678,045</b>	<b>\$ 1,529,635</b>	<b>\$ 6,657,089</b>	

As of June 30, 2015, the aggregate maturities of long-term debt are as follows:

Fiscal Year	Interest	Principal	Total
2015-2016	\$ 158,003	\$ 662,523	\$ 820,526
2016-2017	143,871	273,047	416,918
2017-2018	133,700	270,000	403,700
2018-2019	123,250	270,000	393,250
2019-2020	112,800	275,000	387,800
2020-2021	102,174	275,000	377,174
2021-2026	350,489	1,195,000	1,545,489
2026-2031	1,050,120	2,269,088	3,319,208
	<u>\$ 2,174,407</u>	<u>\$ 5,489,658</u>	<u>\$ 7,664,065</u>

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN**

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

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

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

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

**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	<u>204,512</u>
Inactive plan members entitled to but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-Vested	101,843
Total	<u>210,777</u>
Total plan members	<u><u>432,268</u></u>

**NOTE I - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Continued)**

*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 pension plan. Retirement benefits for defined benefit pension plan members are determined by final average compensation and years of service. Defined benefit pension plan 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 defined benefit pension plan members.

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

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

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

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

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

**NOTE J - MPSERS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**NOTE J - MPSERS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

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

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

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

**NOTE J - MPSERS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

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



**NOTE J - MPSERS SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Property and Equipment* – Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

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

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

**NOTE K - MPSERS CONTRIBUTIONS AND FUNDING STATUS**

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). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded(overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

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

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

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

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE K - MPSERS CONTRIBUTIONS AND FUNDING STATUS (Continued)**

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.

**NOTE L - NET PENSION LIABILITY**

Measurement of the MPSERS Net Pension Liability

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

<u>MPSERS (Plan) Net Pension Liability</u>	
As of September 30, 2014	
Total Pension Liability	\$ 65,160,887,182
Plan Fiduciary Net Position	<u>43,134,384,072</u>
Net Pension Liability	<u>\$ 22,026,503,110</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered – Employee Payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the reporting unit's proportionate share between beginning net pension liability and ending net pension liability.

<u>MPSERS (Plan) Net Pension Liability</u>	
As of October 1, 2013	
Total Pension Liability	\$ 62,859,499,994
Plan Fiduciary Net Position	<u>39,427,686,072</u>
Net Pension Liability	<u>\$ 23,431,813,922</u>

Proportionate Share of Adams Township School District's Net Pension Liability

At June 30, 2015, the Adams Township School District reported a liability of \$4,566,629 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the District's proportionate share percent was .02073 percent.

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE L - NET PENSION LIABILITY (Continued)**

Long-Term Expected Return on Plan Assets

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	4.8%
% Alternative Investment Pools	18.0%	8.5%
International Equity	16.0%	6.1%
Fixed Income Pools	10.5%	1.5%
Real Estate and Infrastructure Pools	10.0%	5.3%
Absolute Return Pools	15.5%	6.3%
Short Term Investment Pools	2.0%	(0.2)%
Total	100.0%	

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

Rate of Return

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

Discount Rate

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

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Lower (7.0%)	Discount Rate (8.0%)	1% Higher (9.0%)
District’s proportionate share of the net pension liability	\$ 6,020,703	\$ 4,566,629	\$ 3,341,551

**NOTE L - NET PENSION LIABILITY (Continued)**

Timing of the Valuation

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

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

Actuarial Valuations and Assumptions

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

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

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

Notes:

- ▶ Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- ▶ Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- ▶ Recognition period for assets in years is 5.0000
- ▶ Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE M - PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS**

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 total pension expense of \$369,910. 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
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	168,499	-
Net difference between policies and actual earnings on pension plan investments	-	504,843
Changes in proportion and differences between reporting unit contributions and proportionate share of contributions	-	-
District's contributions subsequent to the measurement date	295,878	-
Total	<u>\$ 464,377</u>	<u>\$ 504,843</u>

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

Year Ended September 30	Amount
2015	\$ 82,396
2016	\$ 82,396
2017	\$ 82,396
2018	\$ 89,156

**NOTE N - 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 2013 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

**NOTE O- PAYABLES TO THE PENSION PLAN**

At June 30, 2015 the District reported a payable of \$56,871 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

**NOTE Q - 403(b) RETIREMENT PLAN**

The District established a 403(b) plan which is a qualified tax sheltered annuity for the benefit of eligible employees. The plan is self-administered by the District with a plan year ending December 31. Participants can invest in annuity contracts or custodial accounts which invest in mutual funds. The District is not required to make contributions. Distributions are governed by IRS regulations.

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS - June 30, 2015**

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**NOTE P - RESTATEMENT OF NET POSITION**

2001 Building And Site Bonds - Series B - QZAB

Prior year QZAB principal balance was overstated by \$95,000, therefore making an adjustment to net position.

Change in Accounting Principal

The net position of the governmental activities were restated to reflect the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 changed how governments measure and report the long-term obligations and annual costs associated with the pension benefits they provide. GASB Statement No. 71 addressed the issue of contributions made to the defined benefit pension plan after the measurement date for the year in which GASB Statement No. 68 is implemented.

As a result of implementing this statement, the beginning net position the governmental activities has been restated as indicated:

Net Position - June 30, 2014 - As previously reported	\$ 90,912
Adjustment for QZAB bond principal balance	95,000
Adjustment for implementation of GASB Statement No. 68	<u>(4,616,223)</u>
Net Position - June 30, 2014 - As restated	<u>\$ (4,430,311)</u>

**NOTE R - RECONCILIATION OF MDE GRANT REPORTS**

The amounts reported as current payments on MDE grant reports prepared by the State of Michigan, reconcile with the federal revenue on the Governmental Funds - Statement of Revenues, Expenditures and Changes in Fund Balances on page 16 as follows:

Total current payments per MDE grant reports	\$ 260,268
Less prior year grant receivables	(14,626)
State revenue reported on grant auditor report	(4,500)
Current year receivables:	
Title I	17,721
Title II	3,944
Direct Awards:	
REAP Grant	18,823
USDA Commodities	13,814
Medicaid Outreach	2,042
Total Federal Financial Assistance	<u>\$ 297,486</u>

The District expended less than \$500,000 in Federal awards during the fiscal year ended June 30, 2015 and is exempt from Federal Single Audit requirements, thus a schedule of federal financial assistance was not prepared.

**NOTE S - CONTINGENT LIABILITIES**

Risk Pool- The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The District joined together with other school districts currently operating a common risk management and insurance program. The District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The District is unable to provide an estimate of the amounts of additional assessments.

The MASB-SEG Property & Casualty Pool has published its own financial report for the year ended June 30, 2015, which can be obtained through the District.

**NOTE T - SUBSEQUENT EVENTS**

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

*Michigan Finance Authority*: - On August 20, 2015, the District entered into three one year operating loans notes with Michigan Finance Authority. See Note H on page 26 for additional information.

**REQUIRED SUPPLEMENTARY FINANCIAL INFORMATION**



Budgetary Comparison Schedule - General Fund

**ADAMS TOWNSHIP SCHOOL DISTRICT  
PENSION REQUIREMENTS - GASB 68  
Year Ended June 30, 2015**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY**

Michigan Public School Employees Retirement Plan  
(Amounts were determined as of 9/30 of each fiscal year)\*

	2014
A. District's proportionate of net pension liability (%)	.02073
B. District's proportionate share of net pension liability	\$ 4,566,629
C. District's covered-employee payroll	\$ 1,803,198
D. District's proportionate share of net pension liability as a percentage of its covered-employee payroll	39%
E. Plan fiduciary net position as a percentage of total pension	66.20%

**SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS**

Michigan Public School Employees Retirement Plan  
(Amounts were determined as of 6/30 of each fiscal year)\*

	2015
A. Statutorily required contributions	\$ 376,532
B. Contributions in relation to statutorily required contributions	376,445
C. Contribution deficiency (excess)	\$ 87
D. District's covered-employee payroll	\$ 1,786,758
E. Contributions as a percentage of covered-employee	21%

\*This is the first year for reporting.

**ADAMS TOWNSHIP SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - JUNE 30, 2015**

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**NOTE A - CHANGE OF BENEFIT TERMS**

There were no changes of benefit terms in 2015.

**NOTE B - CHANGE OF ASSUMPTIONS**

There were no changes of benefit assumptions in 2015.

**OTHER SUPPLEMENTAL FINANCIAL INFORMATION**

Major Governmental Funds

General Fund - Statement of Revenue, Expenditures, and Changes in Fund Balances

Major Governmental Funds

General Fund - Statement of Revenue, Expenditures, and Changes in Fund Balances  
Continued

Major Governmental Funds

Debt Service - Statement of Revenues, Expenditures, and Changes in Fund Balances

## Combining Balance Sheet



Combining Statement of Revenues, Expenditures, and changes in fund balances

Non-Major Governmental Funds

School Food Service - Statement of Revenues, Expenditures, and Changes in Fund Balances

**COMMUNICATIONS SECTION**

# RUKKILA | NEGRO AND ASSOCIATES

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

To the Board of Education  
Adams Township School District  
Painesdale, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Adams Township School District as of and for the year then ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 29, 2015.

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

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

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

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

## **Compliance and other Matters**

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

## **Purpose of this Report**

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

**Rukkila, Negro & Associates,  
Certified Public Accountants, PC**

October 29, 2015

# RUKKILA | NEGRO AND ASSOCIATES

*Certified Public Accountants, PC*

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## COMMUNICATION WITH THOSE IN CHARGE OF GOVERNANCE

Board of Education  
Adams Township School District  
Houghton County, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Adams Township School District for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 4, 2015. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Adams Township School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by Adams Township School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements is current judgements.

Management's estimate of the useful lives of fixed assets, used to calculate depreciation, is based on the estimated useful lives of certain classes of assets. We evaluated the key factors and assumptions used to develop the useful lives to determine that they are reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

### *Disagreements with Management*

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

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 22, 2015.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Adams Township School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the budgetary comparison schedules which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on RSI.

We were engaged to report on the supplemental financial information, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

### Restriction on Use

This information is intended solely for the use of the Adams Township School District board and management and is not intended to be and should not be used for anyone other than these specified parties.

It has been a pleasure to provide audit services to Adams Township School District. Management was prepared for the audit, providing us with all supporting documents requested. Management was friendly, conscientious and very helpful.

We appreciate your business, thank you.

**Rukkila, Negro & Associates,  
Certified Public Accountants, PC**

October 29, 2015