

Bear Lake School District

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Bear Lake Schools (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. It is to be read in conjunction with the District's financial statements, which immediately follows the Report of Independent Certified Public Accountants on these financial statements.

FINANCIAL HIGHLIGHTS

- The District's financial status increased during the year mainly due to conservative budgeting.
- The District passed a construction bond of \$780,000 for building improvements.
- The State of Michigan foundation grant increased by \$265 from \$7,126 to \$7,391.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

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

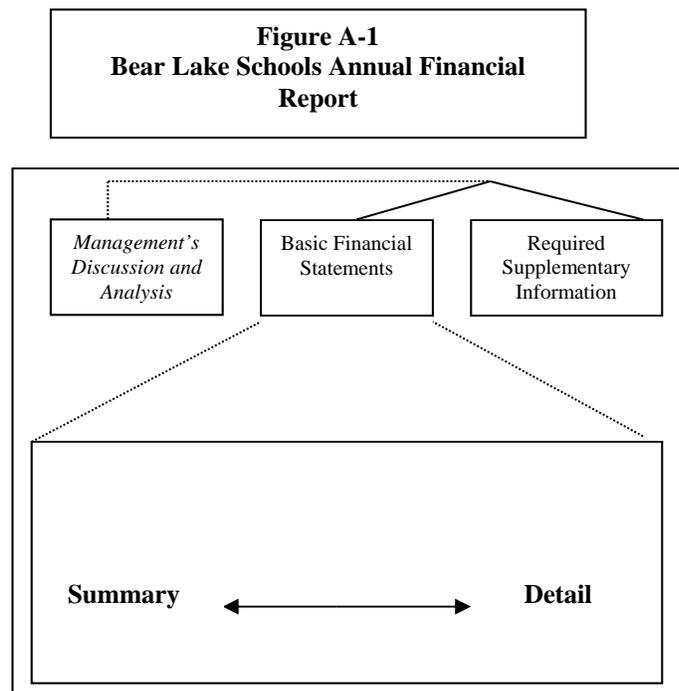


Figure A-2			
Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as general education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and capital maintenance measurement focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net position* and how it has changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration must be given to additional non-financial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District’s activities:

- *Governmental activities:* Most of the District’s basic services are included here, such as general education, transportation and administration. Property taxes and State formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District’s *funds*, focusing on its most significant or “major” funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (repayment of long-term debt) or to show that it is properly using certain revenues (like food service).

The District has two kinds of funds:

- *Governmental funds:* Most of the District’s basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information is provided with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

For the fiscal year ended June 30, the results of operations, on a district wide basis, were as follows:

	2015	2016
Current and other assets	\$ 932,952	\$ 1,790,019
Capital assets	4,701,141	4,578,649
Total assets	5,634,093	6,368,668
Deferred loss on refunding	160,034	145,262
Deferred outflows of resources	356,550	358,879
Total assets and deferred outflows of resources	<u>\$ 6,150,677</u>	<u>\$ 6,872,809</u>
Long-term debt outstanding	\$ 6,346,425	\$ 7,089,995
Other liabilities	698,980	660,562
Total liabilities	<u>7,045,405</u>	<u>7,750,557</u>
Deferred inflows of resources	<u>394,354</u>	<u>111,537</u>
Net position		
Invested in property and equipment, net of related debt	1,789,532	1,171,384
Restricted	30,851	801,462
Unrestricted	<u>(3,109,465)</u>	<u>(2,962,131)</u>
Total net position	<u>(1,289,082)</u>	<u>(989,285)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 6,150,677</u>	<u>\$ 6,872,809</u>

For the fiscal year ended June 30, the results of operations, on a District-wide basis were as follows:

Revenues	2015	2016
Property taxes, levied for general purposes	\$ 912,993	\$ 877,834
Property taxes, levied for debt services	415,971	408,141
State aid not restricted to specific purposes	1,503,786	1,502,604
Interest and other	44,950	190,399
Charges for services	169,479	133,084
Operating grants/contributions	403,305	361,022
Total revenues	<u>3,450,484</u>	<u>3,473,084</u>
Expenses		
Instruction	1,705,949	1,531,115
Support services	1,086,261	1,089,100
Community services	84,173	93,264
Food service	151,832	145,765
Other	97,755	26,494
Interest on long-term debt	88,806	81,103
Depreciation-unallocated	203,926	206,446
Total expenses	<u>3,418,702</u>	<u>3,173,287</u>
Increase in Net Position	31,782	299,797
Net Position - Beginning of year	<u>(1,320,864)</u>	<u>(1,289,082)</u>
Net Position - End of year	<u>\$ (1,289,082)</u>	<u>\$ (989,285)</u>

PENSION EXPENSE

GASB 68 now requires the District to account for its payments to the Michigan Public School Employees' Retirement System in a manner that has a significant effect on the District's change in net position. Based on various factors, the District may report an increase or decrease in net position depending on whether the District's proportionate share of the net position liability increases or decrease in any given year. For the year ended June 30, 2016, the District recorded \$3,825,992 as their proportionate share of the net pension liability.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year; its governmental funds reported *combined* fund balances of \$1,483,471, an increase of \$877,166 from last year's ending fund balances of \$606,305. The increase in fund balance was due to the district passing a construction bond in May.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments are as follows:

- Changes made in the third and fourth quarters to account for final enrollment counts, staffing assignments and changes in grant funding since the original budget was adopted.
- While the District's final budget for the general fund anticipated that revenues and expenditures would reflect an increase of \$25,164, the actual results for the year show an increase of \$104,340.
- Actual revenues were \$2,905,973 or \$3,432 lower than expected. This was largely due to the timing of grant revenue.
- The actual expenditures were \$2,816,515, or \$75,406 below budget, due primarily to controlling and monitoring expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Depreciable assets for the 2015-2016 school year totaled \$9,655,059. During the year, the District invested an additional \$83,954 in a bus. A summary of capital assets follows:

	2015	Additions	Retirement	2016
Building and building improvements	\$ 8,161,815	\$ -	\$ -	8,161,815
Furniture and equipment	965,486	-	-	965,486
Buses and other vehicles	443,804	83,954	-	527,758
Total depreciable assets	9,571,105	83,954	-	9,655,059
Less accumulated depreciation	(4,944,448)	(206,446)	-	(5,150,894)
Land	74,484	-	-	74,484
Net governmental capital assets	\$ 4,701,141	\$ (122,492)	\$ -	\$ 4,578,649

Long-term Debt

At year-end the District had \$3,430,000 in general obligation bonds and \$99,095 in notes payable and accumulated leave liability. (More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.)

The District's Outstanding Long-Term Debt			
	<u>2015</u>	Net Additions/ (Payments)	<u>2016</u>
General obligation debts			
(financed with property taxes)	\$ 2,975,000	\$ 455,000	\$ 3,430,000
Notes payable	11,232	33,768	45,000
Capital lease	-	-	-
Unamortized refinancing costs	85,411	(7,884)	77,527
Accumulated sick & vacation	51,796	2,299	54,095
Total	<u><u>\$ 3,123,439</u></u>	<u><u>\$ 483,183</u></u>	<u><u>\$ 3,606,622</u></u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The 2016-2017 foundation allowance will increase by a range from \$60 - \$120. Student enrollment is always fluctuating and a concern and will be closely monitored.
- The Board of Education and the Bear Lake Education Association has a contract through August 31, 2017 and are currently in negotiations.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Bear Lake School District's Business Office at 772 East Parkdale Ave, Manistee, MI, 49660.



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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Bear Lake School District

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of ***Bear Lake School District*** (the "School District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *vii*, and budgetary comparison information on page 30, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, in considering the School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 14, 2016

Bear Lake School District
STATEMENT OF NET POSITION
June 30, 2016

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
ASSETS	
Current assets	
Cash and equivalents	\$ 1,422,054
Due from other governments	365,890
Prepaid expenses	<u>2,075</u>
Total current assets	1,790,019
Non-current assets	
Capital assets, net of accumulated depreciation	<u>4,578,649</u>
Total assets	6,368,668
DEFERRED OUTFLOWS OF RESOURCES	
Deferred loss on refunding	145,262
Deferred outflows of resources for pension obligation	<u>358,879</u>
Total assets and deferred outflows of resources	<u><u>\$ 6,872,809</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 47,619
Salaries payable and related expenses	239,134
Accrued interest	11,395
Unearned revenue	19,795
Current portion of long-term liabilities	<u>342,619</u>
Total current liabilities	660,562
Non-current portion of long-term obligations	3,264,003
Net pension obligation	<u>3,825,992</u>
Total liabilities	<u>7,750,557</u>
DEFERRED INFLOWS OF RESOURCES FOR PENSION OBLIGATION	<u>111,537</u>
NET POSITION	
Invested in capital assets, net of related debt	1,171,384
Restricted for	
Food Service	15,696
Capital Projects	762,009
Debt Service	23,757
Unrestricted (deficit)	<u>(2,962,131)</u>
Total net position	<u>(989,285)</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 6,872,809</u></u>

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

Bear Lake School District

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Program	Program Revenues			Net (Expense)/ Revenue and Changes in Net Position
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
Instruction	\$ 1,531,115	\$ -	\$ 53,782	\$ (1,477,333)
Supporting Services	1,089,100	20,104	197,481	(871,515)
Community Services	93,264	84,132	-	(9,132)
Food Service	145,765	28,848	91,426	(25,491)
Other	26,494	-	18,333	(8,161)
Interest on long-term debt	81,103	-	-	(81,103)
Depreciation - unallocated	206,446	-	-	(206,446)
Total governmental activities	\$ 3,173,287	\$ 133,084	\$ 361,022	(2,679,181)
General purpose revenues				
Property taxes				
Levied for general purposes				877,834
Levied for Debt Service				408,141
State school aid - unrestricted				1,502,604
Investment and other				190,399
Total general purpose revenues				2,978,978
Change in net position				299,797
Net position, beginning of year				(1,289,082)
Net position, end of year				\$ (989,285)

-6- The accompanying notes are an integral part of these financial statements.

Bear Lake School District

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	Major Fund				
	General Fund	2015 Refunded Debt Service Fund Fund	2015 Capital Project Fund	Non-major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and equivalents	\$ 476,257	\$ 35,152	\$ 777,574	\$ 133,071	\$ 1,422,054
Due from other governments	361,337	-	-	4,553	365,890
Due from other funds	-	-	-	3,838	3,838
Prepaid expenditures	1,680	-	-	395	2,075
Total assets	\$ 839,274	\$ 35,152	\$ 777,574	\$ 141,857	\$ 1,793,857
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 31,822	\$ -	\$ 15,565	\$ 232	\$ 47,619
Salaries payable and related expenditures	238,243	-	-	891	239,134
Due to other funds	3,838	-	-	-	3,838
Unearned revenue	19,290	-	-	505	19,795
Total liabilities	293,193	-	15,565	1,628	310,386
FUND BALANCES					
Nonspendable - prepaids	1,680	-	-	395	2,075
Restricted					
Debt Service	-	35,152	-	-	35,152
Capital Projects	-	-	762,009	-	762,009
Food Service	-	-	-	15,301	15,301
Committed - subsequent year expenditures	241,843	-	-	-	241,843
Assigned					
Building improvements	-	-	-	124,533	124,533
Compensated absences	54,095	-	-	-	54,095
Buses	23,000	-	-	-	23,000
Technology	15,000	-	-	-	15,000
Unassigned	210,463	-	-	-	210,463
Total fund balances	546,081	35,152	762,009	140,229	1,483,471
Total liabilities and fund balances	\$ 839,274	\$ 35,152	\$ 777,574	\$ 141,857	

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

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$9,729,543 and the accumulated depreciation is \$5,150,894.	4,578,649
Deferred outflows of resources is not a financial resources and, therefore, is not recorded as an asset in governmental funds.	358,879
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
General obligation bonds	\$ (3,430,000)
Notes payable	(45,000)
Unamortized bond premium	(77,527)
Unamortized loss on bond refunding	145,262
Accumulated leave liability	(54,095)
Accrued interest on bonds	(11,395)
Net pension obligation	(3,825,992)
	(7,298,747)
Deferred inflows of resources is not a financial resources and, therefore, is not recorded as a liability in governmental funds.	(111,537)
Total net position - governmental activities	\$ (989,285)

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

Bear Lake School District

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

Year Ended June 30, 2016

	Major Funds			Non-major Governmental Funds	Total Governmental Funds
	General Fund	2015 Refunded Debt Service Fund	2015 Capital Project Fund		
Revenues					
Property taxes	\$ 877,834	\$ 408,141	\$ -	\$ -	\$ 1,285,975
Interest	1,002	330	11	318	1,661
State revenues	1,634,336	-	-	10,234	1,644,570
Federal revenues	134,253	-	-	85,813	220,066
Other	258,548	-	-	62,264	320,812
	2,905,973	408,471	11	158,629	3,473,084
Expenditures					
Instruction	1,546,244	-	-	-	1,546,244
Supporting Services	1,087,618	-	-	-	1,087,618
Community Services	93,264	-	-	-	93,264
Food Service	-	-	-	145,765	145,765
Other	2,500	-	-	5,471	7,971
Debt Service					
Principal	16,107	325,000	-	-	341,107
Interest	5,191	85,846	-	-	91,037
Other	-	521	-	-	521
Capital outlay	89,389	-	-	-	89,389
	2,840,313	411,367	-	151,236	3,402,916
REVENUES OVER (UNDER) EXPENDITURES	65,660	(2,896)	11	7,393	70,168
Other financing sources (uses)					
Operating transfers in	-	30,142	-	6,320	36,462
Operating transfers out	(6,320)	-	-	(30,142)	(36,462)
Proceeds from loan	45,000	-	-	-	45,000
Proceeds from bond issuance	-	-	780,000	-	780,000
Bond issuance costs	-	-	(18,002)	-	(18,002)
	38,680	30,142	761,998	(23,822)	806,998
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	104,340	27,246	762,009	(16,429)	877,166
Fund balances, beginning of year	441,741	7,906	-	156,658	606,305
Fund balances, end of year	\$ 546,081	\$ 35,152	\$ 762,009	\$ 140,229	\$ 1,483,471

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

Bear Lake School District

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

Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds \$ 877,166

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

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

	Capital outlays	\$ 83,954		
	Depreciation expense	<u>(206,446)</u>		(122,492)

Change in deferred outflows of resources for pension obligation. 2,329

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds; however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time earned was more than the amounts used by \$(2,299). (2,299)

Repayment of bond and note principal and capitalized leases are expenditures in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 336,232

Some of the capital assets acquired this year were financed with loan proceeds. The amount financed by the proceeds, net of issue costs, is reported in the governmental funds as a source of financing. On the other hand, the proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net position. (45,000)

Bond proceeds are a financing source in the governmental funds, but are recorded as a liability in the statement of net assets. (780,000)

Net amortization of deferred loss on refunding and bond premium. (6,888)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The higher amount of interest reported in the statement of activities is the net result of the increase in accrued interest on bond and notes payable. 16,822

Increase in net pension obligation. (258,890)

Change in deferred inflows of resources for pension obligation. 282,817

Changes in Net Position of Governmental Activities \$ 299,797

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

Bear Lake School District

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

Agency Funds

ASSETS
Cash and cash equivalents

\$ 84,468

LIABILITIES
Due to student groups

\$ 84,468

Bear Lake School District

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Bear Lake School District (the "School District") is a Michigan public school district consisting of one K-12 building. The School District primarily serves the Bear Lake community. As of June 30, 2016, the School District employed 14 professional staff and 28 non-professional staff, and had 298 students enrolled within its School District.

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

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

Financial Reporting Entity

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

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed.

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

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Financial Statements

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The government-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

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

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

Fund Types and Major Funds

Activities in Major Funds

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

The 2015 Debt Service Fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

The 2015 Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital assets.

NOTES TO FINANCIAL STATEMENTS - Continued

Activities in Non-major Funds

Governmental Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are committed or restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the School District is the Food Service Fund.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of capital assets.

Fiduciary Funds

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

Cash and Cash Equivalents

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

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 4 to 50 years. The School District generally capitalizes assets with costs of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land or construction-in-process. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

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

Buildings and improvements	20-50 years
Furniture and equipment	4-15 years
Buses and vehicles	8-15 years

Long-Term Debt and Bond Discounts/Premiums

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

The governmental fund financial statements recognize the proceeds of debt and premiums (discounts) as other financing sources and uses of the current period. Issuance costs are reported as expenditures.

Deferred Inflows and Outflows

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

Fund Equity

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

Spending Policy

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

Program Revenues

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

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

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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

Pension Plan

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

NOTE B - BUDGETARY POLICY AND PRACTICE

Excess of Expenditures over Appropriations in Budgeted Funds

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

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - CASH AND EQUIVALENTS

At June 30, 2016, the School District's cash and equivalents included the following:

	<u>Cash and Equivalents</u>
Cash on hand	\$ 409
Bank deposits	305,362
Investments	<u>1,200,751</u>
	<u><u>\$ 1,506,522</u></u>

Bank Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage.

Custodial Credit Risk - Deposits

In the event of bank failure, the School District's deposits may not be returned to it. As of June 30, 2016, the School District's bank balance of \$308,574 was fully insured.

Investments

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

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.
5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2016 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 1,200,751</u>	<u>\$ 1,200,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Interest Rate Risk

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

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District further limits its investment choices as described above. The School District's investment in the Michigan Liquid Asset Fund ("MILAF") investment pool was rated AAAM by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

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

During the fiscal year, \$18.00 per \$1,000 of equalized non-principal residence property value of \$49.65 million and \$6 per \$1,000 of equalized commercial personal property value of \$1.05 million was levied for general operating purposes. For Debt Service purposes, \$4.20 per \$1,000 of total equalized property value of \$98.53 million was levied for bonded debt repayments by the Debt Service Fund.

Intergovernmental Receivables and Unearned Revenue

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

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

Due from the State of Michigan State Aid	\$ 304,901
Due from Federal Grants	27,102
Due from other sources	<u>33,887</u>
	<u>\$ 365,890</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2016</u>
Buildings and improvements	\$ 8,161,815	\$ -	\$ -	\$ 8,161,815
Furniture and equipment	965,486	-	-	965,486
Buses and vehicles	<u>443,804</u>	<u>83,954</u>	<u>-</u>	<u>527,758</u>
Total depreciable assets	9,571,105	83,954	-	9,655,059
Less accumulated depreciation	(4,944,448)	(206,446)	-	(5,150,894)
Land	<u>74,484</u>	<u>-</u>	<u>-</u>	<u>74,484</u>
Total capital assets, net	<u>\$ 4,701,141</u>	<u>\$ (122,492)</u>	<u>\$ -</u>	<u>\$ 4,578,649</u>

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

Unallocated	<u>\$ 206,446</u>
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NOTE F - LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Defeased/ Refunded/ Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 2,975,000	\$ 780,000	\$ (325,000)	\$ 3,430,000	\$ 320,000
Note payable	11,232	45,000	(11,232)	45,000	14,735
Unamortized bond premium	85,411	-	(7,884)	77,527	7,884
Accumulated leave liability	<u>51,796</u>	<u>2,299</u>	<u>-</u>	<u>54,095</u>	<u>-</u>
Total long-term liabilities	<u>\$ 3,123,439</u>	<u>\$ 827,299</u>	<u>\$ (344,116)</u>	<u>\$ 3,606,622</u>	<u>\$ 342,619</u>

Payments on general obligation bonds are made by the Debt Service Fund. Payments on notes payable are made by the General Fund. The accumulated leave liability will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS - Continued

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

\$2,975,000 2015 School District refunding general obligation bonds for the advance refunding of the School District's 2005 bond issue; due in annual installments of \$230,000 to \$300,000 through May 2026; interest rate of 2.0% to 3.0%.	\$ 2,650,000
\$780,000 2016 Building and Sites Bond; due in annual installments of \$90,000 to \$100,000 through May 2024; interest rate of .95% to 1.90%.	780,000
Bus note; due in annual installments of \$15,540, including interest at 1.79% through July 2018.	<u>45,000</u>
Total bonds and note payable	3,475,000
Unamortized bond premium	77,527
Accumulated leave liability	<u>54,095</u>
Total long-term debt	<u><u>\$ 3,606,622</u></u>

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

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 334,735	\$ 74,313
2018	354,998	70,510
2019	360,267	64,296
2020	355,000	57,788
2021	360,000	51,238
2022-2026	<u>1,710,000</u>	<u>135,863</u>
	<u><u>\$ 3,475,000</u></u>	<u><u>\$ 454,008</u></u>

Interest expense for the year ended June 30, 2016 was \$81,103 and interest paid was \$91,037.

Accumulated Leave Liability

Employees of the School District accumulate days of compensated sick leave, as specified by the bargaining units' contract. This benefit vests after 10 years of employment. Upon either resignation or retirement, the employees are compensated at daily rates specified in the bargaining units' contracts.

Defeasance of Debt

On February 11, 2015, the School District issued \$3.275 million in general obligation bonds with interest rates ranging from 2.0% to 3.0% to advance refund \$2.975 million of outstanding 2005 General Obligation Bonds with an average remaining interest rates ranging from 4.1% to 5.0%.

The net proceeds of \$3,063,696 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded portion of the 2005 General Obligation Bonds. The outstanding principal of the defeased bonds, which have been removed from the School District's books, is \$2.84 million at June 30, 2016.

The bond refunding decreases the School District's total debt service payments by \$535,203 over the next eleven years and yielded an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$327,229.

NOTE G - RISK MANAGEMENT

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

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Bear Lake School District. At June 30, 2016, there were no significant unbilled claims or known future claims.

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

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

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

Receivables and Payables

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

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds		
General Fund	\$ -	\$ 3,838
Other Governmental Funds		
Food Service Fund	<u>3,838</u>	<u>-</u>
	<u>\$ 3,838</u>	<u>\$ 3,838</u>

Transfers and Payments

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

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

<u>Transfer in</u>	<u>Amount</u>	<u>Transfer out</u>	<u>Amount</u>
Other Governmental Funds		Major Governmental Funds	
Food Service Fund	<u>\$ 6,320</u>	General Fund	<u>\$ 6,320</u>
Major Governmental Funds		Other Governmental Funds	
2015 Refunded Debt		2005 Debt Service Fund	<u>\$ 30,142</u>
Service Fund	<u>\$ 30,142</u>		

NOTE I - PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description

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

Benefits Provided

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

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

Pension Reform 2010

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

Pension Reform 2012

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Regular Retirement

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

There is no mandatory retirement age.

Funding Policy

Defined Contribution Plan

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

Contributions and Funded Status

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

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

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

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

Required contributions to the pension plan from the School District were \$302,183 for the year ended September 30, 2015.

The School District's contributions to the MPSERS Defined Contribution Plan were \$4,112, for the year ended June 30, 2016, which is equal to the pension expense recognized by the School District for the year.

NOTES TO FINANCIAL STATEMENTS - Continued

Post-Employment Benefits

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

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

At June 30, 2016, the School District reported a liability of \$3,825,992 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the systems employers during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2015, the School District's proportion was .01566%, which was a decrease of 0.00053% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$296,771. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 12,673
Changes of assumptions	94,204	-
Net difference between projected and actual earnings on pension plan investments	19,529	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	98,864
School District contributions subsequent to the measurement date	<u>245,146</u>	<u>-</u>
Total	<u>\$ 358,879</u>	<u>\$ 111,537</u>

NOTES TO FINANCIAL STATEMENTS - Continued

From the above table, \$245,146 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2016	\$ (15,871)
2017	(15,871)
2018	(20,980)
2019	54,918

Actuarial Assumptions

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

Additional information as of the latest actual valuation follows:

Summary of Actuarial Assumptions

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

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

NOTES TO FINANCIAL STATEMENTS - Continued

Notes:

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

Long-Term Expected Rate of Return on Investments

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

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

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

Discount Rate

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

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

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

1% Decrease (Non-Hybrid/Hybrid) (7.0% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (8.0% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (9.0% / 8.0%)
<hr/>	<hr/>	<hr/>
\$ 4,932,685	\$ 3,825,992	\$ 2,893,005

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

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

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

The School District reported \$55,268 and \$479 payable to the plan at June 30, 2016 for legally required defined benefit and defined contribution plan contributions, respectively.

NOTES TO FINANCIAL STATEMENTS - Continued

Required Supplemental Information - 10-Year Trend Information

<u>Schedule of School District's Proportionate Share of Net Pension Liability</u>		
	<u>9/30/2015</u>	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.01566 %	0.01619 %
School District's proportionate share of net pension liability	\$ 3,825,992	\$ 3,567,102
School District's covered-employee payroll	1,318,566	\$ 1,370,185
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	290.16 %	260.34 %
Plan fiduciary net position as a percentage of total pension liability	63.17 %	66.20 %

<u>Schedule of School District's Contributions</u>		
	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required employer contributions	\$ 302,183	\$ 287,219
School District contributions made to the Plan	<u>302,183</u>	<u>287,219</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 1,263,386	\$ 1,330,086
Contributions as a percentage of covered-employee payroll	23.92 %	21.59 %

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

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

NOTE J - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

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

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Bear Lake Education Association. The Board of Education and the Bear Lake Education Association have a contract through August 31, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Bear Lake School District

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances - Positive (Negative)</u>	
				<u>Original to</u>	<u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>	<u>To Actual</u>
Revenues					
Local and intermediate sources	\$ 990,115	\$ 1,026,254	\$ 1,042,158	\$ 36,139	\$ 15,904
State revenues	1,535,561	1,617,020	1,613,123	81,459	(3,897)
Federal revenues	121,059	133,410	134,253	12,351	843
Incoming transfers and other	<u>121,517</u>	<u>132,721</u>	<u>116,439</u>	<u>11,204</u>	<u>(16,282)</u>
Total revenues	<u>2,768,252</u>	<u>2,909,405</u>	<u>2,905,973</u>	<u>141,153</u>	<u>(3,432)</u>
Expenditures					
Instruction					
Basic programs	1,310,645	1,323,230	1,296,950	(12,585)	26,280
Added needs	<u>232,246</u>	<u>254,737</u>	<u>249,294</u>	<u>(22,491)</u>	<u>5,443</u>
Total instruction	<u>1,542,891</u>	<u>1,577,967</u>	<u>1,546,244</u>	<u>(35,076)</u>	<u>31,723</u>
Supporting Services					
Pupil support	39,229	38,458	36,234	771	2,224
Instructional staff support	12,250	15,750	12,597	(3,500)	3,153
General administration	138,795	141,005	134,548	(2,210)	6,457
School administration	204,812	204,978	203,963	(166)	1,015
Business services	91,921	88,650	86,945	3,271	1,705
Operations and maintenance	321,191	284,153	272,488	37,038	11,665
Transportation	185,280	259,131	246,575	(73,851)	12,556
Other central support	<u>150,715</u>	<u>188,541</u>	<u>183,657</u>	<u>(37,826)</u>	<u>4,884</u>
Total supporting services	<u>1,144,193</u>	<u>1,220,666</u>	<u>1,177,007</u>	<u>(76,473)</u>	<u>43,659</u>
Community service	<u>89,928</u>	<u>93,288</u>	<u>93,264</u>	<u>(3,360)</u>	<u>24</u>
Total expenditures	<u>2,777,012</u>	<u>2,891,921</u>	<u>2,816,515</u>	<u>(114,909)</u>	<u>75,406</u>
REVENUES OVER (UNDER) EXPENDITURES	(8,760)	17,484	89,458	26,244	71,974
Other financing sources (uses)					
Other financing uses	(32,700)	(37,320)	(30,118)	(4,620)	7,202
Proceeds from loan	<u>-</u>	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(41,460)	25,164	104,340	66,624	79,176
Fund balances, beginning of year	<u>370,201</u>	<u>441,741</u>	<u>441,741</u>	<u>71,540</u>	<u>-</u>
Fund balances, end of year	<u>\$ 328,741</u>	<u>\$ 466,905</u>	<u>\$ 546,081</u>	<u>\$ 138,164</u>	<u>\$ 79,176</u>

COMBINING FINANCIAL STATEMENTS

Bear Lake School District

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2016

	<u>Special Revenue Fund Food Service</u>	<u>Capital Projects Fund</u>	<u>Total Non-Major Governmental</u>
ASSETS			
Cash and cash equivalents	\$ 8,538	\$ 124,533	\$ 133,071
Due from other governments	4,553	-	4,553
Prepays	395	-	395
Due from other funds	<u>3,838</u>	<u>-</u>	<u>3,838</u>
Total assets	<u>\$ 17,324</u>	<u>\$ 124,533</u>	<u>\$ 141,857</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 232	\$ -	\$ 232
Salaries payable and related expenditures	891	-	891
Unearned revenue	<u>505</u>	<u>-</u>	<u>505</u>
Total liabilities	<u>1,628</u>	<u>-</u>	<u>1,628</u>
FUND BALANCES			
Nonspendable - prepaids	395	-	395
Restricted - Food Service	15,301	-	15,301
Assigned - building improvements	<u>-</u>	<u>124,533</u>	<u>124,533</u>
Total fund balances	<u>15,696</u>	<u>124,533</u>	<u>140,229</u>
Total liabilities and fund balances	<u>\$ 17,324</u>	<u>\$ 124,533</u>	<u>\$ 141,857</u>

Bear Lake School District

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

Year Ended June 30, 2016

	Special Revenue Fund Food Service	2005 Debt Service Fund	Capital Projects Fund	Total Non-Major Governmental
Revenues				
Interest	\$ 22	\$ 24	\$ 272	\$ 318
State revenues	10,234	-	-	10,234
Federal revenues	85,813	-	-	85,813
Other	38,028	-	24,236	62,264
Total revenues	134,097	24	24,508	158,629
Expenditures				
Food Service	145,765	-	-	145,765
Other	-	-	5,471	5,471
Total expenditures	145,765	-	5,471	151,236
REVENUES OVER (UNDER) EXPENDITURES	(11,668)	24	19,037	7,393
Other financing sources				
Operating transfers in	6,320	-	-	6,320
Operating transfers out	-	(30,142)	-	(30,142)
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(5,348)	(30,118)	19,037	(16,429)
Fund balances, beginning of year	21,044	30,118	105,496	156,658
Fund balances, end of year	\$ 15,696	\$ -	\$ 124,533	\$ 140,229



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

**INDEPENDENT AUDITORS' REPORT ON 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
Bear Lake School District

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 ***Bear Lake School District*** (the "School District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 14, 2016.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control over financial reporting, as described below, that we consider to be a material weakness.

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

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

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

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

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

Compliance and Other Matters

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

School District's Response to Findings

The School District's response to the findings identified in our audit is described above. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dennis, Gartland & Niergarth

October 14, 2016