

SUMMERFIELD SCHOOLS

Year Ended
June 30, 2016

Financial
Statements

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SUMMERFIELD SCHOOLS

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INDEPENDENT AUDITORS' REPORT

October 31, 2016

Board of Education
Summerfield Schools
Petersburg, Michigan**Report on the Financial Statements**

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

Management's Responsibility for the Financial Statements

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

Independent Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 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 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, the major fund, and the aggregate remaining fund information of Summerfield Schools as of June 30, 2016, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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 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 31, 2016, on our consideration of the 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 District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMERFIELD SCHOOLS

Management's Discussion and Analysis

As management of Summerfield Schools (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ending June 30, 2016.

Financial Highlights

- The District's total net position decreased by \$293,213.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$989,260, an increase of \$120,687 during the year. Approximately 24%, or \$238,127, is available for spending at the government's discretion (unassigned fund balance).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual balance reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements report functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, supporting services, food service, community recreation, technology and athletics. The District has no business-type activities for the year.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: *governmental funds* and *fiduciary funds*.

SUMMERFIELD SCHOOLS

Management's Discussion and Analysis

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental funds statement of fund revenues, expenditures, and changes in fund balances for the general fund, which is the District's only major fund. Data from the seven other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary consisting of this management's discussion and analysis and the schedules for the MPSERS pension plan immediately following the notes to the financial statements. Also, the combining statements referred to earlier in connection with nonmajor governmental and private-purpose trust funds are presented immediately following the pension plan schedules.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$6,590,675 at the close of the most recent fiscal year.

SUMMERFIELD SCHOOLS

Management's Discussion and Analysis

A portion of the District's net position reflects its investment in capital assets (e.g., land, land and improvements, buildings and improvements, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	2016	2015
Current and other assets	\$ 2,363,558	\$ 2,337,316
Capital assets, net	4,402,427	4,714,911
Total assets	<u>6,765,985</u>	<u>7,052,227</u>
Deferred outflows of resources	<u>1,457,500</u>	<u>1,302,112</u>
Long-term liabilities	4,169,517	4,360,819
Other liabilities	10,614,104	9,415,259
Total liabilities	<u>14,783,621</u>	<u>13,776,078</u>
Deferred inflows of resources	<u>30,539</u>	<u>875,723</u>
Net position:		
Net investment in capital assets	337,850	464,858
Restricted	396,831	306,744
Unrestricted (deficit)	(7,325,356)	(7,069,064)
Total net position	<u>\$ (6,590,675)</u>	<u>\$ (6,297,462)</u>

\$396,831 of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position, which has a negative balance.

SUMMERFIELD SCHOOLS

Management's Discussion and Analysis

The results of this year's operations for the District as a whole are reported in the statement of activities, which shows the changes in net position for the fiscal year 2016.

	Change in Net Position	
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 245,638	\$ 253,916
Operating grants	1,074,517	942,313
General revenues:		
Property taxes	720,736	749,825
State aid unrestricted	4,859,927	4,897,228
Unrestricted investment earnings	102	112
Other	52,023	56,964
Total revenues	<u>6,952,943</u>	<u>6,900,358</u>
Expenses		
Instruction	3,881,042	3,503,355
Supporting services	2,151,976	2,117,309
Food services	225,296	233,539
Community recreation	83,974	74,267
Technology	170,935	172,024
Athletics	236,140	171,310
Other	7,988	1,452
Interest on long-term debt	127,097	238,028
Depreciation - unallocated	361,708	369,324
Total expenses	<u>7,246,156</u>	<u>6,880,608</u>
Change in net position	(293,213)	19,750
Net position:		
Beginning of year	(6,297,462)	1,472,850
Restatement for implementation of GASB 68	-	(7,790,062)
End of year	<u>\$ (6,590,675)</u>	<u>\$ (6,297,462)</u>

Governmental Activities. Governmental activities net position decreased by \$293,213.

- The decrease is primarily due to an increase in the unfunded liability for pensions.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

SUMMERFIELD SCHOOLS

Management's Discussion and Analysis

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$989,260, an increase of \$120,687 over the prior year. Approximately 24% of this total amount (\$238,127) constitutes unassigned fund balance, which is available for spending at the District's discretion. The District reported \$334,170 as assigned fund balance to support a portion of next year's expenditures. The remainder of fund balance is nonspendable or restricted to indicate that it is not available for new spending because the underlying assets are included in inventory or prepaids and are not available for current expenditure, or the fund balances are constrained by externally imposed restrictions.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$238,127. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 4% of total general fund expenditures.

The fund balance of the District's general fund increased by \$35,817 during the current fiscal year. This is primarily attributable to a slight increase in revenues over the prior year and decreases in expenditures district-wide.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted before the 2015-16 year end. A statement showing the District's original and final budget amounts compared with amounts actually paid and received is provided as part of the District's basic financial statements.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2016, amounted to \$4,402,427 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, and machinery and equipment.

	Capital Assets (Net of Depreciation)	
	2016	2015
Land	\$ 137,972	\$ 137,972
Land improvements	305,425	341,737
Buildings and improvements	3,573,296	3,832,421
Machinery and equipment	385,734	402,781
Total capital assets, net	\$ 4,402,427	\$ 4,714,911

Long-term Debt. At the end of the current fiscal year, the District had bonded debt outstanding of \$3,935,000. This amount represents general obligations of the District that constitute an indebtedness of the District within any constitutional or statutory limitations.

SUMMERFIELD SCHOOLS

Management's Discussion and Analysis

Economic Factors and Next Year's Budget and Rates

Our elected officials and administration considered many factors when setting the District's 2017 fiscal year budget (2016-2017). The most important factors affecting the budget are as follows:

The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year will be 90 percent of the October 2016 and 10 percent of the February 2016 student counts, respectively.

The 2016 fiscal year budget was adopted in June 2015, based on an estimate of students that will be funded for the 2015-16 year (a blended figure is used based on the percentages above). Based on our internal analysis, we conservatively estimate that our student count will decline by 19 students in 2015-2016.

The 2017 fiscal year budget was adopted in June 2016, based on an estimate of students that will be funded for the 2016-17 year (a blended figure is used based on the percentages above). Based on our internal analysis, we conservatively estimate that our student count will decline by 24 students in 2016-2017.

Approximately 86% of all revenues received by the District are directly related to state aid.

Under State law, the only means that the District has to access additional property tax revenue for general operations is through a county-wide enhancement millage. Accordingly, District funding is heavily dependent on the State's ability to fund local school operations.

Once the final student count and related per pupil (State) funding is validated, the District will amend the budget to reflect updated revenues and expenditures.

The following factors were also considered in preparing the District's budget for the 2016-17 fiscal year:

- The amount received on a county-wide basis for the costs of the special education program is another major factor influencing the District revenues. The 2016-17 preliminary budget assumes a flat funding level due to consistent spending and the reimbursement nature of the funding.
- The retirement cost for the District will decrease slightly in 2016-17. More significant is the retirement costs being reimbursed by the State in section 147c categorical payments. These monies are flow-through, and impact revenues and expenditures equally in the budget.
- For the 2016-17 fiscal year, the teacher's contract is still in negotiations. Accordingly, salary/benefit changes as a result of these negotiations are not reflected in the 2016-17 preliminary budget. Due to the expiration of the contract, the teachers reverted back to the 2011-2012 salary schedule.
- Due to the student decline anticipated, there were adjustments to the staffing levels throughout the District in establishing the opening budget for 2016-2017.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent's Office, Summerfield Schools, 17555 Ida West Road, Petersburg, Michigan 49270.

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BASIC FINANCIAL STATEMENTS

SUMMERFIELD SCHOOLS

Statement of Net Position

June 30, 2016

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,312,049
Receivables	1,048,136
Inventory and prepaid items	3,373
Capital assets not being depreciated	137,972
Capital assets being depreciated, net	<u>4,264,455</u>
Total assets	<u>6,765,985</u>
Deferred outflows of resources	
Deferred loss on refunding	79,447
Deferred pension amounts	<u>1,378,053</u>
Total deferred outflows of resources	<u>1,457,500</u>
Liabilities	
Accounts payable and accrued expenses	807,781
State aid note payable	503,657
Unearned revenue	82,673
Long-term debt:	
Due within one year	230,254
Due in more than one year	3,939,263
Net pension liability	<u>9,219,993</u>
Total liabilities	<u>14,783,621</u>
Deferred inflows of resources	
Deferred pension amounts	<u>30,539</u>
Net position	
Net investment in capital assets	337,850
Restricted for:	
Food service	92,290
Community recreation	44,808
Technology	197,260
Debt service	62,473
Unrestricted (deficit)	<u>(7,325,356)</u>
Total net position	<u>\$ (6,590,675)</u>

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

SUMMERFIELD SCHOOLS

Statement of Activities

For the Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 3,881,042	\$ -	\$ 684,472	\$ (3,196,570)
Supporting services	2,151,976	-	31,665	(2,120,311)
Food services	225,296	117,513	137,819	30,036
Community recreation	83,974	83,639	4,774	4,439
Technology	170,935	-	196,512	25,577
Athletics	236,140	44,486	19,275	(172,379)
Other	7,988	-	-	(7,988)
Interest on long-term debt	127,097	-	-	(127,097)
Depreciation - unallocated	361,708	-	-	(361,708)
Total governmental activities	\$ 7,246,156	\$ 245,638	\$ 1,074,517	(5,926,001)
General revenues				
Property taxes				720,736
State aid unrestricted				4,859,927
Unrestricted investment earnings				102
Other				52,023
Total general revenues				5,632,788
Change in net position				(293,213)
Net position, beginning of year				(6,297,462)
Net position, end of year				\$ (6,590,675)

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

SUMMERFIELD SCHOOLS

Balance Sheet

Governmental Funds
June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 898,308	\$ 413,741	\$ 1,312,049
Accounts receivable	460	-	460
Due from other funds	1,808	17,402	19,210
Due from other governments	1,033,299	14,377	1,047,676
Inventory	-	3,054	3,054
Prepaid items	319	-	319
Total assets	\$ 1,934,194	\$ 448,574	\$ 2,382,768
Liabilities			
Accounts payable	\$ 136,380	\$ 16,024	\$ 152,404
Accrued salaries payable	359,186	1,873	361,059
Accrued expenditures	272,734	1,771	274,505
Due to other funds	17,402	1,808	19,210
State aid note payable	503,657	-	503,657
Unearned revenue	72,219	10,454	82,673
Total liabilities	1,361,578	31,930	1,393,508
Fund balances			
Nonspendable:			
Inventory	-	3,054	3,054
Prepaid items	319	-	319
Restricted for:			
Food service	-	89,236	89,236
Community recreation	-	44,808	44,808
Technology	-	197,260	197,260
Debt service	-	82,286	82,286
Assigned -			
Budgeted use of fund balance	334,170	-	334,170
Unassigned	238,127	-	238,127
Total fund balances	572,616	416,644	989,260
Total liabilities and fund balances	\$ 1,934,194	\$ 448,574	\$ 2,382,768

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

SUMMERFIELD SCHOOLS

Reconciliation

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

Fund balances - total governmental funds	\$ 989,260
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statement.	
Capital assets not being depreciated	137,972
Capital assets being depreciated	12,762,034
Accumulated depreciation	(8,497,579)
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds and capital leases payable	(3,975,464)
Unamortized loss on refunding	79,447
Unamortized bond premium	(168,560)
Compensated absences	(25,493)
Accrued interest on bonds payable	(19,813)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(9,219,993)
Deferred outflows related to the net pension liability	1,378,053
Deferred inflows related to the net pension liability	(30,539)
Net position of governmental activities	<u>\$ (6,590,675)</u>

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

SUMMERFIELD SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds
For the Year Ended June 30, 2016

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local sources	\$ 477,998	\$ 540,500	\$ 1,018,498
State sources	5,402,945	13,856	5,416,801
Federal sources	62,269	128,738	191,007
Interdistrict sources and other	140,190	186,447	326,637
Total revenues	<u>6,083,402</u>	<u>869,541</u>	<u>6,952,943</u>
Expenditures			
Current:			
Instruction	3,688,673	-	3,688,673
Supporting services	2,104,372	-	2,104,372
Food services	-	225,296	225,296
Community recreation	-	80,183	80,183
Technology	29,610	140,188	169,798
Athletics	238,156	-	238,156
Other	7,988	-	7,988
Debt service:			
Principal	8,760	220,000	228,760
Interest and fiscal charges	-	138,254	138,254
Total expenditures	<u>6,077,559</u>	<u>803,921</u>	<u>6,881,480</u>
Revenues over expenditures	<u>5,843</u>	<u>65,620</u>	<u>71,463</u>
Other financing sources (uses)			
Issuance of long-term debt	49,224	-	49,224
Transfers in	-	19,250	19,250
Transfers out	(19,250)	-	(19,250)
Total other financing sources (uses)	<u>29,974</u>	<u>19,250</u>	<u>49,224</u>
Net change in fund balances	35,817	84,870	120,687
Fund balances, beginning of year	<u>536,799</u>	<u>331,774</u>	<u>868,573</u>
Fund balances, end of year	<u>\$ 572,616</u>	<u>\$ 416,644</u>	<u>\$ 989,260</u>

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

SUMMERFIELD SCHOOLS

Reconciliation

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

Net change in fund balances - total governmental funds	\$ 120,687
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	49,224
Depreciation expense	(361,708)
<p>Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p>	
Issuance of long-term debt	(49,224)
Principal payments on long-term liabilities	228,760
Amortization of bond premium	11,237
Amortization of deferred loss on refunding	(5,297)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>	
Change in net pension liability and related deferred amounts	(292,638)
Change in accrued interest payable on bonds	5,217
Change in the accrual for compensated absences	529
	<hr/>
Change in net position of governmental activities	<u><u>\$ (293,213)</u></u>

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

SUMMERFIELD SCHOOLS

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Local sources	\$ 486,318	\$ 475,278	\$ 477,998	\$ 2,720
State sources	5,272,456	5,411,794	5,402,945	(8,849)
Federal sources	71,808	109,823	62,269	(47,554)
Interdistrict sources and other	129,427	140,190	140,190	-
Total revenues	5,960,009	6,137,085	6,083,402	(53,683)
Expenditures				
Current:				
Instruction:				
Basic programs	3,213,125	3,189,005	3,170,109	(18,896)
Added needs	516,903	556,467	518,564	(37,903)
Total instruction	3,730,028	3,745,472	3,688,673	(56,799)
Supporting services:				
Pupil	281,771	250,631	242,112	(8,519)
Instructional services	36,995	55,235	33,292	(21,943)
General administration	238,494	246,893	238,727	(8,166)
School administration	421,098	430,790	421,891	(8,899)
Business	240,536	241,319	220,885	(20,434)
Operations and maintenance	598,185	587,665	537,731	(49,934)
Pupil transportation services	429,022	413,443	405,083	(8,360)
Central services	2,939	7,889	4,651	(3,238)
Total supporting services	2,249,040	2,233,865	2,104,372	(129,493)
Technology	35,200	33,300	29,610	(3,690)
Athletics	237,405	236,422	238,156	1,734
Other	3,000	8,200	7,988	(212)
Debt service:				
Principal	8,760	8,760	8,760	-
Total expenditures	6,263,433	6,266,019	6,077,559	(188,460)
Revenues over (under) expenditures	(303,424)	(128,934)	5,843	134,777
Other financing sources (uses)				
Issuance of long-term debt	-	-	49,224	49,224
Transfers out	(22,783)	(25,690)	(19,250)	(6,440)
Total other financing sources (uses)	(22,783)	(25,690)	29,974	55,664
Net change in fund balance	(326,207)	(154,624)	35,817	190,441
Fund balance, beginning of year	536,799	536,799	536,799	-
Fund balance, end of year	\$ 210,592	\$ 382,175	\$ 572,616	\$ 190,441

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

SUMMERFIELD SCHOOLS

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2016

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ 3,448	\$ 126,071
Investments	40,202	34,924
Total assets	43,650	<u>\$ 160,995</u>
Liabilities		
Due to student groups	-	<u>\$ 160,995</u>
Net position		
Restricted for scholarships	<u>\$ 43,650</u>	

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

SUMMERFIELD SCHOOLS

Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Funds

For the Year Ended June 30, 2016

	Private Purpose Trust Funds
Additions	
Interest revenue	\$ 47
Deductions	
Scholarships	<u>511</u>
Change in net position	(464)
Net position, beginning of year	<u>44,114</u>
Net position, end of year	<u>\$ 43,650</u>

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

NOTES TO FINANCIAL STATEMENTS

SUMMERFIELD SCHOOLS

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Government-wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

SUMMERFIELD SCHOOLS

Notes to Financial Statements

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

The District reports the following major governmental fund -

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

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

The *debt service funds* are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

The *private-purpose trust funds* account for contributions earmarked for scholarships available to qualifying students of the District.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

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

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

Deposits and Investments

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

Investments are reported at fair value.

Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

SUMMERFIELD SCHOOLS

Notes to Financial Statements

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

Inventory and Prepaid Items

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the food service fund consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

Capital Assets

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

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

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

Assets	Years
Land improvements	5-20
Buildings and improvements	50
Machinery and equipment	8

Deferred Outflows of Resources

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

SUMMERFIELD SCHOOLS

Notes to Financial Statements

Compensated Absences

Employees can accumulate compensated absences by not using the number of sick days allotted each year. The maximum number of allowable accumulated sick days varies for employees depending on the capacity in which the District employs him/her. The vested liability for compensated absences is based on a dollar amount multiplied by the number of days accumulated for a maximum of 100 days, by employees who have been employed by the District for ten or more years. The current portion represents the estimated amount that will be paid to employees in the next fiscal year.

Long-term Obligations

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

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

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources related to pension costs.

Fund Equity

Governmental funds report *nonspendable fund balance* for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted fund balance* is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. *Committed fund balance*, if applicable, is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if 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. The Board of Education has delegated the authority to assign fund balance to the Superintendent or his/her designee. *Unassigned fund balance* is the residual classification for the general fund. The District reported no committed fund balances.

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

SUMMERFIELD SCHOOLS

Notes to Financial Statements

Pensions

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. BUDGETARY INFORMATION

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

All annual appropriations lapse at fiscal year end.

3. EXCESS OF EXPENDITURES OVER BUDGET

During the year the District incurred certain expenditures in excess of the amounts appropriated as follows:

	Final Budget	Actual	Over Final Budget
General fund			
Athletics	\$ 236,422	\$ 238,156	\$ 1,734

SUMMERFIELD SCHOOLS

Notes to Financial Statements

4. DEPOSITS AND INVESTMENTS

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

Statement of Net Position	
Cash and cash equivalents	\$ 1,312,049
Statement of Fiduciary Net Position	
Private-purpose trust funds -	
Cash and cash equivalents	3,448
Investments	40,202
Student activities agency fund:	
Cash and cash equivalents	126,071
Investments	<u>34,924</u>
Total	<u><u>\$ 1,516,694</u></u>
Deposits and investments	
Bank deposits (checking accounts, savings accounts and CDs)	\$ 1,516,494
Cash on hand	<u>200</u>
Total	<u><u>\$ 1,516,694</u></u>

Statutory Authority

State statutes authorize the District to invest in:

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

SUMMERFIELD SCHOOLS

Notes to Financial Statements

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

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

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District had no investments at year end.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$1,270,043 of the District’s bank balance of \$1,600,606 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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 District had no investments at year end.

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

5. RECEIVABLES

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

	General Fund	Nonmajor Funds	Total
Accounts	\$ 460	\$ -	\$ 460
Due from other governments	1,033,299	14,377	1,047,676
	<u>\$ 1,033,759</u>	<u>\$ 14,377</u>	<u>\$ 1,048,136</u>

SUMMERFIELD SCHOOLS

Notes to Financial Statements

6. CAPITAL ASSETS

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

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets not being depreciated -				
Land	\$ 137,972	\$ -	\$ -	\$ 137,972
Capital assets being depreciated:				
Land improvements	1,183,862	-	-	1,183,862
Buildings and improvements	9,848,347	-	-	9,848,347
Machinery and equipment	1,680,601	49,224	-	1,729,825
	<u>12,712,810</u>	<u>49,224</u>	<u>-</u>	<u>12,762,034</u>
Less accumulated depreciation for:				
Land improvements	(842,125)	(36,312)	-	(878,437)
Buildings and improvements	(6,015,926)	(259,125)	-	(6,275,051)
Machinery and equipment	(1,277,820)	(66,271)	-	(1,344,091)
	<u>(8,135,871)</u>	<u>(361,708)</u>	<u>-</u>	<u>(8,497,579)</u>
Total capital assets being depreciated, net	<u>4,576,939</u>	<u>(312,484)</u>	<u>-</u>	<u>4,264,455</u>
Governmental activities capital assets, net	<u>\$ 4,714,911</u>	<u>\$ (312,484)</u>	<u>\$ -</u>	<u>\$ 4,402,427</u>

Depreciation expense of \$361,708 was reported as "unallocated depreciation", and was not allocated to individual functions.

7. PAYABLES

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

	General Fund	Nonmajor Funds	Total
Fund Financial Statements			
Accounts payable	\$ 136,380	\$ 16,024	\$ 152,404
Accrued salaries payable	359,186	1,873	361,059
Accrued expenditures	272,734	1,771	274,505
	<u>\$ 768,300</u>	<u>\$ 19,668</u>	<u>787,968</u>
Government-wide Financial Statements			
Accrued interest on long-term debt			<u>19,813</u>
			<u>\$ 807,781</u>

SUMMERFIELD SCHOOLS

Notes to Financial Statements

8. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

	Due From	Due To
General fund	\$ 1,808	\$ 17,402
Nonmajor governmental funds	17,402	1,808
	<u>\$ 19,210</u>	<u>\$ 19,210</u>

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

For the year ending June 30, 2016, interfund transfers consisted of the following:

	Transfers In	Transfers Out
General fund	\$ -	\$ 19,250
Nonmajor governmental funds	19,250	-
	<u>\$ 19,250</u>	<u>\$ 19,250</u>

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

For the year ended June 30, 2016, interfund transfers consisted of \$19,250 in transfers from the general fund to nonmajor governmental funds to subsidize debt service payments.

SUMMERFIELD SCHOOLS

Notes to Financial Statements

9. LONG-TERM DEBT

The following is a summary of long-term debt activities of the District for the year ended June 30, 2016:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 4,155,000	\$ -	\$ (220,000)	\$ 3,935,000	\$ 230,000
Capital lease	-	49,224	(8,760)	40,464	7,667
Bond premium	179,797	-	(11,237)	168,560	(11,237)
Compensated absences	26,022	5,652	(6,181)	25,493	3,824
	<u>\$ 4,360,819</u>	<u>\$ 54,876</u>	<u>\$ (246,178)</u>	<u>\$ 4,169,517</u>	<u>\$ 230,254</u>

Compensated absences are generally liquidated by the general fund.

General obligation bonds payable at June 30, 2016, consists of the following:

\$4,035,000 2015 Refunding Bond, due in annual installments of \$205,000 to \$305,000 through May 1, 2031; interest at 3.00%.	\$ 3,830,000
\$180,000 2011 School Improvement Bond, due in annual installments of \$15,000 to \$25,000 through May 1, 2021; interest at 2.00% to 4.00%.	<u>105,000</u>
Total general obligation bonds	<u><u>\$ 3,935,000</u></u>

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

Year Ended June 30,	Principal	Interest	Total
2017	\$ 230,000	\$ 119,793	\$ 349,793
2018	235,000	112,686	347,686
2019	240,000	105,423	345,423
2020	250,000	97,805	347,805
2021	260,000	89,881	349,881
2022-2026	1,265,000	333,900	1,598,900
2027-2031	1,455,000	133,200	1,588,200
Totals	<u><u>\$ 3,935,000</u></u>	<u><u>\$ 992,688</u></u>	<u><u>\$ 4,927,688</u></u>

SUMMERFIELD SCHOOLS

Notes to Financial Statements

The District has one capital lease for a bus with an original amount of \$49,224. Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30,	Principal	Interest	Total
2017	\$ 7,667	\$ 1,093	\$ 8,760
2018	7,874	886	8,760
2019	8,087	673	8,760
2020	8,305	455	8,760
2021	8,531	231	8,762
Totals	\$ 40,464	\$ 3,338	\$ 43,802

10. STATE AID ANTICIPATION NOTE

During the year, the District financed some of its operations through the issuance of a State Aid Anticipation Note. This note was issued for a term of less than one year, and accordingly, is recorded as a liability of the respective funds from which it was issued. At year end, notes payable consisted of \$503,657 due on September 23, 2016 with interest at 0.89%. Short-term note activity for the year ended June 30, 2016, was as follows:

General fund

State aid anticipation notes:

Beginning balance	\$ 454,005
Additions	504,005
Reductions	(454,353)
Ending balance	\$ 503,657

11. OPERATING LEASE

The District has entered into operating lease agreements for a five year term for the use of copy machines and a postage machine. Future minimum lease payments as of June 30, 2016, are as follows:

Year Ended	Amount
2017	\$ 7,049
2018	1,626
2019	540
2020	540
2021	140
Total	\$ 9,895

SUMMERFIELD SCHOOLS

Notes to Financial Statements

12. RISK MANAGEMENT

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

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

13. PROPERTY TAXES

Property taxes levied by the District are collected by the Townships of Dundee, Ida, Summerfield and the City of Petersburg and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer. 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.

14. RETIREMENT PLAN

Plan Description

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

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

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

Benefits Provided

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

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

SUMMERFIELD SCHOOLS

Notes to Financial Statements

Contributions and Funded Status

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

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

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

Benefit Structure	Member Rates	Employer Rates
Basic	0.0% - 4.0%	22.52% - 23.07%
Member Investment Plan (MIP)	3.0% - 7.0%	22.52% - 23.07%
Pension Plus	3.0% - 6.4%	21.99%
Defined Contribution	0.0%	17.72% - 18.76%

The District's contribution to MPSERS under all pension plans for the year ended June 30, 2016 was \$843,846.

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

At June 30, 2016, the District reported a liability of \$9,219,993 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was 0.03775%, which was an increase of 0.00179% from its proportion measured as of September 30, 2014.

SUMMERFIELD SCHOOLS

Notes to Financial Statements

For the year ended June 30, 2016, the District recognized pension expense of \$873,307. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Differences between expected and actual experience	\$ -	\$ 30,539	\$ (30,539)
Changes in assumptions	227,016	-	227,016
Net difference between projected and actual earnings on pension plan investments	47,061	-	47,061
Changes in proportion and differences between employer contributions and proportionate share of contributions	349,342	-	349,342
	<u>623,419</u>	<u>30,539</u>	<u>592,880</u>
District contributions subsequent to the measurement date	754,634	-	754,634
	<u>754,634</u>	<u>-</u>	<u>754,634</u>
Total	\$ 1,378,053	\$ 30,539	\$ 1,347,514

\$754,634 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	Amount
2017	\$ 119,893
2018	119,893
2019	107,580
2020	245,514
	<u>245,514</u>
Total	\$ 592,880

SUMMERFIELD SCHOOLS

Notes to Financial Statements

Actuarial Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The total pension liability in the September 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

SUMMERFIELD SCHOOLS

Notes to Financial Statements

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, 2015, are summarized in the following table:

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

Discount Rate

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

SUMMERFIELD SCHOOLS

Notes to Financial Statements

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

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

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of the net pension liability	\$ 11,886,935	\$ 9,219,993	\$ 6,971,652

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2016, the District reported a payable of \$114,096 for the outstanding amount of pension contributions to the Plan required for the year ended June 30, 2016.

Other Postemployment Benefits

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

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

The District's contributions to MPSERS for other postemployment benefits amounted to \$311,794 for the year ended June 30, 2016.

SUMMERFIELD SCHOOLS

Notes to Financial Statements

15. CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, management does not believe such disallowances, if any, will be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2016.

16. NET INVESTMENT IN CAPITAL ASSETS

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

Capital assets	
Capital assets not being depreciated	\$ 137,972
Capital assets being depreciated, net	<u>4,264,455</u>
Total capital assets	<u>4,402,427</u>
Capital related debt	
Bonds payable	(3,935,000)
Capital lease	(40,464)
Unamortized loss on refunding	79,447
Bond premium	<u>(168,560)</u>
Total capital related debt	<u>(4,064,577)</u>
Net investment in capital assets	<u>\$ 337,850</u>

17. SUBSEQUENT EVENT

On September 22, 2016, the District borrowed \$650,000 on a State Aid Anticipation Note. The note bears interest at 0.63% and is due September 22, 2017.



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REQUIRED SUPPLEMENTARY INFORMATION

SUMMERFIELD SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

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

	Year Ended June 30, 2015	Year Ended June 30, 2016
District's proportion of the net pension liability	0.03596%	0.03775%
District's proportionate share of the net pension liability	\$ 7,921,486	\$ 9,219,993
District's covered-employee payroll	3,224,862	3,147,417
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	245.64%	292.94%
Plan fiduciary net position as a percentage of the total pension liability	66.20%	63.17%

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

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

SUMMERFIELD SCHOOLS

Required Supplementary Information

MPSERS Cost-Sharing Multiple-Employer Plan

Schedule of District Contributions

	Year Ended June 30, 2015	Year Ended June 30, 2016
Contractually required contribution	\$ 713,219	\$ 843,846
Contributions in relation to the contractually required contribution	<u>(713,219)</u>	<u>(843,846)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 3,294,114	\$ 3,118,761
Contributions as a percentage of covered employee payroll	21.65%	27.06%

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

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**COMBINING FUND
FINANCIAL STATEMENTS**

SUMMERFIELD SCHOOLS

Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue		
	Food Service	Community Recreation	Technology
Assets			
Cash and cash equivalents	\$ 97,438	\$ 41,593	\$ 209,442
Due from other funds	384	-	-
Due from other governments	4,242	10,135	-
Inventory	3,054	-	-
Total assets	<u>\$ 105,118</u>	<u>\$ 51,728</u>	<u>\$ 209,442</u>
Liabilities			
Accounts payable	\$ 7,024	\$ -	\$ 9,000
Accrued salaries payable	-	-	1,873
Accrued expenditures	-	462	1,309
Due to other funds	-	1,808	-
Unearned revenue	5,804	4,650	-
Total liabilities	<u>12,828</u>	<u>6,920</u>	<u>12,182</u>
Fund balances			
Nonspendable:			
Inventory	3,054	-	-
Restricted for:			
Food service	89,236	-	-
Community recreation	-	44,808	-
Technology	-	-	197,260
Debt service	-	-	-
Total fund balances	<u>92,290</u>	<u>44,808</u>	<u>197,260</u>
Total liabilities and fund balances	<u>\$ 105,118</u>	<u>\$ 51,728</u>	<u>\$ 209,442</u>

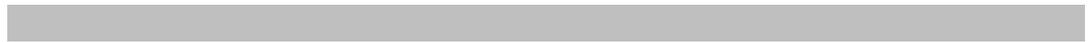


Debt Service				Total Nonmajor Governmental Funds
2006	2011	2015	2016	
\$ 8,975	\$ -	\$ -	\$ 56,293	\$ 413,741
-	-	-	17,018	17,402
-	-	-	-	14,377
-	-	-	-	3,054
<u>\$ 8,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,311</u>	<u>\$ 448,574</u>
\$ -	\$ -	\$ -	\$ -	\$ 16,024
-	-	-	-	1,873
-	-	-	-	1,771
-	-	-	-	1,808
-	-	-	-	10,454
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,930</u>
-	-	-	-	3,054
-	-	-	-	89,236
-	-	-	-	44,808
-	-	-	-	197,260
<u>8,975</u>	<u>-</u>	<u>-</u>	<u>73,311</u>	<u>82,286</u>
<u>8,975</u>	<u>-</u>	<u>-</u>	<u>73,311</u>	<u>416,644</u>
<u>\$ 8,975</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 73,311</u>	<u>\$ 448,574</u>

SUMMERFIELD SCHOOLS

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

	Special Revenue		
	Food Service	Community Recreation	Technology
Revenues			
Local sources	\$ 117,512	\$ 83,639	\$ -
State sources	9,082	4,774	-
Federal sources	128,738	-	-
Interdistrict sources and other	-	-	186,447
Total revenues	255,332	88,413	186,447
Expenditures			
Current:			
Food services	225,296	-	-
Community recreation	-	80,183	-
Technology	-	-	140,188
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	225,296	80,183	140,188
Revenues over (under) expenditures	30,036	8,230	46,259
Other financing sources			
Transfers in	-	-	-
Net change in fund balances	30,036	8,230	46,259
Fund balances, beginning of year	62,254	36,578	151,001
Fund balances, end of year	\$ 92,290	\$ 44,808	\$ 197,260



Debt Service				Total Nonmajor Governmental Funds
2006	2011	2015	2016	
\$ -	\$ -	\$ -	\$ 339,349	\$ 540,500
-	-	-	-	13,856
-	-	-	-	128,738
-	-	-	-	186,447
<hr/>				
-	-	-	339,349	869,541
<hr/>				
-	-	-	-	225,296
-	-	-	-	80,183
-	-	-	-	140,188
-	15,000	-	205,000	220,000
72,966	4,250	-	61,038	138,254
<hr/>				
72,966	19,250	-	266,038	803,921
<hr/>				
(72,966)	(19,250)	-	73,311	65,620
<hr/>				
-	19,250	-	-	19,250
<hr/>				
(72,966)	-	-	73,311	84,870
<hr/>				
81,941	-	-	-	331,774
<hr/>				
\$ 8,975	\$ -	\$ -	\$ 73,311	\$ 416,644
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SUMMERFIELD SCHOOLS

Combining Statement of Fiduciary Net Position

Private-Purpose Trust Funds

June 30, 2016

	Gerber Scholarship	Garza Scholarship	Rumler Scholarship	Total
Assets				
Cash and cash equivalents	\$ -	\$ 3,448	\$ -	\$ 3,448
Investments	25,113	-	15,089	40,202
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	25,113	3,448	15,089	43,650
	<hr/>	<hr/>	<hr/>	<hr/>
Net position				
Restricted for scholarships	\$ 25,113	\$ 3,448	\$ 15,089	\$ 43,650
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

SUMMERFIELD SCHOOLS

Combining Statement of Changes in Fiduciary Net Position

Private-Purpose Trust Funds

For the Year Ended June 30, 2016

	Gerber Scholarship	Garza Scholarship	Rumler Scholarship	Total
Additions				
Interest revenue	\$ 31	\$ -	\$ 15	\$ 47
Deductions				
Scholarships	-	510	-	511
Change in net position	31	(510)	15	(464)
Net position, beginning of year	25,082	3,958	15,074	44,114
Net position, end of year	<u>\$ 25,113</u>	<u>\$ 3,448</u>	<u>\$ 15,089</u>	<u>\$ 43,650</u>

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**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***

October 31, 2016

Board of Education
Summerfield Schools
Petersburg, 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, the major fund, and the aggregate remaining fund information of *Summerfield Schools* (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 2016.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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. Given these limitations, during our audit we did not identify any deficiencies in internal control 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 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*.

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 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.

A handwritten signature in black ink that reads "Lehmann Lobson LLC". The signature is written in a cursive, flowing style.