

FINANCIAL REPORT
POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
POSEN, MICHIGAN
June 30, 2016

**POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
FINANCIAL STATEMENTS
Year Ended June 30, 2016**

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October 31, 2016

Independent Auditors' Report

Superintendent and Board of Education
Posen Consolidated School District No. 9
Posen, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Posen Consolidated School District No. 9, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Posen Consolidated School District No. 9, 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 and budgetary comparison information 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 Posen Consolidated School District No. 9's basic financial statements. The accompanying other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016 on our consideration of Posen Consolidated School District No. 9's internal control over financial reporting and on our tests of its compliance with certain provision 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 Posen Consolidated School District No. 9's internal control over financial reporting and compliance.

Hill, Schroeder & Co

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

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Management's Discussion and Analysis

Overview of the Basic Financial Statements

Posen Consolidated School District No. 9's (the District's) basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the District's non-fiduciary funds. The government-wide 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 displays all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net costs of the various functions within the School (instruction, support services, etc.), which are supported by the School's general revenues (property taxes, unrestricted state aid, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented; separate from the governmental funds, due to the fact that these assets do not represent assets of the District. These assets are not presented as part of the government-wide financial statements.

Posen Consolidated School District No. 9 maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances. General Fund, 2015 Refunding Debt Service Fund, 2012 Debt Service Fund are considered major funds. Data from the other four governmental funds are combined into a single, nonmajor governmental funds column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplemental Information section of the report.

Notes to the Financial Statements

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

MISSION STATEMENT

The mission of Posen Consolidated School is to promote skills for adapting to an ever changing environment, while encouraging responsible citizens and lifelong learners.

Government-wide Financial Analysis

The table below summarizes the District's net position as of June 30, 2016, with comparative data from June 30, 2015:

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Statement of Net Position
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current and other assets	\$ 833,984	\$ 776,286
Capital assets, net of accumulated depreciation	<u>3,203,888</u>	<u>3,436,755</u>
Total assets	<u>4,037,872</u>	<u>4,213,041</u>
Deferred Outflows of Resources		
Deferred outflow for pension obligation	446,618	299,811
Refunding deferral	<u>43,419</u>	<u>56,352</u>
Total deferred outflow of resources	<u>490,037</u>	<u>356,163</u>
Liabilities		
Current liabilities	959,732	994,944
Noncurrent liabilities	<u>4,569,366</u>	<u>4,459,722</u>
Total liabilities	<u>5,529,098</u>	<u>5,454,666</u>
Deferred Inflows of Resources		
Deferred inflow of resources for pension obligation	<u>10,591</u>	<u>310,233</u>
Net Position		
Net investment in capital assets	1,550,422	1,506,300
Restricted	212,839	107,225
Unrestricted	<u>(2,775,041)</u>	<u>(2,809,220)</u>
Total net position	<u>\$ (1,011,780)</u>	<u>\$ (1,195,695)</u>

Investment in capital assets, net of debt, \$1,550,422 is the District's investment in capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets. The second portion of net position, restricted net position, represents resources that are subject to external restrictions on how they may be used. This would include restrictions for debt service payments of \$131,874 and restrictions for capital outlay in the amount of \$80,965.

The remaining portion of net position, unrestricted net position, may be used at the District's discretion to meet ongoing obligations. The negative unrestricted net position as of June 30, 2016 would have been a negative \$13,673 if not for the implementation of GASB 68 which increased the District's liabilities for their share of the Michigan Public School Employees' Retirement System net pension liability.

The results for the District as a whole are reported in the Statement of Activities for the year ended June 30, 2016, with comparative data for the year ended June 30, 2015 as summarized below:

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Statement of Activities
Year Ended June 30, 2016 and 2015

	2016	2015
Revenue		
Program revenue:		
Charges for services	\$ 51,994	\$ 51,497
Grants and contributions	499,410	441,485
Capital grants and contributions	-	-
General revenue:		
Property taxes	1,312,609	1,232,087
State aid, unrestricted	884,138	920,366
Interest and investment earnings	5,598	2,353
Other	10,341	9,832
	2,764,090	2,657,620
Function/Program Expenses		
Instruction	1,398,561	1,478,605
Support services	760,989	769,316
Food services	114,979	128,241
Interest/fees on long-term debt	46,065	156,076
Depreciation (unallocated)	259,581	261,142
	2,580,175	2,793,380
Change in net position	183,915	(135,760)
Net position - beginning of year	(1,195,695)	(1,059,935)
Net position - end of year	\$ (1,011,780)	\$ (1,195,695)

As reported above, the District recorded \$2,580,175 of program expenses. These expenses were funded minimally by charges for services. The majority of the District's revenues were from property taxes (47%), unrestricted state aid (32%), and grants and contributions (18%).

Fund Financial Analysis

As of year-end, the governmental funds reported combined fund balances of \$165,195, which is \$95,791 more than the beginning of the year. The increase is primarily from restricted debt and sinking funds property tax revenue in excess of related expenditures. The General Fund deficit increased slightly from \$49,041 to \$65,006.

General Fund Budgetary Highlights

Final budgeted revenues were more than their originally approved amounts.

Final revenues were more than final budgeted amounts by \$9,912.

Final budgeted expenditures were more than original budgeted expenditures due to an overall increase in expenditures more than originally anticipated.

Final expenditures were more than final budgeted amounts by \$55,370 due primarily to UAAL retirement expenditures that were not budgeted for.

Capital Assets

At June 30, 2016, the District had about \$8.4 million invested in capital assets. The following table summarizes the capital asset activity for the year:

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9 CAPITAL ASSETS

Year Ended June 30, 2016

	July 1, 2015	Additions	Disposals	June 30, 2016
Land and improvements	\$ 711,440	\$ -	\$ -	\$ 711,440
Buildings and improvements	6,434,943	76,714	-	6,511,657
Furniture and equipment	749,495	-	-	749,495
Vehicles	429,826	-	-	429,826
Construction in progress	50,000	-	(50,000)	-
Total capital assets	8,375,704	76,714	(50,000)	8,402,418
Less accumulated depreciation	(4,938,949)	(259,581)	-	(5,198,530)
Net capital assets	\$ 3,436,755	\$ (182,867)	\$ (50,000)	\$ 3,203,888

Debt Outstanding

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9's DEBT ACTIVITY Year Ended June 30, 2016

	<u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>
Bonds & notes payable:				
General obligation debt	\$ 1,900,000	\$ -	\$ (270,000)	\$ 1,630,000
Bond premium	<u>30,455</u>	<u>-</u>	<u>(6,989)</u>	<u>23,466</u>
Total bonds & notes payable	1,930,455	-	(276,989)	1,653,466
Other liabilities:				
Net pension liability	<u>2,806,256</u>	<u>391,139</u>	<u>-</u>	<u>3,197,395</u>
Total governmental activities long-term liabilities	<u>\$ 4,736,711</u>	<u>\$ 391,139</u>	<u>\$ (276,989)</u>	<u>\$ 4,850,861</u>

Economic Factors

Posen Consolidated School District No.9 has had declining enrollment for the last five years. Schools operating revenue is based on student enrollment as well as the amount of funding per student. The student enrollment for the 2015/2016 school year was at 238.

The 2015/2016 school year state aid funding was \$ 7,391 per student enrolled. In addition, categorical funding had also been reduced. The Title program funding has been increased about 10% this year.

This year the revenue has gone up some, but the costs (expenses) has continued to go up. The 9.4% hard cap increase for health insurance for the teaching staff and support staff is one example. Another increase is the natural gas, electricity and other items. We have saved on bus fuel since fuel prices have gone down. We continue to try to spend less since the state is continually cutting our budget. We have savings on our administrator expenses since we have a combined Superintendent/ Principal position for the 2015/2015 school year.

Posen Consolidated School has had to utilize the fund balance for the last four years to continue to operate and meet expenses. We have saved by replacing a teacher who resigned with a first step teacher. Posen had a retirement and we did not replace the teacher. Split classrooms (combined grade levels into one room) were implemented for five elementary grades.

Financial Contact

The District's financial statements are designed to present users with a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office, Posen Consolidated School District No. 9.

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Current Assets	
Cash	\$ 309,462
Investments	285,054
Due from other governmental units	239,468
Total current assets	833,984
Noncurrent Assets	
Capital assets:	
Nondepreciable	2,485
Depreciable, net	3,201,403
Total noncurrent assets	3,203,888
Total assets	4,037,872
Deferred Outflows of Resources	
Deferred outflow for pension obligation	446,618
Refunding deferral	43,419
Total deferred outflows of resources	490,037
Liabilities	
Current Liabilities	
Accounts payable	4,386
Accrued interest payable	15,324
State aid notes payable	466,677
Accrued expenses	80,534
Salaries payable	105,847
Unearned revenue	5,469
Bonds and notes payable, net	281,495
Total current liabilities	959,732
Noncurrent Liabilities, Net of Current Portion	
Net pension liability	3,197,395
Bonds and notes payable, net	1,371,971
Total noncurrent liabilities	4,569,366
Total liabilities	5,529,098
Deferred Inflows of Resources	
Deferred inflow of resources for pension obligation	10,591
Net Position	
Net investment in capital assets	1,550,422
Restricted for debt service	131,874
Restricted for capital outlay	80,965
Unrestricted	(2,775,041)
Total net position	\$ (1,011,780)

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	\$ 1,398,561	\$ -	\$ 370,986	\$ -	\$ (1,027,575)
Support services	760,989	23,610	35,687	-	(701,692)
Food services	114,979	28,384	92,737	-	6,142
Interest/fees on long-term debt	46,065	-	-	-	(46,065)
Depreciation (unallocated)	259,581	-	-	-	(259,581)
Total governmental activities	\$ 2,580,175	\$ 51,994	\$ 499,410	\$ -	\$ (2,028,771)
General revenues:					
Taxes:					
Property taxes, levied for general purposes					861,293
Property taxes, levied for debt services					397,103
Property taxes, levied for construction and repair of buildings					54,213
State aid, unrestricted					884,138
Interest and investment earnings					5,598
Other					10,341
Total general revenues					2,212,686
Change in net position					183,915
Net position - beginning of year					(1,195,695)
Net position - end of year					\$ (1,011,780)

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Balance Sheet
June 30, 2016

<u>Assets</u>	<u>General</u>	<u>2012 Debt Service</u>	<u>2015 Refunding Debt Service</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Cash	\$ 80,215	\$ 114,421	\$ 22,016	\$ 92,810	\$ 309,462
Investments	285,054	-	-	-	285,054
Due from other funds	25,256	89,277	-	31,793	146,326
Due from other governmental units	225,103	-	-	14,365	239,468
Total assets	<u>\$ 615,628</u>	<u>\$ 203,698</u>	<u>\$ 22,016</u>	<u>\$ 138,968</u>	<u>\$ 980,310</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 4,386	\$ -	\$ -	\$ -	\$ 4,386
Due to other funds	11,845	8,913	84,927	40,641	146,326
Interest payable	5,876	-	-	-	5,876
State aid notes payable	466,677	-	-	-	466,677
Accrued expenditures	80,534	-	-	-	80,534
Salaries payable	105,847	-	-	-	105,847
Unearned revenue	5,469	-	-	-	5,469
Total liabilities	<u>680,634</u>	<u>8,913</u>	<u>84,927</u>	<u>40,641</u>	<u>815,115</u>
Fund Balances:					
Restricted for debt service	-	194,785	(62,911)	-	131,874
Restricted for capital outlay	-	-	-	80,965	80,965
Assigned for food service	-	-	-	17,362	17,362
Unassigned	(65,006)	-	-	-	(65,006)
Total fund balances	<u>(65,006)</u>	<u>194,785</u>	<u>(62,911)</u>	<u>98,327</u>	<u>165,195</u>
Total liabilities and fund balances	<u>\$ 615,628</u>	<u>\$ 203,698</u>	<u>\$ 22,016</u>	<u>\$ 138,968</u>	<u>\$ 980,310</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Fund Balance Reported in Governmental Funds	\$ 165,195
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 are not reported in the governmental funds balance sheet.	
Cost of capital assets	8,402,418
Accumulated depreciation	(5,198,530)
Interest is accrued on outstanding long-term bonds in governmental activities, whereas in governmental funds, an interest expenditure is reported when due.	
	(9,448)
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet.	
Bonds and notes payable, net	(1,653,466)
Refunding deferral	43,419
Net pension liability	(3,197,395)
Deferred outflow for pension obligation	446,618
Deferred inflow of resources for pension obligation	<u>(10,591)</u>
Total net position - governmental activities	<u><u>\$ (1,011,780)</u></u>

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2016

	General	2012 Debt Service	2015 Refunding Debt Service	Other Nonmajor Governmental Funds	Total
Revenues					
Local sources	\$ 940,097	\$ 266,975	\$ 130,234	\$ 82,597	\$ 1,419,903
State sources	1,121,689	-	-	5,619	1,127,308
Federal sources	90,960	-	-	87,118	178,078
Interdistrict and other sources	38,801	-	-	-	38,801
	<u>2,191,547</u>	<u>266,975</u>	<u>130,234</u>	<u>175,334</u>	<u>2,764,090</u>
Total revenues					
Expenditures					
Current:					
Instruction	1,453,871	-	-	-	1,453,871
Support services	753,641	-	-	7,348	760,989
Food Service	-	-	-	114,979	114,979
Capital outlay	-	-	-	26,714	26,714
Debt service:					
Principal	-	160,000	110,000	-	270,000
Interest/fees	-	5,872	35,874	-	41,746
	<u>2,207,512</u>	<u>165,872</u>	<u>145,874</u>	<u>149,041</u>	<u>2,668,299</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>(15,965)</u>	<u>101,103</u>	<u>(15,640)</u>	<u>26,293</u>	<u>95,791</u>
Net change in fund balances	(15,965)	101,103	(15,640)	26,293	95,791
Fund balances - beginning of year	<u>(49,041)</u>	<u>93,682</u>	<u>(47,271)</u>	<u>72,034</u>	<u>69,404</u>
Fund balances - end of year	<u><u>\$ (65,006)</u></u>	<u><u>\$ 194,785</u></u>	<u><u>\$ (62,911)</u></u>	<u><u>\$ 98,327</u></u>	<u><u>\$ 165,195</u></u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 95,791

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital Outlay	26,714
Depreciation expense	(259,581)

Change in share of pension obligations not recovered in pension expenditures of the governmental funds.	55,310
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Repayment of long-term debt is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position:

Bonds/ notes	270,000
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized 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:

Change in accrued interest on long term debt	1,625
Amortization of refunding deferral	(12,933)
Amortization of bond premiums	6,989
	6,989

Change in net position - governmental activities	\$ 183,915
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POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Fiduciary Fund
Statement of Fiduciary Net Position
June 30, 2016

	<u>Student Activities Agency Fund</u>
Assets	
Cash	\$ 30,682
Liabilities	
Due to student groups	\$ 30,682

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Posen Consolidated School District No. 9 (the "School District") operates under a Board-Superintendent form of government and provides education services to its residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the School District:

Reporting Entity

Criteria for determining if other entities are potential component units which should be reported within the School District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the School District is financially accountable and other organizations that the nature and significance of their relationship with the School District are such that exclusion would cause the School District's basic financial statements to be misleading or incomplete. The School District has no component units.

Basic Financial Statements – Overview

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's activities are considered governmental activities.

Basic Financial Statements – Government-Wide Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the School District as an entity and the change in the School District's net position resulting from the current year's activities.

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The School District's net position are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The School District first utilizes restricted resources to finance qualifying activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Government-Wide Statements - Continued

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted state aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the School District are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The School District's major funds, as described below, are the General, 2012 Debt Service and the 2015 Refunding Debt Service Funds. Non-major funds by category are summarized into a single column.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred. The exceptions to this general rule are principal and interest on general obligation long-term debt, compensated absences, claims and judgments, and retirement allowances, which are recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Governmental Funds

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements – Continued

Governmental Funds – Continued

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the School District.

Special Revenue Fund – Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital project. The School District maintains the Food Service Fund.

Debt Service Funds – The Debt Service Funds are used to record tax and interest revenue and the payment of interest, principal and other expenditures on long-term bonded debt. The Debt Service Funds maintained by the School District are the, 2012 Debt Service Fund and 2015 Refunding.

Capital Project Funds – The Capital Project Funds are used to record property tax revenues, bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. These funds are kept open until the purpose for which they were created has been accomplished. The Capital Project Funds maintained by the School District are the 2012 Tech and Bus Bonds Capital Projects and the Sinking Fund.

The 2012 Tech and Bus Bonds Capital Projects Fund include capital project activities funded with bonds issued after May 1, 2012. For this capital projects, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

The Sinking Fund was approved by voters for a period of 10 years, 2012 to 2021 to levy an amount not to exceed .5 mills on all property for the purpose of construction and repair of school buildings as well as other purposes authorized by law. For this fund the School District has complied with the applicable provisions of §1212 (1) of the Revised School Code and the applicable section of the Revised Bulletin For School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee or agency capacity for others and therefore are not available to support School District programs. Since these funds cannot be used to address activities or obligations of the School District, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Position:

Student Activities Agency Fund – The School District presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the School District for the students.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND FUND BALANCE

Cash and Investments

Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair market value.

Capital Assets

Capital assets, which include land, buildings, equipment and vehicles, are reported in the Statement of Net Position in the government-wide financial statements. Capital assets are defined by the School District as assets that are purchased or acquired with an original cost of \$3,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land and improvements	10-20 years
Buildings and improvements	20-50 years
Furniture and other equipment	5-25 years

Early Retirement Incentives

The District provides an alternate retirement severance, restricted to employees with a minimum of fifteen years of continuous service in the District. The payments are calculated using formulae and conditions specified in the contracts. After twenty nine years of service there is no alternate retirement severance. Therefore, a liability is recognized in the government-wide financial statements when an eligible employee submits written notification of intent. The stipend shall be paid beginning in July of the retirement year and each July thereafter until paid in full, unless said employee shall die. There is no death benefit. The Districts payments to retirees in the years ended June 30, 2016 and 2015 were \$ 0 and \$3,600 respectively. This amount is reported in the fund financial statements and represents a reconciling item between the government-wide and fund presentations.

Compensated Absences

Accumulated unpaid sick and vacation pay is not accrued by the School District. Employees are limited to the number of sick and vacation days they may accumulate. Sick and vacation days do not vest to the employee and are not payable upon termination, except when used to determine retirement allowance.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND FUND BALANCE - CONTINUED

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the School Board – the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the School District's "intent" to be used for specific purposes, but are neither restricted nor committed. The school Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the School District's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Pensions

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 revenue and expenses during the period. Actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The School District is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for these funds. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. All annual appropriations lapse at year-end.

The presentation of budgetary information is required for the General Fund and all major Special Revenue Funds. The School District does not have any major Special Revenue Funds. In the required supplemental information section, the School District's actual and budgeted expenditures for the General Fund are presented.

During the year, the School District incurred expenditures which were in excess of the amounts appropriated for the following Funds:

<u>Fund</u>	<u>Appropriations</u>	<u>Amount of Expenditures</u>	<u>Variance</u>
General Fund	\$ 2,152,142	\$ 2,207,512	\$ 55,370

The School District adopted an amended General Fund budget which reduced the accrued deficit, but did not eliminate it as required by state law.

NOTE 3: DEPOSITS AND INVESTMENTS

Cash Deposits

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits and investments are in accordance with statutory authority.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 3: DEPOSITS AND INVESTMENTS – CONTINUED

Cash Deposits – Continued

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned. The School District does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$ 340,144 and the bank balance was \$ 367,099. Of the bank balance \$326,097 was covered by federal depository insurance. The remaining \$41,002 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

Investments

Credit Risk – As of June 30, 2016, the School District's investments were with Michigan Liquid Asset Fund investment pool in the amount of \$285,054 rated AAAM by Standard & Poor's.

NOTE 4: PROPERTY TAXES

Property taxes are levied and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31.

Property taxes are recognized as revenue in the fiscal year they are levied. The Michigan School Accounting Manual requires property taxes receivable be written off in the current year if not received within 60 days of the end of the previous year. This applies to both the government-wide (full accrual) and the fund (modified accrual) financial statements. There is no significant departure from the full accrual basis of accounting using this method.

The 2015 State taxable valuation of non-homestead property for Posen Consolidated School District No. 9 totaled \$ 47,505,774, on which taxes levied consisted of 18.000 mills and \$837,779 for commercial personal property at 6.000 mills for operating purposes. The total taxable valuation of the School District as of May 2, 2016 was \$ 108,107,877, on which taxes levied consisted of 3.660 mills for debt retirement, and .500 mills for the Sinking Fund. These amounts are recognized in the respective General, Debt Service, and Capital Projects Funds.

Classification of assessed property between homestead vs. non-homestead is subject to change. In addition, Michigan Tax Tribunal and Board of Review changes throughout the year affect the total taxable valuation.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The inter-fund balances within the School are as follows:

Fund	Interfund Receivable	Interfund Payable
General	\$ 25,256	\$ 11,845
Food Service	-	25,256
2012 Debt Service	89,277	8,913
2015 Refunding Debt Service	-	84,927
2012 Tech & Bus Bonds	19,327	15,385
Sinking	12,466	-
	<u>\$ 146,326</u>	<u>\$ 146,326</u>

The inter-fund balances are for a number of different reasons including; General Fund payments of Food Service Fund payroll and related expenditures, Capital Project funds payments of General Fund expenditures, 2012 Debt Fund payments of 2015 Refunding Debt Service Fund debt payments and 2015 Refunding Debt Service Fund bond fees paid from the 2012 Tech and Bus Bonds fund.

NOTE 6: CAPITAL ASSETS

Capital asset activity for the School District's governmental activities was as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Assets not being depreciated:				
Land	\$ 2,485	\$ -	\$ -	2,485
Construction in progress	50,000	-	(50,000)	-
Subtotal	<u>52,485</u>	<u>-</u>	<u>(50,000)</u>	<u>2,485</u>
Capital assets being depreciated:				
Land improvements	708,955	-	-	708,955
Buildings and improvements	6,434,943	76,714	-	6,511,657
Furniture and equipment	749,495	-	-	749,495
Vehicles	429,826	-	-	429,826
Subtotal	<u>8,323,219</u>	<u>76,714</u>	<u>-</u>	<u>8,399,933</u>
Accumulated depreciation:				
Land improvements	(661,523)	(35,664)	-	(697,187)
Buildings and improvements	(3,478,705)	(123,764)	-	(3,602,469)
Furniture and equipment	(557,898)	(60,056)	-	(617,954)
Vehicles	(240,823)	(40,097)	-	(280,920)
Subtotal	<u>(4,938,949)</u>	<u>(259,581)</u>	<u>-</u>	<u>(5,198,530)</u>
Net capital assets being depreciated	<u>3,384,270</u>	<u>(182,867)</u>	<u>-</u>	<u>3,201,403</u>
Governmental activities net capital assets	<u>\$ 3,436,755</u>	<u>\$ (182,867)</u>	<u>\$ (50,000)</u>	<u>\$ 3,203,888</u>

Governmental activities depreciation expense was charged as follows:

Unallocated	<u>\$ 259,581</u>
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: SHORT-TERM DEBT – STATE AID NOTES

The School issues State aid notes in advance of State aid receipts, depositing the proceeds in the General Fund. This note is necessary due to reduced funding and because a State aid payment is not received in September.

Short-term debt activity for the year ended June 30, 2016, excluding interest expense of \$ 6,176, and \$ 846 in issuance cost was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
State aid note	<u>\$ 486,672</u>	<u>\$ 625,000</u>	<u>\$ (644,995)</u>	<u>\$ 466,677</u>

NOTE 8: LONG-TERM DEBT

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bonds and notes payable:					
General obligation debt	\$ 1,900,000	\$ -	\$ (270,000)	\$ 1,630,000	\$ 275,000
Bond premium	30,455	-	(6,989)	23,466	6,495
Total bonds and notes payable	1,930,455	-	(276,989)	1,653,466	281,495
Other liabilities:					
Net pension liability	2,806,256	391,139	-	3,197,395	-
Total governmental activities long-term liabilities	<u>\$ 4,736,711</u>	<u>\$ 391,139</u>	<u>\$ (276,989)</u>	<u>\$ 4,850,861</u>	<u>\$ 281,495</u>

Long-term debt payable at June 30, 2016, is comprised of the following individual instruments:

General Obligation Bonds:

2015 Refunding Bonds due in annual installments of \$110,000 to \$280,000 through May 1, 2022; interest at 2.00%, net of premium.

\$ 1,488,466

2012 School Technology and Bus Bonds due in annual installments of \$160,000 to \$165,000 through May 1, 2017; interest at 1.77

165,000

Total general obligation bond

1,653,466

Net pension liability

3,197,395

Total governmental activities long-term liabilities

\$ 4,850,861

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 8: LONG-TERM DEBT – CONTINUED

The annual debt service requirements to maturity for all governmental bond obligations excluding premium are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 275,000	\$ 32,221	\$ 307,221
2018	280,000	27,100	307,100
2019	280,000	21,500	301,500
2020	275,000	15,900	290,900
2021	260,000	10,400	270,400
2022-2023	260,000	5,200	265,200
	<u>\$ 1,630,000</u>	<u>\$ 112,321</u>	<u>\$ 1,742,321</u>

Bond payments, including interest, are made from the Debt Service Funds. There are limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions.

NOTE 9: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS

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 (“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 of 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS - CONTINUED

Plan Description - Continued

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

Contributions and Funded Status

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

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

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

<u>Benefit Structure</u>	<u>Member Rates</u>	<u>Employer Rates</u>
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	0.00%	17.72% - 18.76%

Required contributions to the pension plan from the School District were \$252,536 for the year ended September 30, 2015.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS - CONTINUED

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 \$3,197,395 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 School 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 School District's proportion was 0.01309%, which was an increase of 0.00035% from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the School District recognized pension expense of \$287,815. At June 30, 2016, the School 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
	<u> </u>	<u> </u>
Difference between expected and actual experience	\$ -	\$ 10,591
Changes of assumptions	78,727	-
Net difference between projected and actual earnings on pension plan investments	16,320	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	65,274	-
School District contributions subsequent to the measurement date	<u>286,297</u>	<u>-</u>
Total	<u>\$ 446,618</u>	<u>\$ 10,591</u>

Deferred outflows of resources related to pensions of \$286,297 resulting from employer contributions, including 69.45% of Section 147(c) payments 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 as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30</u>	<u>Amount</u>
2017	\$ 26,539
2018	\$ 26,538
2019	\$ 22,270
2020	\$ 74,383

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: *DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS - CONTINUED*

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	3.50%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.00%
Pension Plus plan (hybrid)	7.00%
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.

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 is 4.7158 for non-university employers.

Recognition period for assets in years is 5.0000.

Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS – CONTINUED

Long-Term Expected Return on Plan Assets

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.90%
Alternative Investment Pools	18.0%	9.20%
International Equity	16.0%	7.20%
Fixed Income Pools	10.5%	0.90%
Real Estate & Infrastructure Pools	10.0%	4.30%
Absolute Return Pools	15.5%	6.00%
Short Term Investment Pools	2.0%	0.00%
Total	100.0%	

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

Discount Rate

The discount rate of 8% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). The discount rate was based on 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 the 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS – CONTINUED

Sensitivity of 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%, 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 7%	Current Discount Rate 8%	1% Increase 9%
School District's proportionate share of the net pension liability	<u>\$ 4,122,261</u>	<u>\$ 3,197,395</u>	<u>\$ 2,417,694</u>

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 School District reported a payable of \$31,600 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 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS – CONTINUED

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 MPERS to each District, including interest, and will then be refunded to individual employees.

The School District's contributions to MPERS for other postemployment benefits amounted to \$31,319 for the year ended June 30, 2016.

10-Year Trend Information – Defined Benefit Plan

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

	<u>Sept 30, 2015</u>	<u>Sept 30, 2014</u>
District's proportion of the net pension liability	0.01309%	0.01274%
District's proportion share of the net pension liability	\$ 3,197,395	\$ 2,806,256
District's covered -employee payroll	<u>\$ 1,142,105</u>	<u>\$ 1,118,714</u>
District's proportionate share of the net postion liability as a percentage of it's covered-employee payroll	279.96%	250.85%
Plan fiduciary net postion as a percentage of the total pension liability	63.17%	66.20%

Schedule of District Contributions

	<u>June 30, 2016</u>	<u>June 30, 2016</u>
Contractually required contribution	\$ 266,518	245,920
Contributions in relation to the contractually required contribution	(266,518)	(245,920)
Contribution deficiency (excess)	-	-
District's covered-employee payroll	1,191,191	1,143,406
Contribution as a percentage of covered employee payroll	22.37%	21.51%

Note: GASB 68 was implemented in fiscal year 2015. These schedules are being built prospectively. Ultimately, 10 years of data will be presented.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 10: FUND BALANCE CLASSIFICATIONS

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2016, are as follows:

Classification/Fund	Purpose	Amount
Restricted		
2012 Debt Service	Debt	\$ 194,785
2015 Refund Debt Service	Debt	(62,911)
2012 Technology/Bus Bond	Capital Outlay	3,942
Sinking Fund	Capital Outlay	77,023
Assigned		
Food Service	Food Service	17,362
Unassigned		
General Fund		(65,006)
		<u>\$ 165,195</u>

NOTE 11: RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for general liability and employee medical benefit claims and participates in the SEG Self-insurers Workers' Disability Compensation Fund for claims relating to employee injuries. 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 School 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.

REQUIRED SUPPLEMENTAL INFORMATION

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues				
Local sources	\$ 901,650	\$ 931,550	\$ 940,097	\$ 8,547
State sources	1,113,040	1,115,831	1,121,689	5,858
Federal sources	68,921	91,460	90,960	(500)
Interdistrict and other sources	42,794	42,794	38,801	(3,993)
	<u>2,126,405</u>	<u>2,181,635</u>	<u>2,191,547</u>	<u>9,912</u>
Total revenues				
	<u>2,126,405</u>	<u>2,181,635</u>	<u>2,191,547</u>	<u>9,912</u>
Expenditures				
Current:				
Instruction:				
Basic programs	1,212,901	1,193,473	1,251,803	58,330
Added needs	150,804	197,484	202,068	4,584
Support services:				
Pupil	9,921	15,002	14,466	(536)
Instructional staff	750	750	277	(473)
General administration	141,738	168,090	160,220	(7,870)
School administration	60,528	89,741	85,446	(4,295)
Business services	82,490	82,936	88,586	5,650
Operation and maintenance	191,000	186,648	178,099	(8,549)
Pupil transportation services	151,868	137,605	145,293	7,688
Other support services-athletics	79,000	80,413	81,254	841
	<u>2,081,000</u>	<u>2,152,142</u>	<u>2,207,512</u>	<u>55,370</u>
Total expenditures				
	<u>2,081,000</u>	<u>2,152,142</u>	<u>2,207,512</u>	<u>55,370</u>
Net change in fund balance	45,405	29,493	(15,965)	(45,458)
Fund balance - beginning of year	<u>9,214</u>	<u>(49,041)</u>	<u>(49,041)</u>	<u>-</u>
Fund balance - end of year	<u>\$ 54,619</u>	<u>\$ (19,548)</u>	<u>\$ (65,006)</u>	<u>\$ (45,458)</u>

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

OTHER SUPPLEMENTAL INFORMATION

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Fund	Capital Projects Funds		
	Food Service	2012 Tech & Bus Bonds	Sinking	Total
<u>Assets</u>				
Cash	\$ 28,253	\$ -	\$ 64,557	\$ 92,810
Due from other funds	-	19,327	12,466	31,793
Due from other governmental units	14,365	-	-	14,365
Total assets	<u>\$ 42,618</u>	<u>\$ 19,327</u>	<u>\$ 77,023</u>	<u>\$ 138,968</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other funds	\$ 25,256	\$ 15,385	\$ -	\$ 40,641
Fund balances:				
Restricted for capital outlay	-	3,942	77,023	80,965
Assigned for food service	17,362	-	-	17,362
Total fund balances	<u>17,362</u>	<u>3,942</u>	<u>77,023</u>	<u>98,327</u>
Total liabilities and fund balances	<u>\$ 42,618</u>	<u>\$ 19,327</u>	<u>\$ 77,023</u>	<u>\$ 138,968</u>

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2016

	Special Revenue Fund	Capital Projects Funds		Total
	Food Service	2012 Tech & Bus Bonds	Sinking	
Revenues				
Local sources	\$ 28,384	\$ -	\$ 54,213	\$ 82,597
State sources	5,619	-	-	5,619
Federal sources	87,118	-	-	87,118
Total revenues	121,121	-	54,213	175,334
Expenditures				
Current:				
Support services-repairs	-	1,119	6,229	7,348
Food Service	114,979	-	-	114,979
Capital outlay	-	-	26,714	26,714
Total expenditures	114,979	1,119	32,943	149,041
Excess (deficiency) of revenues over expenditures	6,142	(1,119)	21,270	26,293
Net change in fund balances	6,142	(1,119)	21,270	26,293
Fund balances - beginning of year	11,220	5,061	55,753	72,034
Fund balances - end of year	\$ 17,362	\$ 3,942	\$ 77,023	\$ 98,327

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Statement of Receipts and Disbursements
Fiduciary Fund
Year Ended June 30, 2016

	Balance July 1, 2015	2015-2016		Balance June 30, 2016
		Receipts	Disbursements	
Class of 2016	\$ 12,475	\$ 25,312	\$ 37,787	\$ -
Class of 2017	3,221	12,627	6,879	8,969
Class of 2018	5,194	5,546	2,532	8,208
Class of 2019	-	4,589	2,340	2,249
National Honor Society	178	260	223	215
Pep Club	1,640	8,223	7,909	1,954
Ski Club	529	700	570	659
Student Activities - Revolving	2,825	12,445	13,153	2,117
Student Council	1,784	5,617	5,418	1,983
Yearbook	3,841	4,001	3,514	4,328
	<u>31,687</u>	<u>79,320</u>	<u>80,325</u>	<u>30,682</u>
Total	<u>\$ 31,687</u>	<u>\$ 79,320</u>	<u>\$ 80,325</u>	<u>\$ 30,682</u>

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

INTERNAL CONTROL AND COMPLIANCE REPORTING

October 31, 2016

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*

Superintendent and Board of Education
Posen Consolidated School District No. 9
Posen, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Posen Consolidated School District No. 9 as of and for the year-ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Posen Consolidated School District No. 9'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 Posen Consolidated School District No. 9'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 Posen Consolidated School District No. 9's internal control. Accordingly, we do not express an opinion on the effectiveness of Posen Consolidated School District No. 9'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. We consider the deficiencies described below to be material weaknesses.

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. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

The School District does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. As a matter of convenience, the School District has relied upon its auditors to prepare financial statements and related notes and supplemental schedules for external reporting in accordance with GAAP. Further, the audit process is used as a means of accumulating data, performing reconciliations and making year-end adjustments. As a consequence, the School District has not developed the tools and resources necessary to enable its employees to prepare reports in conformity with GAAP in the normal course of performing their assigned functions. In this regard, the School District is not unlike many other school districts of its size and nature.

The School District's bank accounts were not timely reconciled during the year ended June 30, 2016. Without timely bank reconciliations, errors could occur without detection.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Posen Consolidated School District No. 9'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 the following instances of noncompliance with the State of Michigan Budget Act, that are required to be reported under *Government Auditing Standards*, the School District adopted an amended General Fund budget which reduced the accrued deficit, but did not eliminate it as required. They also incurred expenditures in excess of the amounts appropriated.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. The 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.

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

NO MANAGEMENT LETTER WAS ISSUED TO THE **Posen Consolidated School District**
No. 9 FOR THE YEAR ENDED **JUNE 30, 2016**

October 31, 2016

Communication with Those Charged with Governance

To the Board of Education
Posen Consolidated School District No. 9

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Posen Consolidated School District No. 9 (School District) for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 20, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the school district during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The estimate of the School District's share of the Michigan Public School Employees' Retirement System "MPSERS" net pension liability as determined by the actuary firm Gabriel Roeder Smith & Company. The key factors and assumptions used to develop this estimate were evaluated by the Michigan Office of the Auditor General and were determined to be relevant and reasonable.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered difficulties with the bank reconciliations. The bank reconciliations were not made timely or complete without unreconciled amounts. The payments to MPSERS contained errors and will need additional work with MPSERS to determine they are properly resolved.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We have communicated numerous adjustments to management which have been corrected.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

This information is intended solely for the use of the Board of Education and management of Posen Consolidated School District No. 9 and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Hill, Schroderus & Co.

Hill, Schroderus & Co., LLP