

**OWENDALE-GAGETOWN  
AREA SCHOOLS  
HURON COUNTY, MICHIGAN**

**FINANCIAL REPORT  
JUNE 30, 2015**

# OWENDALE-GAGETOWN AREA SCHOOLS

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Owendale-Gagetown Area Schools  
Owendale, 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 Owendale-Gagetown Area Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

### **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 Owendale-Gagetown Area Schools, as of June 30, 2015, 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.

### **Emphasis of Matter – Change in Accounting Principle**

As discussed in Note 13 to the financial statements, Owendale-Gagetown Area Schools implemented Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, as identified 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 Owendale-Gagetown Area School's basic financial statements. The additional supplementary information is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The additional supplementary 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 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 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 26, 2015, on our consideration of Owendale-Gagetown Area School'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 Owendale-Gagetown Area School's internal control over financial reporting and compliance.

*Nietzke & Faupel P.C.*

NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

October 26, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Owendale-Gagetown Area School's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2015. Please read it in conjunction with the district's financial statements, which immediately follow this section.

For the year ended June 30, 2015, the District implemented Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions*, and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These changes are significant at the government-wide level.

These new financial reporting standards require participants in a multi-employer cost sharing plan to:

- Record a proportionate share of the net pension liability on our statement of net position.
- Record a proportionate share of pension expense as defined by GASB on our statement of activities.
- Report additional note disclosures and required supplementary information.
- These changes will not result in any changes at the fund level.

## **FINANCIAL HIGHLIGHTS**

The District's general fund showed greater revenue than expenditures. Revenue exceeded expenditures by \$105,145. The General Fund has a fund balance of \$355,091.

The Food Service fund showed greater revenue than expenditures. Revenue exceeded expenditures by \$3,181. This increased the fund balance to \$11,173.

The Capital Projects fund completed the final phases of construction and improvements. Total expenditures amounted to \$2,291,176.

In total, District revenues exceeded \$2.0 and \$2.0 million dollars for the fiscal years ended June 30, 2015 and 2014, respectively. Spending over the same time periods was \$4.2 and \$2.6 million dollars for the fiscal years ended June 30, 2015 and 2014, respectively.

The District borrowed \$295,000 in state aid anticipation notes to help fund current operations.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

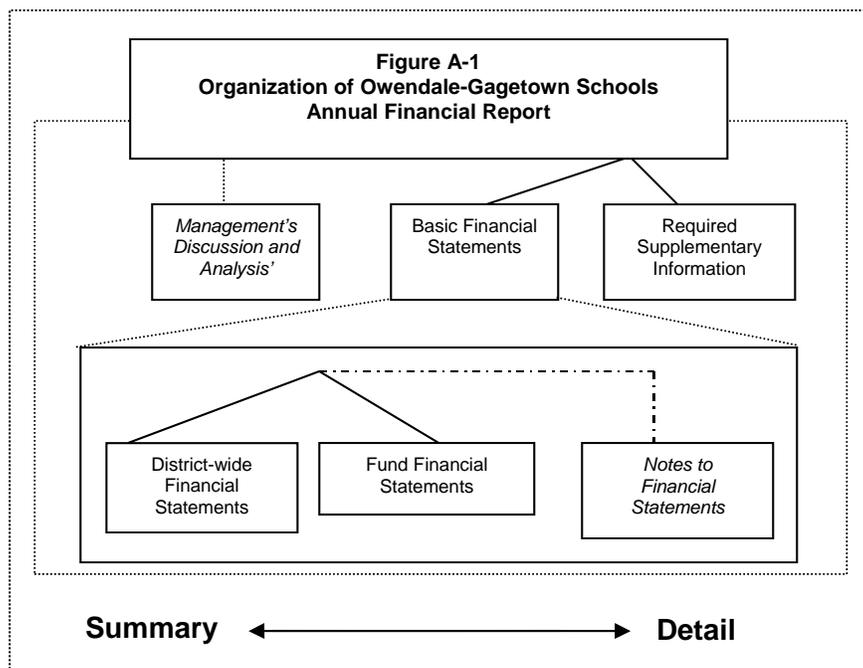
The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

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

The *governmental fund* statements tell how *basic* services like instruction and support services were financed in the *short term* as well as what remains for future spending.

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

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



**Figure A-2  
Major Features of District-Wide and Fund Financial Statements**

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

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

**DISTRICT-WIDE STATEMENTS**

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

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

Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District’s property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities include:

Governmental activities – Most of the District's basic services are included here, such as regular and special education, transportation and administration, and state formula aid finance most of these activities.

The District's combined net position at the beginning of the fiscal year as restated because of GASB 68 & 71 implementation was \$(1,587,037) and on June 30, 2015 it was \$(1,690,651) which represents a decrease of \$(103,614) as recorded in the statement of activities.

## **FUND FINANCIAL STATEMENTS**

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

Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (like repaying debt and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

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

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these to finance its operations.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

The District's combined net position decreased \$(103,614) from \$(1,587,037) to \$(1,690,651) as of June 30, 2015.

**Table A-3**  
**Owendale-Gagetown Area Schools**

The following summarizes the combined net position of the Governmental activities:

	<u>2015</u>	<u>June 30,</u> <u>2014</u>
Current assets	\$1,005,410	\$3,573,372
Noncurrent assets	<u>3,057,424</u>	<u>1,024,331</u>
<b>Total assets</b>	<u>4,062,834</u>	<u>4,597,703</u>
<b>Deferred outflows of resources</b>	<u>217,460</u>	<u>-</u>
Current liabilities	567,437	950,082
Noncurrent liabilities	3,000,087	3,048,890
Net pension liability	<u>2,164,170</u>	<u>-</u>
<b>Total liabilities</b>	<u>5,731,694</u>	<u>3,998,972</u>
<b>Deferred inflows of resources</b>	<u>239,250</u>	<u>-</u>
<b>Net position:</b>		
Net investment in capital assets	89,584	675,895
Restricted	75,708	75,273
Unrestricted	<u>(1,855,943)</u>	<u>(152,437)</u>
<b>Total net position</b>	<u>\$(1,690,651)</u>	<u>\$ 598,731</u>

The 2014 amounts have not been updated for the adoption of GASB 68 and 71.

**Table A-4**  
**Changes in Owendale-Gagetown Area School's Net Position**

The following summarizes the statement of activities:

	<u>2015</u>	<u>June 30,</u>	<u>2014</u>
<b>Revenues</b>			
<b>Program revenues</b>			
Charges for services	\$ 35,127		\$ 32,190
Federal and state categorical grants	283,085		277,420
<b>General revenues</b>			
Property taxes	427,445		361,978
State sources	1,259,656		1,299,572
Other	<u>12,905</u>		<u>35,008</u>
<b>Total revenues</b>	<u>2,018,216</u>		<u>2,006,168</u>
<b>Expenses</b>			
Instruction	1,049,690		1,157,996
Support services	812,734		670,642
Community services	1,970		-
Food services	89,205		97,102
Interest on long-term debt	118,139		74,033
Depreciation - Unallocated	<u>50,093</u>		<u>2,088</u>
<b>Total expenses</b>	<u>2,121,830</u>		<u>2,001,861</u>
<b>Change in net position</b>	<u>\$ (103,614)</u>		<u>\$ 4,307</u>

The 2014 amounts have not been updated for the adoption of GASB 68 and 71.

### **District Governmental Activities**

The financial performance of the District as a whole is reflected in its governmental funds. As the district completed the year, its governmental funds reported combined fund balances of \$510,967. This is a decrease of \$(2,185,500) from the year before. The decrease in fund balance is due primarily to improvements to the school building and site improvements. The District has taken a proactive approach to its declining enrollment and stagnant state funding. During the fiscal year 2015, the District continued with reduced staff and split staff duties, and attracted students through school of choice.

### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

#### **General Fund and Budget Highlights**

During the 2015 fiscal year, the original District budget was amended to reflect changes that affected the District. These changes included adjustments for the final student count, adjustments to the State revenue projections and the final determination of grant awards.

The final amended budget projected expenditures and outgoing transfers to be less than revenues by \$47,613. Final results showed that revenues came in more than anticipated by \$22,456, and expenditures and transfers were less than anticipated by \$35,076. The net result after other financing sources and (uses) was an increase in the fund balance of \$105,145, increasing the fund balance to \$355,091.

Overall, the difference between the District's amended budget and end of the year figures amounted to a \$57,532 favorable variance.

### Food Service Fund

Local revenue increased \$3,309; Federal reimbursements decreased \$7,588; in addition, state reimbursements decreased \$2,181. The overall change in revenue was a decrease of \$7,588 from 2014.

On the expenditure side, food cost decreased \$2,046 and salary and benefit costs increased \$794. Overall expenditures decreased \$3,012 from 2014.

### Capital Assets

The District completed construction of building improvements and technology. The total additions for 2015 were \$2,127,983. There were disposals of \$46,281 that held a residual value of \$66.

**Table A-5  
Owendale-Gagetown Area School's Capital Assets**

	<u>2015</u>	<u>2014</u>
Land and improvements	\$ 386,372	\$ 153,839
Buildings and improvements	3,321,823	1,120,026
Vehicles and buses	227,452	227,452
Furniture and equipment	527,424	296,322
Construction in progress	-	<u>583,730</u>
Totals	<u>\$4,463,071</u>	<u>\$2,381,369</u>

### Long-term Debt

The District issued 2013 School Building and Site Bonds on November 25, 2013 in the amount of \$3,150,000. The balance at June 30, 2015 was \$3,045,000.

### FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The 2014-2015 base State Aid Foundation allowance of \$7,251 which includes the \$125 equity payment that was reported separately in 2014-2015 is expected to be increased next year by \$140 per student with a budgeted actual per student amount of \$7,391. The State has established the \$7,391 as the new base foundation for future planning. For the 2015-2016 school year the District has the potential to receive an additional \$44 per student FTE due to expansion of Section 22d funding for Isolated Districts.

The District anticipates an increase in enrollment of six students for the 2015 fall count compared to the 2014 fall count. In 2014 the fall count of the District was down twelve students compared to the 2013 fall count. The increase is the result of increased population in the county and state as well as competition from other districts for "Schools of Choice" students. The District is anticipating an increase in students for ensuing 2015-2016 school year. However, state aid payments are calculated using a three year blend average this is projected to be 157.58 which will be down from 169.97 students in 2014.

### CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Owendale-Gagetown Area Schools, 7166 Main Street, Owendale, MI 48754.

## **BASIC FINANCIAL STATEMENTS**

**OWENDALE-GAGETOWN AREA SCHOOLS**

**STATEMENT OF NET POSITION  
JUNE 30, 2015**

	<b>GOVERNMENTAL ACTIVITIES</b>
<b>ASSETS:</b>	
Cash and deposits	\$ 594,737
Receivables:	
Due from other governmental units	334,784
Inventory	1,099
Prepaid expenses	26,939
Restricted cash - Capital projects	47,852
Depreciated capital assets	4,463,071
Less: Accumulated depreciation	<u>(1,405,647)</u>
<b>TOTAL ASSETS</b>	<b><u>4,062,834</u></b>
 <b>DEFERRED OUTFLOWS OF RESOURCES:</b>	
Related to pensions	<u>217,460</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>217,460</u></b>
 <b>LIABILITIES:</b>	
Accounts payable	23,768
Due to other governments	2,227
Accrued salaries and wages	104,223
Accrued teacher benefits	67,221
Accrued interest payable	21,311
State aid note payable	295,000
Noncurrent liabilities:	
Due within one year	53,688
Due in more than one year	3,000,087
Net pension liability	<u>2,164,170</u>
<b>TOTAL LIABILITIES</b>	<b><u>5,731,694</u></b>
 <b>DEFERRED INFLOWS OF RESOURCES:</b>	
Related to pensions	<u>239,250</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>239,250</u></b>
 <b>NET POSITION:</b>	
Net investment in capital assets	89,584
Restricted for:	
Debt service	65,634
Food service	10,074
Unrestricted	<u>(1,855,943)</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ (1,690,651)</u></b>

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

**OWENDALE-GAGETOWN AREA SCHOOLS**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		TOTAL GOVERNMENTAL ACTIVITIES
		CHARGES FOR SERVICES	OPERATING GRANTS	NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
<b>Governmental activities:</b>				
Instruction	\$ 1,049,690	\$ 198	\$ 214,100	\$ (835,392)
Support services	812,734	10,005	-	(802,728)
Community services	1,970	-	-	(1,970)
Food service	89,205	24,924	68,985	4,704
Interest on long-term obligations	118,139	-	-	(118,139)
Depreciation - Unallocated	50,093	-	-	(50,093)
<b>Total governmental activities:</b>	<b>\$ 2,121,830</b>	<b>\$ 35,127</b>	<b>\$</b>	<b>\$</b>
<b>General revenues:</b>				
Property taxes, levied for general purposes				258,155
Property taxes, levied for debt service				169,290
State sources				1,259,656
Sale of assets				(66)
Investment earnings		283,085		65
Miscellaneous			(1,803,619)	12,906
<b>Total general revenues</b>				<b>1,700,005</b>
<b>CHANGE IN NET POSITION</b>				<b>(103,614)</b>
<b>NET POSITION - beginning of year, as restated</b>				<b>(1,587,037)</b>
<b>NET POSITION - end of year</b>				<b>\$ (1,690,651)</b>

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

**OWENDALE-GAGETOWN AREA SCHOOLS**

**BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2015**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>NONMAJOR GOVERNMENTAL FUND - FOOD SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>ASSETS</b>					
Cash and deposits	\$ 494,319	\$ 84,940	\$ -	\$ 15,479	\$ 594,737
Due from other funds	5,404	-	-	-	5,404
Due from other governmental units	334,784	-	-	-	334,784
Inventory	-	-	-	1,099	1,099
Prepaid expenses	12,278	-	14,661	-	26,939
Restricted cash - Capital projects	-	-	47,852	-	47,852
<b>TOTAL ASSETS</b>	<u>\$ 846,784</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>LIABILITIES:</b>					
Accounts payable	\$ 21,018	\$ -	\$ 2,750	\$ -	\$ 23,768
State aid note payable	295,000	-	-	-	295,000
Due to other funds	-	-	-	5,404	5,404
Due to other governments	2,227	62,513	16,577	1,010,814	2,227
Accrued salaries and wages	84,940 104,223	-	-	-	104,223
Accrued teacher benefits	67,221	-	-	-	67,221
Accrued interest payable	2,005	-	-	-	2,005
<b>TOTAL LIABILITIES</b>	<u>491,693</u>	<u>\$</u>	<u>\$</u>	<u>5,404</u>	<u>499,847</u>
<b>FUND BALANCE:</b>					
Nonspendable:					
Inventory	-	-	-	1,099	1,099
Prepaid expenses	12,278	2,750	14,661	-	26,939
Restricted for:					
Capital projects	-	-	45,102	-	45,102
Debt service	-	84,940	-	-	84,940
Food service	-	-	-	10,074	10,074
Assigned for:					
Subsequent year expenditures	10,292	-	-	-	10,292
Unassigned	332,521	-	-	-	332,521
<b>TOTAL FUND BALANCE</b>	<u>355,091</u>	<u>84,940</u>	<u>59,763</u>	<u>11,173</u>	<u>510,967</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 846,784</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

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

**OWENDALE-GAGETOWN AREA SCHOOLS**

**RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO  
GOVERNMENTAL ACTIVITIES NET POSITION  
JUNE 30, 2015**

<b>TOTAL GOVERNMENTAL FUND BALANCES</b>		\$ 510,967
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
Deferred outflows of resources - related to pensions		217,460
Deferred inflows of resources - related to pensions		(239,250)
Capital assets used in governmental activities are not financial resources, and therefore are not reported as assets in the governmental funds.		
	The cost of capital assets is	\$ 4,463,071
	Accumulated depreciation is	<u>(1,405,647)</u>
		3,057,424
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
	Bonds payable	3,045,000
	Compensated absences	38,083
	Accrued interest payable on long-term obligations	<u>19,306</u>
		(3,102,388)
Certain transactions related to the 2013 bonds are reported as expenditures in the fund financial statements, however they are reported as a component of noncurrent liabilities in the government-wide financial statements.		
	The transactions include the following:	
	Discount on bonds	31,495
	Less: Accumulated amortization	<u>(2,187)</u>
		29,308
Net pension liability		(2,164,170)
<b>NET POSITION - GOVERNMENTAL ACTIVITIES</b>		<u>\$ (1,690,651)</u>

**OWENDALE-GAGETOWN AREA SCHOOLS**

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGE IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>CAPITAL PROJECTS</u>	<u>NONMAJOR GOVERNMENTAL FUND - FOOD SERVICE</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<b>REVENUE:</b>					
Local sources:					
Taxes	\$ 258,155	\$ 169,290	\$ -	\$ -	\$ 427,445
Food service	-	-	-	25,732	25,732
Other local revenue	158,485	65	-	-	158,550
State sources	1,258,002	-	-	1,654	1,259,656
Federal sources	87,708	-	-	68,985	156,693
<b>TOTAL REVENUE</b>	<u>1,762,350</u>	<u>169,355</u>	<u>-</u>	<u>96,370</u>	<u>2,028,075</u>
<b>EXPENDITURES:</b>					
Instruction	1,041,210	-	-	-	1,041,210
Supporting services	609,597	-	-	-	609,597
Community service	1,970	-	-	-	1,970
Food service	-	-	-	87,820	87,820
Capital projects	-	-	2,291,176	-	2,291,176
Debt service:					
Principal repayment	-	55,000	-	-	55,000
Interest and fiscal charges	-	117,010	-	-	117,010
<b>TOTAL EXPENDITURES</b>	<u>1,652,777</u>	<u>172,010</u>	<u>2,291,176</u>	<u>87,820</u>	<u>4,203,783</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>109,573</u>	<u>(2,655)</u>	<u>(2,291,176)</u>	<u>8,550</u>	<u>(2,175,708)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers - net	5,369	-	-	(5,369)	-
Prior period adjustment	(9,798)	-	-	-	(9,798)
Bond proceeds	-	-	5	-	5
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(4,429)</u>	<u>-</u>	<u>5</u>	<u>(5,369)</u>	<u>(9,792)</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<u>105,145</u>	<u>(2,655)</u>	<u>(2,291,171)</u>	<u>3,181</u>	<u>(2,185,500)</u>
<b>FUND BALANCE - JULY 1</b>	249,946	87,595	2,350,934	7,992	2,696,467
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 355,091</u>	<u>\$ 84,940</u>	<u>\$ 59,763</u>	<u>\$ 11,173</u>	<u>\$ 510,967</u>

**OWENDALE-GAGETOWN AREA SCHOOLS**

**RECONCILIATION OF THE STATEMENT OF REVENUE,  
EXPENDITURES, AND CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015**

**NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (2,185,500)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures.

However, for governmental activities those costs are shown in the statement of net position and are allocated over their estimated useful lives as annual depreciation expense in the statement of activities.

Depreciation Expense	\$ (94,824)	
Capital Outlays	<u>2,127,983</u>	2,033,159

Certain transactions related to the 2013 bonds are reported as expenditures in the fund financial statements, however they are reported as a component of liabilities in the government-wide financial statements.

The transactions include the following:

Amortization of bond discount	<u>(1,312)</u>	(1,312)
-------------------------------	----------------	---------

Bond repayments affect long-term liabilities in the statement of net position, but are reported as an expenditure in the fund financial statements.

55,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources.

Accrued interest payable - beginning of year	19,489	
Accrued interest payable - end of year	<u>(19,306)</u>	183

Residual value of capital assets disposed of in the current year are recorded in the statement of activities, but are not recorded in the governmental fund financial statements.

(66)

Accrued compensated absences are recorded in the statement of activities when incurred, but it is not recorded in the governmental fund financial statements until it is paid.

Accrued compensated absences, beginning of year	33,198	
Accrued compensated absences, end of year	<u>(38,083)</u>	(4,885)

Some expenses reported in the statement of activities do not require the use of current fiscal resources, and therefore, are not reported as expenditures in the government fund financial statements.

Pension related items		(192)
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**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES**

\$ (103,614)

**OWENDALE-GAGETOWN AREA SCHOOLS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2015**

	<b><u>AGENCY FUNDS</u></b>
<b>ASSETS</b>	
Cash and deposits	\$ 53,832
<b>TOTAL ASSETS</b>	<u>\$ 53,832</u>
<b>LIABILITIES:</b>	
Due to student groups	\$ 53,832
<b>TOTAL LIABILITIES</b>	<u>\$ 53,832</u>

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

## OWENDALE-GAGETOWN AREA SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The Owendale-Gagetown Area School District is a consolidated school system located in Huron County, Michigan. The School has approximately 170 students in grades kindergarten through twelve. The School operates under a seven person elected Board of Education.

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

#### **The Reporting Entity:**

The Owendale-Gagetown Area Schools ("District") is governed by the Owendale-Gagetown Area Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by U.S. GAAP. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined by U.S. GAAP.

#### **Government-wide and Fund Financial Statements:**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type activities. All of the District's activities are classified as governmental activities and there are no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services of 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. State foundation aid, taxes, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

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

## OWENDALE-GAGETOWN AREA SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

##### **Government-wide and Fund Financial Statements: (Continued)**

The District first utilizes restricted resources to finance qualifying activities.

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

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

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

**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 reported through governmental funds.

The District reports the following major governmental funds:

**General Fund** – This is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

**Debt Service Fund** – The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**Capital Projects Fund** – The 2013 Capital Projects Fund accounts for the receipt of debt proceeds and the acquisition of capital assets or construction of major capital projects.

The 2013 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of Section 1351a of the Revised School Code.

**OWENDALE-GAGETOWN AREA SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Governmental Funds: (Continued)**

**Capital Projects Fund (Continued)**

The following is a summary of the revenue and expenditures for the 2013 School Building and Site bond activity since inception of the fund through the current fiscal year:

Revenue and other financing sources	<u>\$3,118,511</u>
Expenditures	<u>\$3,058,748</u>

The above revenue amount includes net bond proceeds of \$3,150,000.

**Other Non-major Funds:**

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service in the special revenue fund.

The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide financial statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are reported using the accrual method of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**Measurement Focus, Basis of Accounting and Basis of Presentation:**

**Accrual Method**

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

**Modified Accrual Method**

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

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

## OWENDALE-GAGETOWN AREA SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2015

#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Measurement Focus, Basis of Accounting and Basis of Presentation: (Continued)**

##### **State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2015 the foundation allowance was based on pupil membership counts taken in February and October of the previous year.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The State revenue is recognized during the foundation period and is funded through payments from October 2014 to August 2015. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds which are not expended by the close of the fiscal year are recorded as unearned revenue.

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 needed.

#### **Other Accounting Policies:**

##### **Cash and Equivalents**

The District's cash and equivalents include cash on hand and demand deposits.

##### **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 noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

##### **Inventory and Prepaid Expenses**

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consisting of expendable supplies held for consumption is recorded as an expenditure when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

**OWENDALE-GAGETOWN AREA SCHOOLS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Other Accounting Policies: (Continued)**

**Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

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

Depreciation of all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	20 – 50 years
Furniture and other equipment	5 – 20 years

The District's capitalization policy is to capitalize assets with an initial individual cost of \$5,000 or more. Group purchases are evaluated on a case-by-case basis.

**Defined Benefit Plan:**

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

**Deferred Outflows/Inflows 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 so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is pension related items reported in the government-wide statement of net position. Deferred outflows are recognized for pension related items. These amounts are expensed in the plan year in which it applies.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category. It is the future resources yet to be recognized in relation to the pension actuarial calculation. These future resources arise from differences in the estimates used by the actuary to calculate the pension liability and the actual results. The amounts are amortized over a period determined by the actuary.

**Compensated Absences**

The District's policies generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**OWENDALE-GAGETOWN AREA SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Other Accounting Policies: (Continued)**

**Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as expenses in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt 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.

**Fund Balance**

The District implemented GASB Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions.*” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

**Nonspendable fund balance** – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.

**Restricted fund balance** – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District’s Debt Service, Capital Projects, and Food Service fund balances are considered restricted.

**Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.

**Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.

**Unassigned fund balance** – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

**OWENDALE-GAGETOWN AREA SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

**Other Accounting Policies: (Continued)**

**Property Taxes**

Property taxes levied by the District are collected by various municipalities 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 and become a lien on the first day of the levy year. The actual due date is September 14 and February 14, after which time the taxes become delinquent and penalties and interest may be assessed by the collecting entity.

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

<u>Fund</u>	<u>Mills</u>
General Fund:	
Non-Principal Resident Exemption (PRE)	18.000
Commercial Personal Property	6.000
Debt Service Fund:	
PRE, Non-PRE, Commercial Personal Property	1.910

**Use of Estimates:**

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:**

**Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. The capital projects funds are appropriated on a project-length basis. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comment.

## OWENDALE-GAGETOWN AREA SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: (CONTINUED)**

##### **Budgetary Information (Continued)**

3. Prior to July 1, the budget is legally enacted by a School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2015. The District does not consider these amendments to be significant.

#### **NOTE 3 – CASH AND DEPOSITS:**

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U. S. Treasury; certificates of deposit, savings accounts, deposits accounts, or depository receipts of a bank, savings, and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District's deposits and investments are within the authorization as set forth by Owendale-Gagetown Area Schools.

**OWENDALE-GAGETOWN AREA SCHOOLS  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 3 – CASH AND DEPOSITS: (CONTINUED)**

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

**Statement of Net Position**

Government-wide Financial Statement Captions:

Cash – checking	\$294,143
Cash – savings	348,446

**Statement of Fiduciary Net Position**

Cash and deposits	<u>53,832</u>
Total	<u>\$696,421</u>

**Notes to Financial Statements:**

Deposits	\$696,136
Cash on hand	<u>285</u>
Total	<u>\$696,421</u>

The carrying amount of cash and deposits with financial institutions of the District amounted to \$696,136 at June 30, 2015. The total bank balance as of the same date was \$699,445. As of June 30, 2015 \$449,445 of the District's bank balance was uninsured.

**NOTE 4 - INTERFUND RECEIVABLES AND PAYABLES:**

<u>FUND</u>	<u>INTERFUND RECEIVABLE</u>	<u>INTERFUND PAYABLE</u>
General Fund	\$ 5,404	\$ -
Special Revenue Fund:		
Food Service	<u>-</u>	<u>5,404</u>
<b>TOTAL</b>	<u>\$5,404</u>	<u>\$5,404</u>

The outstanding balances between funds result mainly 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.

**NOTE 5 - RECEIVABLES:**

Receivables at June 30, 2015 from other governmental units consist of the following:

Governmental units	
State aid	\$209,630
Federal revenue	84,313
Local	<u>40,841</u>
	<u>\$334,784</u>

Amounts due from other governmental units include amounts due from federal and state sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for uncollectible accounts has been recorded.

**OWENDALE-GAGETOWN AREA SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 6 – CAPITAL ASSETS:**

A summary of changes in the District's capital assets follows:

	<b>BALANCE</b>			<b>BALANCE</b>
	<b>JUNE 30, 2014</b>	<b>ADDITIONS</b>	<b>DISPOSALS</b>	<b>JUNE 30, 2015</b>
<b>Capital assets</b>				
Land improvements	\$ 153,839	\$ 232,533	\$ -	\$ 386,372
Buildings and improvements	1,703,756	1,618,067	-	3,321,823
Vehicles and buses	227,452	-	-	227,452
Furniture and equipment	<u>296,322</u>	<u>277,383</u>	<u>46,281</u>	<u>527,424</u>
<b>Total capital assets</b>	<u>2,381,369</u>	<u>2,127,983</u>	<u>46,281</u>	<u>4,463,071</u>
<b>Accumulated depreciation:</b>				
Land improvements	111,576	10,700	-	122,276
Buildings and improvements	890,560	38,313	-	928,873
Vehicles and buses	121,647	22,746	-	144,393
Furniture and equipment	<u>233,255</u>	<u>23,065</u>	<u>46,215</u>	<u>210,105</u>
<b>Total accumulated depreciation</b>	<u>1,357,038</u>	<u>94,824</u>	<u>46,215</u>	<u>1,405,647</u>
<b>Net capital assets</b>	<u>\$1,024,331</u>	<u>\$2,033,159</u>	<u>\$ 66</u>	<u>\$3,057,424</u>

Depreciation expense was charged to programs of the primary government as follows:

Instruction	\$ 5,519
Support Services	32,654
Athletics	5,173
Food Service	1,385
Unallocated	<u>50,093</u>
Total depreciation	<u>\$94,824</u>

**OWENDALE-GAGETOWN AREA SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2015**

**NOTE 7 - EXPENDITURES IN EXCESS OF APPROPRIATIONS:**

During the year ended June 30, 2015, the School District incurred expenditures in certain budgetary funds that were in excess of the amounts appropriated, as follows:

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>General fund</b>			
Business services	\$ 37,433	\$ 40,487	\$3,054
Food services	91,691	93,189	1,498

**NOTE 8 – NOTE PAYABLE:**

At June 30, 2015, the District has \$295,000 in State aid notes. The state aid note bears interest at .79% and matures on August 20, 2015.

<u>BALANCE JUNE 30, 2014</u>	<u>ADDITIONS</u>	<u>PAYMENTS</u>	<u>BALANCE JUNE 30, 2015</u>
\$295,000	\$295,000	\$295,000	\$295,000

**NOTE 9 - LONG-TERM DEBT:**

The District issued general obligation bonds to provide funds for the acquisition, construction, and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

2013 general obligation bonds due in annual installments of \$50,000 to \$200,000 starting May 1, 2014 through May 1, 2038, with interest at 2% to 4.5% starting November 1, 2014.	\$3,045,000
Discount on bond	(29,308)
<b>Total general obligation bonds</b>	3,015,692
Obligation under contract for compensated absences	38,083
<b>Total general long-term debt</b>	<b><u>\$3,053,775</u></b>

Interest expense (all funds) for the year ended June 30, 2015 was approximately \$119,361. General fund interest expense is included in support services.

**OWENDALE-GAGETOWN AREA SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 9 - LONG-TERM DEBT: (CONTINUED)**

The following is a summary of the long-term liabilities of the School District for the year ended June 30, 2015:

	<b>BALANCE JUNE 30, 2014</b>	<b>ADDITIONS</b>	<b>PAYMENTS</b>	<b>BALANCE JUNE 30, 2015</b>	<b>DUE WITHIN ONE YEAR</b>
General obligation bonds	\$3,100,000	\$ -	\$55,000	\$3,045,000	\$60,000
Discount on bonds	(30,620)	1,312	-	(29,308)	(1,312)
Compensated absences	<u>33,198</u>	<u>4,885</u>	-	<u>38,083</u>	-
Totals	<u>\$3,102,578</u>	<u>\$6,197</u>	<u>\$55,000</u>	<u>\$3,053,775</u>	<u>\$53,688</u>

The annual requirements to amortize the long-term debt outstanding as of June 30, 2015, including interest are as follows:

<b>Years ending</b>	<b><u>June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2016		\$ 60,000	\$ 115,835	\$ 175,835
2017		70,000	114,635	184,635
2018		75,000	113,235	188,235
2019		85,000	111,735	196,735
2020		90,000	110,035	200,035
2021-2025		550,000	504,600	1,054,600
2026-2030		675,000	396,300	1,071,300
2031-2035		845,000	246,038	1,091,038
2036-2038		595,000	53,775	648,775
Total general obligation bonds		<u>3,045,000</u>	<u>1,766,188</u>	<u>4,811,188</u>
Discount on bonds		(29,308)		(29,308)
Compensated absences		38,083		38,083
Total long-term debt		<u>\$3,053,775</u>	<u>\$1,766,188</u>	<u>\$4,819,963</u>

**OWENDALE-GAGETOWN AREA SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 10 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS**

**Plan Description**

The Michigan Public School Employee's retirement System (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. MPSERS issues a publicly available Comprehensive Annual Financial report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

**Benefits Provided**

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

**Pension Reform 2010**

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

**Pension Reform 2012**

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

**OWENDALE-GAGETOWN AREA SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 10 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)**

**Benefits Provided (Continued)**

**Regular Retirement (no reduction factor for age)**

Eligibility – Age 55 with 30 years credited service; or age 60 with 10 years credited service. For Member Investment Plan (MIP) members, any age with 30 years credited service; or age 60 with 10 years credited service; or age 60 with 5 years of credited service provided the member worked through their 60<sup>th</sup> birthday and has credited service in each of the last 5 years. For Pension Plus (PPP) members, age 60 with 10 years of credited service.

Annual Amount – total credited service as of the Transition Date times 1.5% of final average compensation.

**Pension Plan**

An amount determined by the member's election of Option 1, 2, 3, or 4 described below.

Option 1 – Credited Service after the Transition Date times 1.5% times FAC

Option 2 – Credited Service after the Transition Date (until total service reached 30 years) times 1.5% times FAC, PLUS Credited Service after the Transition Date and over 30 years times 1.25% times FAC.

Option 3 – Credited Service after the Transition Date times 1.25% times FAC.

Option 4 – None (Member will receive benefit through a Defined Contribution plan).

Final Average Compensation – Average of highest 60 consecutive months (36 months for MIP members). FAC is calculated as of the last day worked unless the member elected option 4, in which case the FAC is calculated at the Transition Date.

**Member Contribution**

The majority of the members currently participate on a contributory basis, under a variety of options "Benefits Provided." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

**OWENDALE-GAGETOWN AREA SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 10 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)**

**Employer Contributions**

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under the method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis.

The District's pension contributions for the year ended June 30, 2015 were equal to the required contribution total. Pension contributions were approximately \$240,454 with \$224,646 specifically for the Defined Benefit Plan. The amounts included Section 147 contributions also.

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

**Pension Liabilities**

At June 30, 2015, the District reported a liability of \$2,164,170 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2014, the District's proportion was .00983 percent.

**OWENDALE-GAGETOWN AREA SCHOOLS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2015**

**NOTE 10 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)**

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

For the year ended June 30, 2015, the District recognized pension expenses of approximately \$175,304. At June 30, 2015, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred (Inflows) of Resources</u></b>
Difference between expected and actual experience	\$ -	\$ -
Change in assumptions	79,853	-
Net difference between projected and actual earnings on pension plan investments	-	(239,250)
Changes in proportion and difference between Reporting Unit contributions and proportionate share of contributions	-	-
Reporting Unit's contributions subsequent to the measurement date	137,607	-
Totals	<u>\$217,460</u>	<u>\$(239,250)</u>

\$137,607 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

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

<b><u>Years ended June 30.</u></b>	<b><u>Amount</u></b>
2016	\$(39,048)
2017	(39,048)
2018	(39,048)
2019	(42,253)

**OWENDALE-GAGETOWN AREA SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 10 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)**

**Actuarial Assumptions**

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

**Salary increases** – The rate of pay increase used for individual members is 3.5%.

**Inflation** – 2.5%

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

**Experience study** – The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2008 to September 30, 2013. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

**The long-term expected rate of return on pension plan investments** – The rate of 8% (7% for Pension Plus Plan) net of investment and administrative expenses was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

**OWENDALE-GAGETOWN AREA SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 10 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return*</u>
Domestic Equity Pools	28.00%	4.80%
Alternate Investment Pools	18.00%	8.50%
International Equity	16.00%	6.10%
Fixed Income Pools	10.50%	1.50%
Real Estate and Infrastructure Pools	10.00%	5.30%
Absolute Return Pools	15.50%	6.30%
Short Term Investment Pools	<u>2.00%</u>	(0.2)%
	<u>100.00%</u>	

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

**Discount rate** – The discount rate used to measure the total pension liability was 8% (7% for Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the net pension liability to changes in the discount rate**

The following presents the Reporting Unit’s proportionate share of the net pension liability calculated using the discount rate of 8.0 percent, as well as what the Reporting Unit’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	<u>1% Lower (7.0%)</u>	<u>Discount rate (8.0%)</u>	<u>1% Higher (9.0%)</u>
Reporting Unit’s proportionate share of the net pension liability	\$2,853,270	\$2,164,170	\$1,583,593

## OWENDALE-GAGETOWN AREA SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### **NOTE 10 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)**

##### **Pension Plan Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2014 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

##### **Benefit Provisions – Other Postemployment**

###### ***Introduction***

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

###### ***Retiree Healthcare Reform of 2012***

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

## OWENDALE-GAGETOWN AREA SCHOOLS

### NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2015

#### **NOTE 10 – DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS: (CONTINUED)**

##### ***Employer Contributions***

The District's postemployment healthcare contributions to MPSERS for the year ended June 30, 2015 were approximately \$22,444.

#### **NOTE 11 – RISK MANAGEMENT:**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District participates in two district pools of educational institutions within the State of Michigan for self-insuring property and casualty losses and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each risk pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

#### **NOTE 12 - SUBSEQUENT EVENTS:**

Subsequent to year-end, the District entered into an agreement to borrow \$295,000 from Mayville State Bank. The borrowing assists the District with cash flow during the months there are no state aid and property taxes received. The note is dated August 20, 2015 and carries interest at .89%. The note matures August 22, 2016.

#### **NOTE 13 – NEW ACCOUNTING STANDARDS:**

For the year ended June 30, 2015 the District implemented the following new pronouncements: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

##### **Summary:**

GASB Statement No. 68 requires governments that participate in defined benefit pension plans to report in their statement of net position an actuarial calculation. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The statement requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

**OWENDALE-GAGETOWN AREA SCHOOLS**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**NOTE 13 – NEW ACCOUNTING STANDARDS: (CONTINUED)**

GASB Statement No. 71 addressed the issue of contributions made to the defined benefit pension plans after the measurement date for the year in which GASB Statement No. 68 is implemented. The effect is to eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual basis financial statements.

The restatement of the beginning of the year net position is as follows:

	<b><u>Governmental Activities</u></b>
Net position as previously stated July 1, 2014	\$598,731
Adoption of GASB Statements 68 & 71	
Net Pension Liability	(2,303,347)
Deferred Outflows	<u>117,579</u>
Net position as restated July 1, 2014	<u><b>\$(1,587,037)</b></u>

**NOTE 14 – UPCOMING ACCOUNTING PRONOUNCEMENT**

Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, was issued by the GASB in June 2015 and will be effective for the District's 2018 fiscal year. The Statement requires governments that participate in defined benefit other post-employment benefit (OPEB) plans to report in the statement of net position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 75 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the OPEB liabilities and expense.

**REQUIRED SUPPLEMENTARY INFORMATION**

**OWENDALE-GAGETOWN AREA SCHOOLS**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
<b>REVENUE:</b>				
Local sources:				
Taxes	\$ 168,830	\$ 258,155	\$ 258,155	\$ -
Special education	105,849	111,770	111,770	-
Athletics	6,809	10,005	10,005	-
Other local revenue	<u>26,973</u>	<u>36,162</u>	<u>36,710</u>	<u>548</u>
Total local sources	308,461	416,092	416,640	548
State sources	1,288,464	1,244,842	1,258,002	13,159
Federal sources	<u>77,186</u>	<u>78,959</u>	<u>87,708</u>	<u>8,749</u>
<b>TOTAL REVENUE</b>	<u>1,674,111</u>	<u>1,739,894</u>	<u>1,762,350</u>	<u>22,456</u>
<b>EXPENDITURES:</b>				
Instruction:				
Basic instruction	790,008	803,936	798,362	5,573
Added needs	<u>244,134</u>	<u>248,071</u>	<u>242,847</u>	<u>5,223</u>
Total instruction	<u>1,034,142</u>	<u>1,052,006</u>	<u>1,041,210</u>	<u>10,797</u>
Supporting services				
Support services	-	800	575	225
Instructional staff	28,055	75,857	71,888	3,969
General administration	76,445	77,785	73,119	4,666
School administration	133,614	140,692	140,472	219
Business	42,106	37,433	40,487	(3,054)
Operations and maintenance	181,881	147,013	133,935	13,078
Other support services	121,081	99,081	97,625	1,456
Athletics	<u>54,777</u>	<u>52,971</u>	<u>51,496</u>	<u>1,476</u>
Total supporting services	637,960	631,632	609,597	22,034
Community Services	4,853	3,813	1,970	1,843
<b>TOTAL EXPENDITURES</b>	<u>1,676,955</u>	<u>1,687,451</u>	<u>1,652,777</u>	<u>34,674</u>
<b>EXCESS OF REVENUE OVER (UNDER) EXPENDITURES</b>	<u>(2,844)</u>	<u>52,443</u>	<u>109,573</u>	<u>57,130</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers - net	2,724	4,967	5,369	402
Prior period adjustment	-	(9,798)	(9,798)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>2,724</u>	<u>(4,830)</u>	<u>(4,429)</u>	<u>402</u>
<b>EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES OTHER USES</b>	<u>(120)</u>	<u>47,613</u>	<u>105,145</u>	<u>57,532</u>
<b>FUND BALANCE - JULY 1</b>	249,946	249,946	249,946	-
<b>FUND BALANCE - JUNE 30</b>	<u>\$ 249,826</u>	<u>\$ 297,559</u>	<u>\$ 355,091</u>	<u>\$ 57,532</u>

**OWENDALE-GAGETOWN AREA SCHOOLS**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE REPORTING UNIT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED  
AS OF 9/30 OF EACH FISCAL YEAR)**

	<u><b>2014</b></u>
Reporting unit's proportion of net pension liability (%)	0.009839%
Reporting unit's proportionate share of net pension liability	\$ 2,164,170
Reporting unit's covered-employee payroll	\$ 881,007
Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll	245.65%
Plan fiduciary net position as a percentage of total pension liability	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**OWENDALE-GAGETOWN AREA SCHOOLS**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF THE REPORTING UNIT'S CONTRIBUTIONS  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN  
LAST 10 FISCAL YEARS (AMOUNTS WERE DETERMINED  
AS OF 6/30 OF EACH FISCAL YEAR)**

	<u>2015</u>
Statutorily required contributions	\$ 172,618
Contributions in relation to statutorily required contributions	172,618
Contribution deficiency (excess)	<u>\$ -</u>
Reporting unit's covered-employee payroll	\$ 828,188
Contributions as a percentage of covered-employee payroll	20.84%

This schedule is presented to illustrate the requirement to show information for 10 years, However, until a full 10 year trend is compiled, the District presents information for those years for which information is available.

**OWENDALE-GAGETOWN AREA SCHOOLS**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2015**

**Changes of benefit terms:** There were no changes of benefit terms.

**Changes of assumptions:** Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

**ADDITIONAL SUPPLEMENTARY INFORMATION**

**OWENDALE-GAGETOWN AREA SCHOOLS**

**SCHEDULE OF BOND INDEBTEDNESS  
2013 SCHOOL BUILDING AND SITE BONDS  
ISSUE DATED NOVEMBER 25, 2013 AT JUNE 30, 2015**

<b>MATURITY DATE</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>		<b>TOTAL</b>
		<b>RATE</b>	<b>AMOUNT</b>	
11/1/15	\$ -		\$ 57,918	\$ 57,918
5/1/16	60,000	2.00%	57,918	117,918
11/1/16	-		57,318	57,318
5/1/17	70,000	2.00%	57,318	127,318
11/1/17	-		56,618	56,618
5/1/18	75,000	2.00%	56,618	131,618
11/1/18	-		55,868	55,868
5/1/19	85,000	2.00%	55,868	140,868
11/1/19	-		55,018	55,018
5/1/20	90,000	3.00%	55,018	145,018
11/1/20	-		53,668	53,668
5/1/21	100,000	3.00%	53,668	153,668
11/1/21	-		52,168	52,168
5/1/22	105,000	3.00%	52,168	157,168
11/1/22	-		50,593	50,593
5/1/23	110,000	3.00%	50,593	160,593
11/1/23	-		48,943	48,943
5/1/24	115,000	3.50%	48,943	163,943
11/1/24	-		46,930	46,930
5/1/25	120,000	3.50%	46,930	166,930
11/1/25	-		44,830	44,830
5/1/26	125,000	4.00%	44,830	169,830
11/1/26	-		42,330	42,330
5/1/27	130,000	4.00%	42,330	172,330
11/1/27	-		39,730	39,730
5/1/28	135,000	4.00%	39,730	174,730
11/1/28	-		37,030	37,030
5/1/29	140,000	4.00%	37,030	177,030
11/1/29	-		34,230	34,230
5/1/30	145,000	4.00%	34,230	179,230
11/1/30	-		31,330	31,330
5/1/31	155,000	4.00%	31,330	186,330
11/1/31	-		28,230	28,230
5/1/32	160,000	4.25%	28,230	188,230
11/1/32	-		24,830	24,830
5/1/33	170,000	4.25%	24,830	194,830
11/1/33	-		21,218	21,218
5/1/34	175,000	4.35%	21,218	196,218
11/1/34	-		17,411	17,411
5/1/35	185,000	4.35%	17,411	202,411
11/1/35	-		13,388	13,388
5/1/36	195,000	4.50%	13,388	208,388
11/1/36	-		9,000	9,000
5/1/37	200,000	4.50%	9,000	209,000
11/1/37	-		4,500	4,500
5/1/38	200,000	4.50%	4,500	204,500
	<u>\$ 3,045,000</u>		<u>\$ 1,766,188</u>	<u>\$ 4,811,188</u>

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

To the Board of Education  
Owendale-Gagetown Area Schools  
Owendale, 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 Owendale-Gagetown Area Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Owendale-Gagetown Area School's basic financial statements, and have issued our report thereon dated October 26, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Owendale-Gagetown Area School'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 Owendale-Gagetown Area School's internal control. Accordingly, we do not express an opinion on the effectiveness of Owendale-Gagetown School'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider to be a significant deficiency (2007-2).

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Owendale-Gagetown Area School'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Nietzke & Faupel P.C.*

NIETZKE & FAUPEL, P.C.  
Pigeon, Michigan

October 26, 2015

**OWENDALE-GAGETOWN AREA SCHOOLS**  
**SCHEDULE OF FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

**FINDINGS-FINANCIAL STATEMENTS AUDIT**

**SIGNIFICANT DEFICIENCIES**

2007-2 Preparation of the GAAP Basis Financial Statements

*Condition:* We assisted the District by preparing the annual financial statements (including related notes) of the District prepared in accordance with accounting principles generally accepted in the United States of America.

*Criteria:* The responsibility for the District's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America rests with the management of the District. Management is also responsible for the system of internal accounting controls used to ensure that the financial statements are not materially misstated.

*Effect:* This situation could allow the misstatement of the financial statements.

*Recommendation:* We recommend that the District acquire the expertise necessary to prepare the annual financial statements including the required disclosures in accordance with accounting principles generally accepted in the United States of America.

*Response:* We are aware of this deficiency and believe it is not cost beneficial in our situation to acquire this expertise. We will continue to use our external auditors for this technical assistance. We would expect this situation to be ongoing in future years.