**MORENCI AREA SCHOOLS**

**REPORT ON FINANCIAL STATEMENTS**
**(with required supplementary and additional supplementary information)**

**YEAR ENDED JUNE 30, 2016**

Maner Costerisan
Certified Public Accountants
Business & Technology Advisors

C O N T E N T S

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Morenci Area Schools

## 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 Morenci Area Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

***Opinions***

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

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management discussion and analysis and other 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 Morenci Area Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, is presented for purposes 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. The additional supplementary 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 additional supplementary 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 September 28, 2016 in our consideration of Morenci Area Schools' 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 Morenci Area Schools' internal control over financial reporting and compliance.

Maner Costerisan PC

September 28, 2016

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary and additional information that presents all the District's revenue and expenditures by program.

## FINANCIAL HIGHLIGHTS

### Reporting the School District as a Whole - District Wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the District's financial statements, report information about the District as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position. In order to measure the District's financial health or net position, we examine the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, as reported in the statement of net position. Over time, increases or decreases in the District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results.

It is important to remember that the School District's goal is to provide the best educational opportunities and services possible to Morenci students and not to generate profits as commercial entities do. In keeping, the District must account for the long term stability and continuation of the District by weighing expenditures against the ability to continue existence. The District must keep in check significant decreases in net position over time.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Our financial statements provide insights into the results of this year's operations.

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources, at the close of the most recent fiscal year by ($7,285,812) (*net position*). The reason for this is that the District owes more money than the value of assets and deferred outflows of resources, in which the debt was issued.

- The District's total net position increased by $68,911 from the June 30, 2015 balance of ($7,354,723).

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $1,127,104, a decrease of $420,097 in comparison with the prior year.

- At the end of the current fiscal year, the aggregated fund balances for the District's operating fund (general fund) was $500,830 or 7.9% of the total expenditures of this operating fund.

## 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:

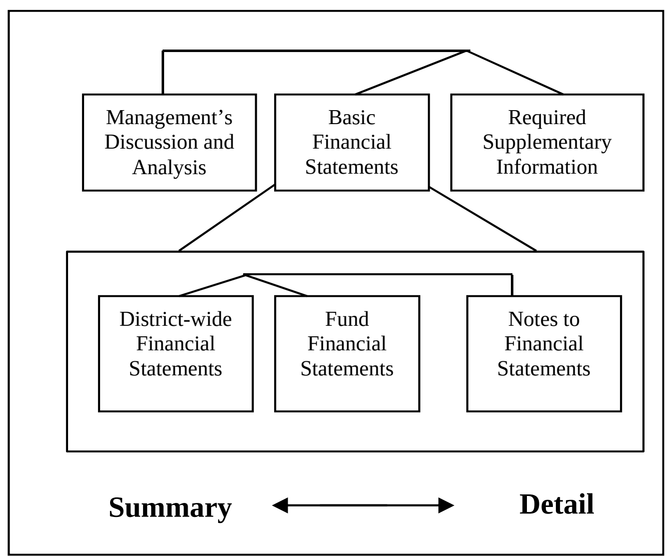
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.

- 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 notes to financial statements.

- The *governmental funds* 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 funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

**Figure A-1**
**Organization of Morenci Area Schools' Annual Financial Report**




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**

| | | Fund Financial Statements | |
|---|---|---|---|
| | District-wide statements | Governmental Funds | Fiduciary Funds |
| 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<br>* Statement of activities | * Balance sheet<br>* Statement of revenues, expenditures and changes in fund balances | * Statement of fiduciary assets and liabilities |
| Accounting basis and measurement focus | Accrual accounting and economic resource focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resource 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, Morenci's funds do not currently contain capital assets, although they can |
| Type of inflow-outflow information | All revenues and expenses during the year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year, expenditures when good 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 management’s discussion and analysis highlights the structure and contents of each of the statements.

## DISTRICT-WIDE STATEMENTS

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

The two district-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are indicators 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:

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

## FUND FINANCIAL STATEMENTS

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

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

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

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps 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 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 student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position as of June 30, 2016 totaled ($7,285,812) which was an increase over the June 30, 2015 balance of ($7,354,723).

**Table A-3**
**Morenci Area Schools**

| | 2016 | 2015 |
|---|---|---|
| Current and other assets | $ 2,663,396 | $ 3,199,306 |
| Capital assets | 12,230,859 | 11,918,106 |
| Total assets | 14,894,255 | 15,117,412 |
| Deferred outflows | 1,584,060 | 871,849 |
| Long-term liabilities | 12,652,318 | 13,062,853 |
| Other liabilities | 1,607,420 | 1,703,897 |
| Net pension liability | 9,214,239 | 7,723,408 |
| Total liabilities | 23,473,977 | 22,490,158 |
| Deferred inflows | 290,150 | 853,826 |
| Net position: | | |
| Net investment in capital assets | (40,020) | (116,440) |
| Restricted for debt service | 109,133 | 79,292 |
| Unrestricted | (7,354,925) | (7,317,575) |
| Total net position | $ (7,285,812) | $ (7,354,723) |

**Table A-4**
**Changes in Morenci Area Schools' Net Position**

| | 2016 | 2015 |
|---|---|---|
| Revenues: | | |
| Program revenues: | | |
| Charges for services | $ 177,971 | $ 177,538 |
| Operating grants | 1,117,250 | 1,189,356 |
| General revenues: | | |
| Property taxes | 1,348,796 | 1,220,417 |
| Investment earnings | 178 | 481 |
| State aid - unrestricted | 4,612,955 | 4,497,866 |
| Intermediate sources | 376,323 | 344,279 |
| Other | 51,968 | 57,288 |
| Total revenues | 7,685,441 | 7,487,225 |
| Expenses: | | |
| Instruction | 4,299,426 | 4,373,281 |
| Support services | 2,313,346 | 2,311,783 |
| Community services | 1,424 | 4,488 |
| Intergovernmental | 42,204 | 53,742 |
| Food services | 429,704 | 425,760 |
| Interest on long-term debt | 530,426 | 542,316 |
| Total expenses | 7,616,530 | 7,711,370 |
| Change in net position | $ 68,911 | $ (224,145) |

## District Governmental Activities

The District’s financial condition has come about through a number of areas.

- Proposal A established the student foundation grant concept. The foundation grant has increased from $4,762 per student in 1995 to $7,391 per student in 2016.

- Student growth in the District has decreased. In fiscal year 1999 state aid membership was 1,147 and in seventeen years has decreased by 39% to 695. Morenci Area Schools does participate in School of Choice and Open Enrollment to attract new students to the District.

- Many of the District’s employees have been part of a total compensation method of determining their wage and benefit package, which has allowed the District’s total compensation to generally keep pace with the decrease in District revenues.

## FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The District as a whole has a combined fund balance of $1,127,104 compared to $1,547,201 in 2015. The fund balance decreased by $420,097 during the year. The District was also able to control costs even with an increase in revenue, primarily due to tight budgetary controls. There are debt service funds with a combined net fund balance of $189,655, 2013 capital projects with a net fund balance of $322,598, and a special revenue fund with a net fund balance of $114,021. The general fund increased its fund balance by $214,603, debt service funds increased its fund balance by $26,210, 2013 capital projects fund decreased by $645,466 and the special revenue fund decreased by $15,444.

The general fund’s yearly revenues were about 3.4% more than expenditures and operating transfers.

## General Fund and Budget Highlights

During the 2016 fiscal year the original budget was amended two times to reflect changes which affected the District.

The District's initial amendments took place in February. This amendment included the adjustments for the fall student count as well as teaching and administrative staffing changes that were implemented for the 2015-2016 school year. The District opened a second Great Start Readiness Program classroom for the 2015-2016 school year and continued to partner with another local school district to continue a head start classroom. Student enrollment came in better than expected for the fall count. The increase in revenue was directly related to the increase in students via the blended count. The February amendment also saw increases in expenditures for basic and added needs programs which included the additional cost of the second Great Start Readiness classroom. The February budget amendment also saw an increase in state and federal expenditures. Finally, the February amendment allowed the district to set aside funds for the much needed replacement of maintenance, custodial, and transportation equipment.

A second and final amended budget was made on June 30, 2016. The amendments were from actual revenue and expenditures through June which showed savings in many functions of the general fund budget. State and Federal funds were not fully utilized and were knowingly carried forward to the 2016-2017 school year with a plan to spend them. The District's general fund realized savings from services purchased from other local school districts for special education services. Budget savings were also realized when administration and secretarial staff were not replaced during the 2015-2016 school year.

The general fund savings recognized in the final amendment were from purchases that were budgeted but not made during the 2015-2016 school year; simply the district did not spend general fund dollars. This was in large part due to a reduction in students from the fall count. The district monitored enrollment closely since this was the first year the district saw a positive student increase in the fall. Sadly, as the district moved closer to the spring count and towards the end of school, student enrollment dropped significantly. This decrease in student enrollment caused concern for the upcoming 2016-2017 school year and once again expenditures were put on hold. It is important to note that many of the planned expenditures will now be facilitated in the 2016-2017 school year, as these expenditures can no longer be pushed off.

The final amended budget was to have revenues and incoming transfers exceed expenditures by $100,558. The final results showed that revenues came in $29,768 more than were anticipated. This was largely attributed to the increase in revenue from the state and federal sources. Expenditures came in $84,277 less than budgeted in June. The change in expenditures was largely attributed to less instructional staff and general administration expenses than were anticipated. The net result after other financing sources and (uses) was a change in fund balance of $214,603 increasing the fund balance to $500,830.

General fund expenditures came within 1.31% of final budgeted amounts. General fund revenues came within 0.46% of final budget. Once again this year, tight budgetary controls allowed the District to maintain the rising costs in-line with increasing revenue sources. The staff continues to be effective in maintaining actual expenditures when compared to budget.

Overall, the difference between the District's final amended budget and end of the year figures amounted to a $114,045 variance. The change from the Board adopted budget of June 2015 amounted to an increase of $250,558 from the final budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The District's capital assets are as follows:

**Table A-5**
**Morenci Area Schools**

| | 2016 | | | 2015 |
|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value | Net book value |
| Land | $ 351,668 | $ - | $ 351,668 | $ 351,668 |
| Work in process | - | - | - | 1,232,198 |
| Land improvements | 219,071 | 16,431 | 202,640 | 213,594 |
| Buildings and improvements | 16,116,059 | 5,542,789 | 10,573,270 | 9,268,108 |
| Furniture and fixtures | 4,306,810 | 3,426,267 | 880,543 | 775,481 |
| Transportation equipment | 689,196 | 466,458 | 222,738 | 77,057 |
| Total | $ 21,682,804 | $ 9,451,945 | $ 12,230,859 | $ 11,918,106 |

The change in the net book value is mostly due to work in progress completed during the year outpacing depreciation.

### LONG-TERM DEBT

At year end the District had $12,652,318 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

During the year ended June 30, 2016, the District made principal payments in the amount of $690,000.

A decrease in compensated absences of $1,402 was also recorded. The District also borrowed an additional $276,245 from the School Loan Revolving Fund.

**Table A-6**
**Morenci Area Schools**
**Outstanding Long-Term Debt**

| | 2016 | 2015 |
|---|---|---|
| General obligation bonds and other debt | $ 11,881,975 | $ 12,567,353 |
| School loan revolving fund | 711,502 | 435,257 |
| Compensated absences | 58,841 | 60,243 |
| | $ 12,652,318 | $ 13,062,853 |

## FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District is expected to receive a foundation allowance of $7,511 per student for the 2016-2017 school year. This is an increase $120 from the 2015-2016 school year.

- MPSERS cost offset at the 2015-2016 level

- Programming changes in the following programs for 2016-2017:

  - Great Start Readiness Program-continue with a second classroom
  - Alternative Education –continue to increase offerings
  - Virtual School
  - Head Start
  - Latchkey Program
  - State and Federal Program Changes to expend carryover
  - Addition of specialized staff for reading, math, and science

- The student count has been projected to decline slowly over the next five years. However, the District saw a significant increase in students for the October 2015 count. This increase in October slowly decreased to an ending enrollment of 673 as of June 9, 2016. Therefore, budget estimates are approximated at 675 full time equivalency for the 2016-2017 fiscal year.

- The District has settled both collective bargaining agreements with the Michigan Education Association. The Teachers' Contract saw the most significant changes with an 8% reduction in wages to help the District weather the fiscal stress as defined by the Michigan Department of Treasury. The Secretary and Paraprofessionals Contract had a reduction in staff, a reduction of hours, along with a pay freeze. The bus drivers, custodians, and cooks are no longer part of the Operating Engineers Union 324 yet the District and employees of these groups continue to honor the last collective bargaining agreement on file.

- The District is expected to purchase and implement significant core curriculum enhancements for K-12.

- Retirement rates have been estimated based upon the FY 2015-2016 employer contribution rate which is effective October 1, 2016.

- The District will continue with site improvements and anticipate science lab upgrades by the end of the 2016-2017 school year.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Morenci Area Schools, 788 E Coomer St, Morenci, MI 49256.

## BASIC FINANCIAL STATEMENTS

**MORENCI AREA SCHOOLS**
**STATEMENT OF NET POSITION**
**YEAR ENDED JUNE 30, 2016**

| | Governmental activities |
|---|---|
| **ASSETS:** | |
| Cash and cash equivalents | $ 929,832 |
| Receivables: | |
| Accounts receivable | 5,219 |
| Intergovernmental | 1,227,783 |
| Inventories | 7,732 |
| Prepaids | 37,101 |
| Restricted cash and cash equivalents - capital projects | 455,729 |
| Capital assets not being depreciated | 351,668 |
| Capital assets, net of accumulated depreciation | 11,879,191 |
| TOTAL ASSETS | 14,894,255 |
| **DEFERRED OUTFLOWS OF RESOURCES:** | |
| Related to pensions | 1,584,060 |
| **LIABILITIES:** | |
| Accounts payable | 154,988 |
| Retainage payable | 9,302 |
| Notes payable | 447,352 |
| Accrued interest | 123,328 |
| Accrued salaries and related items | 502,433 |
| Accrued retirement | 184,393 |
| Unearned revenue | 185,624 |
| Noncurrent liabilities: | |
| Due within one year | 726,768 |
| Due in more than one year | 11,925,550 |
| Net pension liability | 9,214,239 |
| TOTAL LIABILITIES | 23,473,977 |
| **DEFERRED INFLOWS OF RESOURCES:** | |
| Related to pensions | 37,099 |
| Related to state aid funding for pension | 253,051 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 290,150 |
| **NET POSITION:** | |
| Net investment in capital assets | (40,020) |
| Restricted for debt service | 109,133 |
| Unrestricted | (7,354,925) |
| **TOTAL NET POSITION** | $ (7,285,812) |

See notes to financial statements.

**MORENCI AREA SCHOOLS**
**STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2016**

| | | | | Governmental activities |
|---|---|---|---|---|
| | | Program revenues | | Net (expense) revenue and changes in net position |
| **Functions/programs** | **Expenses** | **Charges for services** | **Operating grants** | |
| Governmental activities: | | | | |
| Instruction | $ 4,299,426 | $ - | $ 644,198 | $ (3,655,228) |
| Support services | 2,313,346 | 54,560 | 149,514 | (2,109,272) |
| Community services | 1,424 | 1,141 | 1,424 | 1,141 |
| Intergovernmental | 42,204 | - | - | (42,204) |
| Food services | 429,704 | 122,270 | 322,114 | 14,680 |
| Interest on long-term debt | 530,426 | - | - | (530,426) |
| Total governmental activities | $ 7,616,530 | $ 177,971 | $ 1,117,250 | (6,321,309) |
| General revenues: | | | | |
| Property taxes, levied for general purposes | | | | 404,197 |
| Property taxes, levied for debt service | | | | 944,599 |
| State sources | | | | 4,612,955 |
| Intermediate sources | | | | 376,323 |
| Investment earnings | | | | 178 |
| Other | | | | 51,968 |
| Total general revenues | | | | 6,390,220 |
| **CHANGE IN NET POSITION** | | | | 68,911 |
| **NET POSITION**, beginning of year | | | | (7,354,723) |
| **NET POSITION**, end of year | | | | $ (7,285,812) |

See notes to financial statements.

**MORENCI AREA SCHOOLS**
**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2016**

| | General Fund | 2013 Capital Projects Fund | Total nonmajor funds | Total governmental funds |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| Cash and cash equivalents | $ 720,748 | $ - | $ 209,084 | $ 929,832 |
| Receivables: | | | | |
| Accounts receivable | 5,219 | - | - | 5,219 |
| Due from other funds | - | - | 117,446 | 117,446 |
| Intergovernmental | 1,227,783 | - | - | 1,227,783 |
| Inventories | - | - | 7,732 | 7,732 |
| Restricted cash and cash equivalents - capital projects | - | 455,729 | - | 455,729 |
| Prepaid expenditures | 37,101 | - | - | 37,101 |
| TOTAL ASSETS | $ 1,990,851 | $ 455,729 | $ 334,262 | $ 2,780,842 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | | | | |
| **LIABILITIES:** | | | | |
| Payables: | | | | |
| Accounts payable | $ 127,706 | $ 24,227 | $ 3,055 | $ 154,988 |
| Retainage payable | - | 9,302 | - | 9,302 |
| Due to other funds | 17,844 | 99,602 | - | 117,446 |
| Notes payable | 447,352 | - | - | 447,352 |
| Accrued interest | 7,278 | - | - | 7,278 |
| Accrued salaries and related items | 485,182 | - | 17,251 | 502,433 |
| Accrued retirement | 177,810 | - | 6,583 | 184,393 |
| Unearned revenue | 181,927 | - | 3,697 | 185,624 |
| TOTAL LIABILITIES | 1,445,099 | 133,131 | 30,586 | 1,608,816 |
| **DEFERRED INFLOWS OF RESOURCES:** | | | | |
| Unavailable revenue | 44,922 | - | - | 44,922 |

See notes to financial statements.

| | General Fund | 2013 Capital Projects Fund | Total nonmajor funds | Total governmental funds |
|---|---|---|---|---|
| **FUND BALANCES:** | | | | |
| Nonspendable: | | | | |
| Inventories | $ - | $ - | $ 7,732 | $ 7,732 |
| Prepaid expenditures | 37,101 | - | - | 37,101 |
| Restricted for: | | | | |
| Capital projects | - | 322,598 | - | 322,598 |
| Debt service | - | - | 189,655 | 189,655 |
| Food service | - | - | 96,289 | 96,289 |
| Assigned for subsequent year expenditures | - | - | 10,000 | 10,000 |
| Unassigned | 463,729 | - | - | 463,729 |
| **TOTAL FUND BALANCES** | 500,830 | 322,598 | 303,676 | 1,127,104 |
| **TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES** | $ 1,990,851 | $ 455,729 | $ 334,262 | $ 2,780,842 |

| | | |
|---|---|---|
| **Total governmental fund balances** | | $ 1,127,104 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Deferred outflows of resources - related to pensions | $ 1,584,060 | |
| Deferred inflows of resources - related to pensions | (37,099) | |
| Deferred inflows of resources - related to state pension funding | (253,051) | |
| | | 1,293,910 |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds: | | |
| The cost of the capital assets is | 21,682,804 | |
| Accumulated depreciation is | (9,451,945) | |
| | | 12,230,859 |
| Revenue not recorded in the funds due to not being collected until after September 1st: | | |
| Unavailable revenue - special education claims | | 44,922 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds: | | |
| Bonds and loans payable | | (12,593,477) |
| Compensated absences | | (58,841) |
| Accrued interest is not included as a liability in governmental funds, it is recorded when paid | | (116,050) |
| Net pension liability | | (9,214,239) |
| **Net position of governmental activities** | | $ (7,285,812) |

See notes to financial statements.

**MORENCI AREA SCHOOLS**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**
**GOVERNMENTAL FUNDS**
**YEAR ENDED JUNE 30, 2016**

| | General Fund | 2013 Capital Projects Fund | Total nonmajor funds | Total governmental funds |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Local sources: | | | | |
| Property taxes | $ 405,445 | $ - | $ 945,860 | $ 1,351,305 |
| Food sales | - | - | 114,548 | 114,548 |
| Investment earnings | 76 | 80 | 36 | 192 |
| Other | 107,667 | - | 7,710 | 115,377 |
| Total local sources | 513,188 | 80 | 1,068,154 | 1,581,422 |
| State sources | 5,548,379 | - | 34,076 | 5,582,455 |
| Federal sources | 112,763 | - | 288,038 | 400,801 |
| Intermediate school districts | 376,431 | - | - | 376,431 |
| Total revenues | 6,550,761 | 80 | 1,390,268 | 7,941,109 |
| **EXPENDITURES:** | | | | |
| Current: | | | | |
| Instruction | 4,066,647 | - | - | 4,066,647 |
| Supporting services | 2,242,098 | - | - | 2,242,098 |
| Community services | 1,424 | - | - | 1,424 |
| Food service activities | - | - | 434,828 | 434,828 |
| Intergovernmental | 42,204 | - | - | 42,204 |

See notes to financial statements.

| | General Fund | 2013 Capital Projects Fund | Total nonmajor funds | Total governmental funds |
|---|---|---|---|---|
| **EXPENDITURES (Concluded):** | | | | |
| Debt service: | | | | |
| Principal repayment | $ - | $ - | $ 690,000 | $ 690,000 |
| Interest | 8,785 | - | 504,922 | 513,707 |
| Other | - | - | 997 | 997 |
| Capital outlay | - | 645,546 | - | 645,546 |
| Total expenditures | 6,361,158 | 645,546 | 1,630,747 | 8,637,451 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | 189,603 | (645,466) | (240,479) | (696,342) |
| **OTHER FINANCING SOURCES (USES):** | | | | |
| Transfers in | 25,000 | - | 53,903 | 78,903 |
| Transfers out | - | - | (78,903) | (78,903) |
| Proceeds from school loan revolving fund | - | - | 276,245 | 276,245 |
| Total other financing sources (uses) | 25,000 | - | 251,245 | 276,245 |
| **NET CHANGE IN FUND BALANCES** | 214,603 | (645,466) | 10,766 | (420,097) |
| **FUND BALANCES:** | | | | |
| Beginning of year | 286,227 | 968,064 | 292,910 | 1,547,201 |
| End of year | $ 500,830 | $ 322,598 | $ 303,676 | $ 1,127,104 |

See notes to financial statements.

**MORENCI AREA SCHOOLS**
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
**JUNE 30, 2016**

| | | |
|---|---|---|
| **Net change in fund balances total governmental funds** | $ | (420,097) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation. | | |
| Depreciation expense | | (528,728) |
| Capital outlay | | 841,481 |
| Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid: | | |
| Accrued interest payable, beginning of the year | | 99,331 |
| Accrued interest payable, end of the year | | (116,050) |
| The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows: | | |
| Proceeds from school loan revolving fund | | (276,245) |
| Payments on debt | | 690,000 |
| Amortization of bond discounts | | (4,622) |
| Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available: | | |
| Unavailable revenue, beginning of year | | (47,539) |
| Unavailable revenue, end of year | | 44,922 |
| Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds: | | |
| Accrued compensated absences, beginning of the year | | 60,243 |
| Accrued compensated absences, end of the year | | (58,841) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: | | |
| Pension related items | | 38,107 |
| Restricted revenue reported in the governmental funds that is deferred to offset the deferred outflows related to section 147c pension contributions subsequent to the measurement period: | | |
| State aid funding for pension | | (253,051) |
| **Change in net position of governmental activities** | $ | 68,911 |

**MORENCI AREA SCHOOLS**
**RECONCILIATION OF THE STATEMENT OF REVENUES,**
**EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL**
**FUNDS TO THE STATEMENT OF ACTIVITIES**
**JUNE 30, 2016**

| | Agency fund |
|---|---|
| **ASSETS:** | |
| Cash and cash equivalents | $ 92,686 |
| | |
| **LIABILITIES:** | |
| Due to student and other groups | $ 92,686 |

See notes to financial statements.

## MORENCI AREA SCHOOLS
## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Description of Government-wide 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 nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

#### B. Reporting Entity

The Morenci Area Schools (the "District") is governed by the Morenci 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 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 the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board (GASB) Statements.

#### C. Basis of Presentation - Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

#### D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Basis of Presentation - Fund Financial Statements (Continued)

The District reports the following major governmental funds:

The *general fund* 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.

The 2013 *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The 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 §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the capital projects fund. The projects for which the 2013 Serial Bonds were issued were in process as of June 30, 2016 and the cumulative expenditures recognized for the construction period were as follows.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

| | 2013 Capital Projects |
|---|---|
| Revenue and other financing sources | $ 2,962,927 |
| Expenditures and other financing uses | $ 2,640,329 |

Revenue and other financing sources for the 2013 capital projects include the net bond proceeds of $2,960,000.

**Other Non-major Funds**

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in the special revenue fund.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### D. Basis of Presentation - Fund Financial Statements (Concluded)

**Other Non-major Funds (Concluded)**

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.

**Fiduciary funds** account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

### E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources.* The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. 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 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### E. Measurement Focus and Basis of Accounting (Continued)

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.

The 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 generally 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end).

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 current year ended, the foundation allowance was based on pupil membership counts.

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 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 to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Measurement Focus and Basis of Accounting (Concluded)**

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

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

**F. Budgetary Information**

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. 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 comments.

3. Prior to July 1, the budget is legally adopted by 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, in the general fund are noted in the required supplementary information section.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### F. Budgetary Information (Concluded)

4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2016. The District does not consider these amendments to be significant.

### G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and cash equivalents

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

2. Investments

   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. 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.

   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, deposit 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. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

Land and construction in progress, if any, are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

| | Years |
|---|---|
| Land improvements | 20 |
| Building and additions | 20 - 50 |
| Equipment and furniture | 5 - 20 |
| Transportation equipment | 5 - 10 |

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

5. Defined benefit plan

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

6. Deferred outflows/inflows of resources

Deferred outflows

In addition to assets, the statement of net 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 only has one item that qualifies for reporting in this category. It is the pension related items reported in the government-wide statement of net position. These amounts are expensed in the plan years in which they apply.

Deferred inflows

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 three items that qualify for reporting in this category. The first item arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from receipts that are received after 60 days of year end. These amounts are deferred and recognized as inflow of resources in the period that the amounts become available. The second item 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. The third item is restricted section 147c state aid deferred to offset deferred outflows related to section 147c pension contributions subsequent to the measurement period.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)

7. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

In the computation of net invested in capital assets, school bond revolving fund principal proceeds of $711,502 are considered capital-related debt. Accrued interest on the school bond loan fund of $35,528 has been included in the calculation of unrestricted net position.

8. Fund balance flow assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund balance policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of education is the highest level of decision-making authority for the District that can, by adoption of a board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the board action remains in place until a similar action is taken (the adoption of another board action) to remove or revise the limitation.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Concluded)**

9. Fund balance policies (Concluded)

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board of education may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**H. Revenues and Expenditures/Expenses**

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. 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 dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2016, the District levied the following amounts per $1,000 of assessed valuation:

| Fund | Mills |
|---|---|
| General fund: | |
| Non-Principal Residence Exemption (PRE) | 18.00 |
| Commercial Personal Property | 6.00 |
| Debt service fund: | |
| PRE, Non-PRE, Commercial Personal Property | 8.24 |

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

### H. Revenues and Expenditures/Expenses (Concluded)

3. Compensated absences

The District's contracts 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.

4. 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 which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures 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.

## NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2016, the District had no investments.

**Interest rate risk**. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

**Credit risk**. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

## NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

**Concentration of credit risk**. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2016, $1,295,772 of the District's bank balance of $1,545,772 was exposed to custodial credit risk because it was uninsured. The carrying balance was $1,478,247.

**Custodial credit risk - investments.** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

**Fair value measurement**. The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1: Quoted prices in active markets for identical securities.

Level 2: Prices determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include prices for similar securities, interest rates, prepayment speeds, credit risk and others.

Level 3: Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant, unobservable inputs may be used. Unobservable inputs reflect the District's own assumptions about the factors market participants would use in pricing an investment and would be based on the best information available.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**MORENCI AREA SCHOOLS**
**NOTES TO FINANCIAL STATEMENTS**

## NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

The District does not have any investments subject to the fair value measurement.

**Foreign currency risk**. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously reported in Note 2:

| | |
|---|---|
| Deposits - including fiduciary funds of $92,686 | $ 1,478,247 |

Deposits are reported in the financial statements as follows:

| | |
|---|---|
| Fiduciary fund: | |
| Cash and cash equivalents | $ 92,686 |
| District wide: | |
| Current assets: | |
| Cash and cash equivalents | 929,832 |
| Restricted cash and cash equivalents - capital projects | 455,729 |
| | $ 1,478,247 |

## NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2016 consist of the following:

| | Government wide |
|---|---|
| State aid | $ 976,624 |
| Federal revenue | 107,442 |
| Intermediate school district | 143,717 |
| | $ 1,227,783 |

Intergovernmental receivables include amounts due from federal, state and local sources for various projects and programs.

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

## NOTE 4 - CAPITAL ASSETS

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

| | Balance July 1, 2015 | Additions | Deletions | Balance June 30, 2016 |
|---|---|---|---|---|
| Assets not being depreciated: | | | | |
| Land | $ 351,668 | $ - | $ - | $ 351,668 |
| Work in process | 1,232,198 | - | 1,232,198 | - |
| Subtotal | 1,583,866 | - | 1,232,198 | 351,668 |
| Other capital assets: | | | | |
| Land improvements | 219,071 | - | - | 219,071 |
| Building and additions | 14,526,356 | 1,589,703 | - | 16,116,059 |
| Equipment and furniture | 4,016,339 | 290,471 | - | 4,306,810 |
| Transportation equipment | 558,436 | 193,505 | 62,745 | 689,196 |
| Subtotal | 19,320,202 | 2,073,679 | 62,745 | 21,331,136 |
| Accumulated depreciation: | | | | |
| Land improvements | 5,477 | 10,954 | - | 16,431 |
| Building and additions | 5,258,248 | 284,541 | - | 5,542,789 |
| Equipment and furniture | 3,240,858 | 185,409 | - | 3,426,267 |
| Transportation equipment | 481,379 | 47,824 | 62,745 | 466,458 |
| Total accumulated depreciation | 8,985,962 | 528,728 | 62,745 | 9,451,945 |
| Net capital assets being depreciated | 10,334,240 | 1,544,951 | - | 11,879,191 |
| Net governmental capital assets | $ 11,918,106 | $ 1,544,951 | $ 1,232,198 | $ 12,230,859 |

Depreciation for the fiscal year ended June 30, 2016 amounted to $528,728 which was allocated in the following manner:

| | |
|---|---|
| Instruction | $ 452,927 |
| Support services | 75,801 |
| | $ 528,728 |

## NOTE 5 - NOTES PAYABLE

At June 30, 2016, the District has notes payable outstanding of $500,000 (Note 2015 C-1, C-4) and $350,000 (Note 2015 C-2, C-3). The notes bear interest rates between 0.64% and 1.4625%, and mature July 20, 2016 and August 22, 2016, respectively. Notes 2015 C-1 and C-4 require payments to an irrevocable set-aside account of $273,722 and $128,925, respectively at June 30, 2016. At year-end the balance of these payments are considered defeased debt and are not included in the year-end balance. The notes are secured by the full faith and credit of the District as well as pledged state aid.

| Balance June 30, 2015 | Additions | Deletions | Balance June 30, 2016 |
|---|---|---|---|
| $ 398,455 | $ 850,000 | $ 801,103 | $ 447,352 |

## NOTE 6 - LONG-TERM DEBT

The District issues 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:

| | General obligation bonds (including deferred charges | School loan revolving fund | Compensated absences | Total |
|---|---|---|---|---|
| Balance July 1, 2015 | $ 12,567,353 | $ 435,257 | $ 60,243 | $ 13,062,853 |
| Additions | - | 276,245 | - | 276,245 |
| Deletions | (685,378) | - | (1,402) | (686,780) |
| Balance June 30, 2016 | 11,881,975 | 711,502 | 58,841 | 12,652,318 |
| Due within one year | (715,000) | - | (11,768) | (726,768) |
| Due in more than one year | $ 11,166,975 | $ 711,502 | $ 47,073 | $ 11,925,550 |

## NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2016 is comprised of the following:

| | |
|---|---|
| 2005 refunding bonds due in annual installments of $540,000 to $830,000 through May 1, 2028 with interest from 3.75% to 4.25%. | $ 8,180,000 |
| 2008 serial bonds due in annual installments of $75,000 to $100,000 through May 1, 2028 with interest from 3.00% to 4.50%. | 975,000 |
| 2013 serial bonds due in annual installments of $100,000 to $250,000 through May 1, 2033 with interest from 3.00% to 4.50%. | 2,795,000 |
| Less: issuance discounts | (68,025) |
| Total bonded debt and other long-term obligations | 11,881,975 |
| Borrowings from the State of Michigan under the School Loan Revolving Fund. Interest at June 30, 2016 was 3.34%. | 711,502 |
| Compensated absences | 58,841 |
| Total general long-term debt | $ 12,652,318 |

Interest expense (all funds) for the year ended June 30, 2016 was approximately $530,000.

Borrowing from the State of Michigan - The school loan revolving fund payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates of 3.34% for the School Loan Revolving Fund notes have been assessed for the year ended June 30, 2016. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.00 mills. The school district is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. The District currently levies 8.24 debt mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the following amortization schedule.

In prior years, the District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2016, $8,255,000 of bonds outstanding are considered defeased.

## NOTE 6 - LONG-TERM DEBT (Concluded)

The annual requirements to amortize long-term debt outstanding as of June 30, 2016, including interest of $3,881,915 are as follows:

| Year ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2017 | $ 715,000 | $ 483,134 | $ 1,198,134 |
| 2018 | 740,000 | 455,534 | 1,195,534 |
| 2019 | 765,000 | 426,934 | 1,191,934 |
| 2020 | 795,000 | 397,384 | 1,192,384 |
| 2021 | 830,000 | 366,684 | 1,196,684 |
| 2022 - 2026 | 4,720,000 | 1,315,104 | 6,035,104 |
| 2027 - 2031 | 2,885,000 | 368,208 | 3,253,208 |
| 2032 - 2033 | 500,000 | 33,446 | 533,446 |
| | 11,950,000 | 3,846,428 | 15,796,428 |
| Issuance discounts | (68,025) | - | (68,025) |
| School Loan Revolving Fund | 711,502 | 35,528 | 747,030 |
| Compensated absences | 58,841 | - | 58,841 |
| | $ 12,652,318 | $ 3,881,956 | $ 16,534,274 |

At June 30, 2016, fund balance of $189,665 is available in the debt service funds to service the general obligation debt.

## NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2016 are as follows:

| Receivable fund | | Payable fund | |
|---|---|---|---|
| Food service | $ 17,844 | General fund | $ 17,844 |
| Debt service | 99,602 | Capital projects | 99,602 |
| | $ 117,446 | | $ 117,446 |

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 systems, and (3) payments between funds are made.

## NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS

### Plan Description

The Michigan Public School Employees' 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/mpsers-cafr.

### Benefits Provided

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

| Plan name | Plan Type | Plan status |
|---|---|---|
| Basic | Defined Benefit | Closed |
| Member Investment Plan (MIP) | Defined Benefit | Closed |
| Pension Plus | Hybrid | Open |
| Defined Contribution | Defined Contribution | Open |

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

Prior to Pension reform of 2010 there were two plans commonly referred to as Basic and the Member Investment Plan (MIP). Basic Plan member's contributions range from 0% - 4%. On January 1, 1987, the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990, or later including Pension Plus Plan members, contribute at various graduated permanently fixed contribution rates from 3.0% -7.0%.

### 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 Employees' Retirement System (MPSERS) who became a member of MPSERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)**

**Pension Reform 2012**

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund. Members who elected under option 1 to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP).

**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 member worked through 60th 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 Plus**

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 reaches 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). As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS.

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)**

Employees who first work on or after September 4, 2012 choose between two retirement plans: the Pension Plus plan and a Defined Contribution that provides a 50% employer match up to 3% of salary on employee contributions.

Final Average Compensation (FAC) - 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 Contributions**

Depending on the plan selected, member contributions range from 0% - 7%. Plan members electing the defined contribution plan are not required to make additional contributions.

**Employer Contributions**

Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits (OPEB). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

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

School districts' contributions are determined based on employee elections. There are several different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS. The range of rates is as follows:

| | |
|---|---|
| March 10, 2015 - September 30, 2015 | 18.76% - 23.07% |
| October 1, 2015 - September 30, 2016 | 14.56% - 18.95% |

The District’s pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately $830,000, with $793,000 specifically for the Defined Benefit Plan. These amounts include contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate (69.45% for pension and 30.55% for OPEB).

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)**

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

**Pension Liabilities**

At June 30, 2016, the District reported a liability of $9,214,239 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014 and rolled-forward using generally accepted actuarial procedures. 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, 2015 and 2014, the District's proportion was 0.03772 and 0.03506 percent.

| *MPSERS (Plan) Non-university employers:* | September 30, 2015 | September 30, 2014 |
|---|---|---|
| Total Pension Liability | $ 66,312,041,902 | $ 65,160,887,182 |
| Plan Fiduciary Net Position | $ 41,887,015,147 | $ 43,134,384,072 |
| Net Pension Liability | $ 24,425,026,755 | $ 22,026,503,110 |
| Proportionate share | 0.03772% | 0.03506% |
| Net Pension liability for the District | $ 9,214,239 | $ 7,723,408 |

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

For the year ended June 30, 2016, the District recognized pension expense of $501,916. This amount excludes contributions funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate; these amounts have been recorded as a deferred outflow as of June 30, 2016.

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)**

At June 30, 2016, the Reporting Unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred outflows of resources | Deferred inflows of resources |
|---|---|---|
| Changes in assumptions | $ 226,874 | $ - |
| Net difference between projected and actual plan investment earnings | 47,031 | - |
| Differences between expected and actual experience | - | 30,520 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 496,896 | 6,579 |
| Reporting Unit's contributions subsequent to the measurement date | 813,259 | - |
| | $ 1,584,060 | $ 37,099 |

$813,259, 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:

| Year ended September 30, | Amount |
|---|---|
| 2016 | $ 157,905 |
| 2017 | 157,905 |
| 2018 | 145,542 |
| 2019 | 272,350 |

## Actuarial Assumptions

**Investment rate of return -** 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a 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%

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)**

**Mortality assumptions -** RP2000 Combined Healthy Life Mortality table, adjusted for mortality improvements to 2020 using projection scale AA for men and women were used.

**Experience study -** The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation.

**The long-term expected rate of return on pension plan investments -** The rate was **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.

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

| Investment Category | Target Allocation | Long-term Expected Real Rate of Return* |
|---|---|---|
| Domestic Equity Pools | 28.00% | 5.90% |
| Alternate Investment Pools | 18.00% | 9.20% |
| International Equity | 16.00% | 7.20% |
| Fixed Income Pools | 10.50% | 0.90% |
| Real Estate and Infrastructure Pools | 10.00% | 4.30% |
| Absolute Return Pools | 15.50% | 6.00% |
| Short Term Investment Pools | 2.00% | 0.00% |
| | 100.00% | |

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

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Continued)**

**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 (7% for Pension Plus Plan), 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 or 1 percentage point higher than the current rate:

| | 1% Lower (6.0% to 7.0%) | Discount Rate (7.0% to 8.0%) | 1% Higher (8.0% to 9.0%) |
|---|---|---|---|
| Reporting Unit's proportionate share of the net pension liability | $ 11,879,516 | $ 9,214,239 | $ 6,967,301 |

**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 2015 Comprehensive Annual Financial Report.

**Payable to the Pension Plan -** At year end the School District is current on all required pension plan payments. Amounts accrued at year end for accounting purposes are separately stated in the financial statements as a liability titled accrued retirement. These amounts represent current payments for June paid in July, accruals for summer pay primarily for teachers and the contributions due funded from state revenue Section 147c restricted to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate.

**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.

**NOTE 8 - RETIREMENT AND POST RETIREMENT BENEFITS (Concluded)**

Public Act 75 of 2010 requires each actively employed member of MPSERS 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 services 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.

***Employer Contributions***

The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% to 2.71% of covered payroll for the period from March 10, 2015 to September 30, 2015, and from 6.4% to 6.83% of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election.

The District postemployment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately $328,000, $422,000 and $212,000.

## NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk 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 a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the 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. The pool maintains reinsurance for claims in excess of $500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

## NOTE 10 - TRANSFERS

The food service fund transferred a net amount of $25,000 to the general fund. The transfer from the food service fund was made to allocate indirect costs between the funds. The 2002 debt service fund transferred $53,903 to the 2013 debt service fund. The transfer from the 2002 debt service fund was to permanently close the fund in the current fiscal year.

## NOTE 11 - SUBSEQUENT EVENTS

The District has approved borrowing $750,000 for fiscal year 2017 to replace the notes payable as described in Note 5.

## NOTE 12 - 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.

## NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENT (Concluded)

Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, was issued by the GASB in August 2015 and will be effective for the District's 2017 year end. The Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements in the footnotes of the financial statements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatements recipients.

- The gross dollar amount of taxes abated during the period

- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This Statement will improve the user's ability on how tax abatements affect the reporting unit's financial positions and results of operations, including their ability to raise resources in the future.

## REQUIRED SUPPLEMENTARY INFORMATION

**MORENCI AREA SCHOOLS**
**REQUIRED SUPPLEMENTARY INFORMATION**
**BUDGETARY COMPARISON SCHEDULE**
**GENERAL FUND**
**YEAR ENDED JUNE 30, 2016**

| | Original budget | Final budget | Actual | Variance with final budget |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Local sources | $ 459,040 | $ 551,035 | $ 513,188 | $ (37,847) |
| State sources | 5,355,143 | 5,489,180 | 5,548,379 | 59,199 |
| Federal sources | 180,000 | 106,508 | 112,763 | 6,255 |
| Intermediate school districts | 351,200 | 374,270 | 376,431 | 2,161 |
| Total revenues | 6,345,383 | 6,520,993 | 6,550,761 | 29,768 |
| **EXPENDITURES:** | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Basic programs | 3,182,839 | 3,244,513 | 3,243,402 | 1,111 |
| Added needs | 963,588 | 833,105 | 823,245 | 9,860 |
| Total instruction | 4,146,427 | 4,077,618 | 4,066,647 | 10,971 |
| Supporting services: | | | | |
| Pupil | 100,831 | 102,343 | 102,342 | 1 |
| Instructional staff | 94,365 | 56,796 | 35,816 | 20,980 |
| General administration | 189,960 | 201,028 | 181,435 | 19,593 |
| School administration | 465,328 | 434,774 | 434,768 | 6 |
| Business | 200,715 | 185,475 | 185,398 | 77 |
| Operation/maintenance | 698,283 | 765,995 | 767,818 | (1,823) |
| Pupil transportation | 270,873 | 253,766 | 250,497 | 3,269 |
| Athletics | 222,400 | 222,400 | 210,312 | 12,088 |
| Other | 39,220 | 94,251 | 73,712 | 20,539 |
| Total supporting services | 2,281,975 | 2,316,828 | 2,242,098 | 74,730 |
| Community services | - | - | 1,424 | (1,424) |
| Intergovernmental expenditures | 61,547 | 42,204 | 42,204 | - |
| Debt service: | | | | |
| Principal payments | 30,434 | - | - | - |
| Interest | - | 8,785 | 8,785 | - |
| Total debt service | 30,434 | 8,785 | 8,785 | - |
| Total expenditures | 6,520,383 | 6,445,435 | 6,361,158 | 84,277 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | (175,000) | 75,558 | 189,603 | 114,045 |
| **OTHER FINANCING SOURCES (USES):** | | | | |
| Transfers in | 25,000 | 25,000 | 25,000 | - |
| Total other financing sources (uses) | 25,000 | 25,000 | 25,000 | - |
| **NET CHANGE IN FUND BALANCE** | $ (150,000) | $ 100,558 | 214,603 | $ 114,045 |
| **FUND BALANCE:** | | | | |
| Beginning of year | | | 286,227 | |
| End of year | | | $ 500,830 | |

**MORENCI 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)**

| | 2015 | 2014 |
|---|---|---|
| Reporting unit's proportion of net pension liability (%) | 0.03772% | 0.03506% |
| Reporting unit's proportionate share of net pension liability | $ 9,214,239 | $ 7,723,408 |
| Reporting unit's covered-employee payroll | $ 3,205,512 | $ 3,298,462 |
| Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll | 287.45% | 234.15% |
| Plan fiduciary net position as a percentage of total pension liability | 63.17% | 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.

**MORENCI 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)**

| | 2016 | 2015 |
|---|---|---|
| Statutorily required contributions | $ 793,074 | $ 668,890 |
| Contributions in relation to statutorily required contributions | 793,074 | 668,890 |
| Contribution deficiency (excess) | $ - | $ - |
| Reporting unit's covered-employee payroll | $ 3,179,014 | $ 3,533,562 |
| Contributions as a percentage of covered-employee payroll | 24.95% | 18.93% |

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.

**MORENCI AREA SCHOOLS**
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**
**FOR THE YEAR ENDED JUNE 30, 2016**

**Changes of benefit terms:** There were no changes of benefit terms in 2015.

**Changes of assumptions:** There were no changes of benefit assumptions in 2015.

## ADDITIONAL SUPPLEMENTARY INFORMATION

**MORENCI AREA SCHOOLS**
**COMBINING BALANCE SHEET**
**NONMAJOR GOVERNMENTAL FUND TYPES**
**JUNE 30, 2016**

| | Special revenue fund - Food Service | Debt service funds | Total nonmajor funds |
|---|---|---|---|
| **ASSETS:** | | | |
| Cash and cash equivalents | $ 119,031 | $ 90,053 | $ 209,084 |
| Receivables: | | | |
| Due from other funds | 17,844 | 99,602 | 117,446 |
| Inventories | 7,732 | - | 7,732 |
| **TOTAL ASSETS** | $ 144,607 | $ 189,655 | $ 334,262 |
| **LIABILITIES:** | | | |
| Accounts payable | $ 3,055 | $ - | $ 3,055 |
| Accrued salaries and related items | 17,251 | - | 17,251 |
| Accrued retirement | 6,583 | - | 6,583 |
| Unearned revenue | 3,697 | - | 3,697 |
| **TOTAL LIABILITIES** | 30,586 | - | 30,586 |
| **FUND BALANCES:** | | | |
| Nonspendable for inventories | 7,732 | - | 7,732 |
| Restricted for debt service | - | 189,655 | 189,655 |
| Restricted for food service | 96,289 | - | 96,289 |
| Assigned for subsequent years expenditures | 10,000 | - | 10,000 |
| **TOTAL FUND BALANCES** | 114,021 | 189,655 | 303,676 |
| **TOTAL LIABILITIES AND FUND BALANCES** | $ 144,607 | $ 189,655 | $ 334,262 |

**MORENCI AREA SCHOOLS**
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**
**AND CHANGES IN FUND BALANCES**
**NONMAJOR GOVERNMENTAL FUND TYPES**
**YEAR ENDED JUNE 30, 2016**

| | Special revenue fund - Food Service | Debt service funds | Total nonmajor funds |
|---|---|---|---|
| **REVENUES:** | | | |
| Local sources: | | | |
| Property taxes | $ - | $ 945,860 | $ 945,860 |
| Food sales | 114,548 | - | 114,548 |
| Investment earnings | 12 | 24 | 36 |
| Other | 7,710 | - | 7,710 |
| State sources | 34,076 | - | 34,076 |
| Federal sources | 288,038 | - | 288,038 |
| Total revenues | 444,384 | 945,884 | 1,390,268 |
| **EXPENDITURES:** | | | |
| Current: | | | |
| Food service activities: | | | |
| Salaries | 122,795 | - | 122,795 |
| Benefits | 66,224 | - | 66,224 |
| Purchased services | 8,949 | - | 8,949 |
| Supplies and materials | 229,873 | - | 229,873 |
| Capital outlay | 3,581 | - | 3,581 |
| Other expenses | 3,406 | - | 3,406 |
| Debt service: | | | |
| Principal repayment | - | 690,000 | 690,000 |
| Interest | - | 504,922 | 504,922 |
| Other expenses | - | 997 | 997 |
| Total expenditures | 434,828 | 1,195,919 | 1,630,747 |
| **EXCESS (DEFICIENC)Y OF REVENUES OVER (UNDER) EXPENDITURES** | 9,556 | (250,035) | (240,479) |
| **OTHER FINANCING SOURCES (USES):** | | | |
| Transfers in | - | 53,903 | 53,903 |
| Transfers out | (25,000) | (53,903) | (78,903) |
| Proceeds from school loan revolving fund | - | 276,245 | 276,245 |
| Total other financing sources (uses) | (25,000) | 276,245 | 251,245 |
| **NET CHANGE IN FUND BALANCES** | (15,444) | 26,210 | 10,766 |
| **FUND BALANCES:** | | | |
| Beginning of year | 129,465 | 163,445 | 292,910 |
| End of year | $ 114,021 | $ 189,655 | $ 303,676 |

**MORENCI AREA SCHOOLS**
**DEBT SERVICE FUNDS**
**COMBINING BALANCE SHEET**
**JUNE 30, 2016**

| | 2005 Refunding | 2008 Building and Site Bonds | 2013 Building and Site Bonds | Totals |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| Cash and cash equivalents | $ 58,836 | $ 9,419 | $ 21,798 | $ 90,053 |
| Due from other funds | - | - | 99,602 | 99,602 |
| **TOTAL ASSETS** | $ 58,836 | $ 9,419 | $ 121,400 | $ 189,655 |
| **FUND BALANCES:** | | | | |
| Restricted for debt service | $ 58,836 | $ 9,419 | $ 121,400 | $ 189,655 |
| **TOTAL FUND BALANCES** | $ 58,836 | $ 9,419 | $ 121,400 | $ 189,655 |

**MORENCI AREA SCHOOLS**
**DEBT SERVICE FUNDS**
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
**YEAR ENDED JUNE 30, 2016**

| | 2002 Building and Site Bonds | 2005 Refunding | 2008 Building and Site Bonds | 2013 Building and Site Bonds | Totals |
|---|---|---|---|---|---|
| **REVENUES:** | | | | | |
| Property taxes | $ - | $ 290,679 | $ 95,033 | $ 560,148 | $ 945,860 |
| Investment earnings | - | 8 | 4 | 12 | 24 |
| Total revenues | - | 290,687 | 95,037 | 560,160 | 945,884 |
| **EXPENDITURES:** | | | | | |
| Principal repayment | - | 30,000 | 75,000 | 585,000 | 690,000 |
| Interest | - | 337,965 | 45,038 | 121,919 | 504,922 |
| Other expenses | - | 219 | 201 | 577 | 997 |
| Total expenditures | - | 368,184 | 120,239 | 707,496 | 1,195,919 |
| **EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES** | - | (77,497) | (25,202) | (147,336) | (250,035) |
| **OTHER FINANCING SOURCES:** | | | | | |
| Transfers in | - | - | - | 53,903 | 53,903 |
| Transfers out | (53,903) | - | - | - | (53,903) |
| Proceeds from school loan revolving fund | - | 85,067 | 27,751 | 163,427 | 276,245 |
| Total other financing sources (uses) | (53,903) | 85,067 | 27,751 | 217,330 | 276,245 |
| **NET CHANGE IN FUND BALANCES** | (53,903) | 7,570 | 2,549 | 69,994 | 26,210 |
| **FUND BALANCES:** | | | | | |
| Beginning of year | 53,903 | 51,266 | 6,870 | 51,406 | 163,445 |
| End of year | $ - | $ 58,836 | $ 9,419 | $ 121,400 | $ 189,655 |

## MORENCI AREA SCHOOLS
## SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
## JUNE 30, 2016

$8,900,000 Refunding bonds issued in 2005:

Bonded debt

| Principal due May 1, | Interest due May 1, | Interest due November 1, | Debt service requirement for fiscal year June 30, | Debt service requirement for fiscal year Amount |
|---|---|---|---|---|
| $ 540,000 | $ 168,364 | $ 168,364 | 2017 | $ 876,728 |
| 565,000 | 157,564 | 157,564 | 2018 | 880,128 |
| 585,000 | 146,264 | 146,264 | 2019 | 877,528 |
| 610,000 | 134,564 | 134,564 | 2020 | 879,128 |
| 635,000 | 122,364 | 122,364 | 2021 | 879,728 |
| 660,000 | 109,664 | 109,664 | 2022 | 879,328 |
| 690,000 | 96,464 | 96,464 | 2023 | 882,928 |
| 720,000 | 82,319 | 82,319 | 2024 | 884,638 |
| 750,000 | 67,469 | 67,469 | 2025 | 884,938 |
| 780,000 | 51,530 | 51,530 | 2026 | 883,060 |
| 815,000 | 34,955 | 34,955 | 2027 | 884,910 |
| 830,000 | 17,637 | 17,637 | 2028 | 865,274 |
| $ 8,180,000 | $ 1,189,158 | $ 1,189,158 | | $ 10,558,316 |

The bonds were approved by the board of education for refunding a portion of the 2002 School Building and Site bond issuance. The portion of the prior bonds being refunded are the bonds which mature or are subject to mandatory redemption beginning May 1, 2017 and ending May 1, 2028. The bonds will carry interest rates from 3.75% to 4.25%.

**MORENCI AREA SCHOOLS**
**SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS**
**JUNE 30, 2016**

$1,400,000 School Building and Site Bonds issued in 2008:

| | Interest due | | Debt service requirement for fiscal year | |
|---|---|---|---|---|
| Principal due May 1, | May 1, | November 1, | June 30, | Amount |
| $ 75,000 | $ 21,019 | $ 21,019 | 2017 | $ 117,038 |
| 75,000 | 19,519 | 19,519 | 2018 | 114,038 |
| 75,000 | 18,019 | 18,019 | 2019 | 111,038 |
| 75,000 | 16,519 | 16,519 | 2020 | 108,038 |
| 75,000 | 15,019 | 15,019 | 2021 | 105,038 |
| 75,000 | 13,444 | 13,444 | 2022 | 101,888 |
| 75,000 | 11,775 | 11,775 | 2023 | 98,550 |
| 75,000 | 10,106 | 10,106 | 2024 | 95,212 |
| 75,000 | 8,438 | 8,438 | 2025 | 91,876 |
| 100,000 | 6,750 | 6,750 | 2026 | 113,500 |
| 100,000 | 4,500 | 4,500 | 2027 | 109,000 |
| 100,000 | 2,250 | 2,250 | 2028 | 104,500 |
| $ 975,000 | $ 147,358 | $ 147,358 | | $ 1,269,716 |

The bonds were approved by the board of education to be used for the purpose of partially remodeling, furnishing and refurnishing, equipping and re-equipping school facilities; acquiring, installing and equipping educational technology; constructing a new running track; and developing and improving sites. The bonds will carry interest rates from 3.00% to 4.50%.

# MORENCI AREA SCHOOLS
# SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
# JUNE 30, 2016

$2,960,000 School Building and Site Bonds issued in 2013:

| | Interest due | | Debt service requirement for fiscal year | |
|---|---|---|---|---|
| Principal due May 1, | May 1, | November 1, | June 30, | Amount |
| $ 100,000 | $ 52,184 | $ 52,184 | 2017 | $ 204,368 |
| 100,000 | 50,684 | 50,684 | 2018 | 201,368 |
| 105,000 | 49,184 | 49,184 | 2019 | 203,368 |
| 110,000 | 47,609 | 47,609 | 2020 | 205,218 |
| 120,000 | 45,959 | 45,959 | 2021 | 211,918 |
| 130,000 | 44,159 | 44,159 | 2022 | 218,318 |
| 135,000 | 42,209 | 42,209 | 2023 | 219,418 |
| 145,000 | 40,184 | 40,184 | 2024 | 225,368 |
| 155,000 | 37,828 | 37,828 | 2025 | 230,656 |
| 155,000 | 35,213 | 35,213 | 2026 | 225,426 |
| 155,000 | 32,403 | 32,403 | 2027 | 219,806 |
| 185,000 | 29,303 | 29,303 | 2028 | 243,606 |
| 225,000 | 25,603 | 25,603 | 2029 | 276,206 |
| 225,000 | 21,047 | 21,047 | 2030 | 267,094 |
| 250,000 | 16,406 | 16,406 | 2031 | 282,812 |
| 250,000 | 11,093 | 11,093 | 2032 | 272,186 |
| 250,000 | 5,630 | 5,630 | 2033 | 261,260 |
| $ 2,795,000 | $ 586,698 | $ 586,698 | | $ 3,968,396 |

The bonds were approved by the board of education to be used for the purpose of partially remodeling, furnishing and refurnishing, equipping and re-equipping school facilities; acquiring, installing and equipping educational technology; purchasing school buses; constructing, equipping, developing and improving athletic facilities and play fields; and developing and improving sites. The bonds will carry interest rates from 3.00% to 4.50%.

**MORENCI AREA SCHOOLS**
**SCHEDULE OF BORROWINGS - STATE OF MICHIGAN**
**SCHOOL LOAN REVOLVING FUND**
**JUNE 30, 2016**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

| Year ended June 30, | Loan proceeds | Interest expense | Loan balance (net change) |
|---|---|---|---|
| 2013 | $ 92,137 | $ 2,027 | $ 94,164 |
| 2014 | - | 3,325 | 3,325 |
| 2015 | 343,120 | 9,826 | 352,946 |
| 2016 | 276,245 | 20,350 | 296,595 |
| Totals | $ 711,502 | $ 35,528 | $ 747,030 |

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

To the Board of Education
Morenci Area Schools

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morenci Area Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Morenci Area Schools' basic financial statements and have issued our report thereon dated September 28, 2016.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Morenci Area Schools' 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.

Maner Costerisan PC

September 28, 2016

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September 28, 2016

To the Board of Education
Morenci Area Schools

In planning and performing our audit of the financial statements of Morenci Area Schools as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Morenci Area Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies have been identified. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 28, 2016 on the financial statements of Morenci Area Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

**Documentation of Review and Approval**

During our review of disbursements and journal entries, we noted certain areas where improvements could be made to the process. We noted that approval to pay is not consistently documented on invoices, review and approval is not consistently documented on journal entries, and review is not consistently documented on credit card statements. We recommend that the Director of Finance or accounting assistant document on invoices that they are approved to be paid. During field work, it was also noted that journal entries are not reviewed by someone other than the person that prepared the entry. We recommend that this review is documented each month during completion of the monthly review checklist. Finally, we recommend that the Director of Finance initial credit card statements once they are reviewed each month.

It is our understanding that the District has implemented changes to the approval processes and, as a result, we do not expect this to be a recommendation in future years.

**Fund Balance**

Over the past several years, school districts have faced increasingly difficult economic times, which have resulted in additional constraints on the budgeting process. Therefore, the importance of maintaining, and adhering to, a balanced budget is critical to the overall health of the District. We commend the District for taking the steps in fiscal year 2016 that were needed in order to restore a balanced budget. The result was an increase in the fund balance of the general fund of approximately $215,000. The year-end general fund balance as of June 30, 2016 stands at 8% of general fund expenditures, which is above the board established target of 5% but below the long-term goal of 10%.

This comment is meant to provide notice to the District regarding the State of Michigan Public Act 109, which increased reporting requirements for districts with general fund equity below 5% of general fund revenues. We recommend that Morenci Area Schools continues to take action to maintain a structurally balanced budget and work to restore fund equity to the Board established goal of 10%.

**Budget Transparency**

During field work, we noted that the budget transparency link on the Morenci Area Schools website was incomplete. The procurement policy link did not contain the full procurement policy. We recommend that the full policy be uploaded to the budget transparency link and that all links be updated annually to ensure accuracy and completeness.

It is our understanding that the District has implemented changes to ensure that posted information is complete and, as a result, we do not expect this to be a recommendation in future years.

**Formal Written IT Policies & Procedures**

During our review of general computer controls in the District, we noted that the District does not have formal, written information technology policies and procedures. With the ever-increasing presence of cyber-security threats, we recommend the implementation of written information technology policies and procedures.

This report is intended solely for the information and use of management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

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September 28, 2016

To the Board of Education
Morenci Area Schools

We have audited the financial statements of Morenci Area Schools for the year ended June 30, 2016, and have issued our report thereon dated September 28, 2016. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Morenci Area Schools. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Morenci Area Schools compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you.

Significant Audit Findings

*1. Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Morenci Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Estimates have been used to calculate the net pension liability:

The estimated liability is approximately $9,200,000. We evaluated the key factors and assumptions used to develop the balance of the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate in calculating the liability for employee compensated absences:

The estimated liability is approximately $59,000. We evaluated the key factors and assumptions used to develop the balance of employee compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the estimated life span of the capital assets:

We evaluated the key factors and assumptions used to develop the key factors and assumptions used by management in determining that it is reasonable in relation to the financial statements taken as a whole. In addition, certain amounts included in capital assets have been estimated based on an outside appraisal company.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

We did not identify any sensitive disclosures.

*2. Difficulties Encountered in Performing the Audit*

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

*3. Corrected and Uncorrected Misstatements*

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

*4. Disagreements with Management*

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

*5. Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 28, 2016.

*6. Management Consultations with Other Independent Accountants*

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

*7. Other Audit Findings or Issues*

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

*8. Other Matters*

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

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

This information is intended solely for the use of the Board of Education and management of Morenci Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner Costerisan PC