

GLADSTONE AREA SCHOOLS

GLADSTONE, MICHIGAN

**FINANCIAL REPORT WITH
SUPPLEMENTAL INFORMATION**

June 30, 2016

GLADSTONE AREA SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Gladstone Area Schools
Gladstone, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School'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 the Gladstone Area Schools, as of June 30, 2016, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016, on our consideration of the Gladstone Area School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Gladstone Area School's internal control over financial reporting and compliance.

Anderson, Tackman & Company P.C.

September 29, 2016

Certified Public Accountants

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

This section of Gladstone Area School's annual financial report presents our discussion and analysis of the district's financial performance during the year ended June 30, 2016. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand Gladstone Area School's financial position as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds, the General Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The table of contents earlier in this audit report provides you with the list of financial reports contained within the report.

The following summarizes the net position at fiscal year ended June 30, 2015 and 2016:

Assets	<u>2015</u>	<u>2016</u>
Current Assets	\$ 3,937,219	\$ 4,556,933
Capital Assets	<u>17,935,457</u>	<u>17,419,781</u>
Total Assets	<u>\$21,872,676</u>	<u>\$ 21,976,714</u>
 Deferred Outflows of Resources		
Related to Pensions	<u>\$ 2,304,118</u>	<u>\$ 2,314,584</u>
 Liabilities		
Current Liabilities	\$ 3,971,424	\$ 4,340,895
Long-term Liabilities	<u>31,679,637</u>	<u>32,341,656</u>
Total Liabilities	<u>\$35,651,061</u>	<u>\$ 36,682,551</u>
 Deferred Inflows of Resources		
Related to Pensions	<u>\$ 1,813,713</u>	<u>\$ 60,588</u>
 Net Position		
Net Investment in Capital Assets	\$ 2,173,651	\$ 2,812,557
Restricted	601,782	691,280
Unrestricted (Deficit)	<u>(16,063,413)</u>	<u>(15,955,678)</u>
Total Net Position	<u>\$ (13,287,980)</u>	<u>\$ (12,451,841)</u>

GLADSTONE AREA SCHOOLS Management's Discussion and Analysis

The above focuses on net position. Gladstone Area Schools continues to show a large negative net position due to the relatively new Governmental Accounting Standards Board (GASB) pronouncement number 68 which requires a governmental entity's financial statements to recognize its share of its pension fund's underfunding. Gladstone Area Schools is part of the Michigan Public School Employees' Retirement System (MPERS). MPERS' total plan is currently underfunded \$24,425,027,350. Gladstone Area Schools share is \$18,291,881. Though this looks ominous when added to the school's financial statements, the State of Michigan has worked with its actuaries to develop a plan to stabilize the MPERS over the next 25 years.

The School District's net position was \$(12,451,841) as of June 30, 2016. The Net Investment in Capital Assets totaled \$2,812,557. This compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service is reduced. Restricted net assets of \$691,280 are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The remaining \$(15,955,678) represents the accumulated results of all past years' operations. The operating results of the General Fund will have an impact on the change in unrestricted net position from year to year. You will note current assets and long-term liabilities reflect the FY 2012 passing of our construction bond in the amount of \$7,495,000.

CAPITAL ASSETS AND DEBT

Capital Assets - At June 30, 2016, the District had \$17,419,781 (net of depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment.

	<u>2015</u>	<u>2016</u>
Land	\$ 149,340	\$ 149,340
Land Improvements	322,183	322,183
Buildings and Improvements	28,104,274	28,168,579
Vehicles	900,055	1,059,878
Machinery and Equipment	880,029	914,955
Work in Progress	<u>0</u>	<u>74,571</u>
Total	30,355,881	30,689,506
Less Accumulated Depreciation	<u>(12,420,424)</u>	<u>(13,269,725)</u>
Net Total	<u>\$17,935,457</u>	<u>\$17,419,781</u>

This was a decrease in capital assets of \$515,676 over last year and includes vehicles, machinery and equipment, and work in progress.

Debt - At the end of this year the District had \$13,540,000 in General Obligation Bonds outstanding. This is a decrease of \$1,035,000, which is the result of principal payments made on the bonds. The District has certain other debt obligations which are discussed in Note H of these financial statements.

GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

OPERATIONS

The results of this year's operations for Gladstone Area Schools as a whole are reported in the statement of activities, which show the changes in net position for fiscal years of 2015 and 2016.

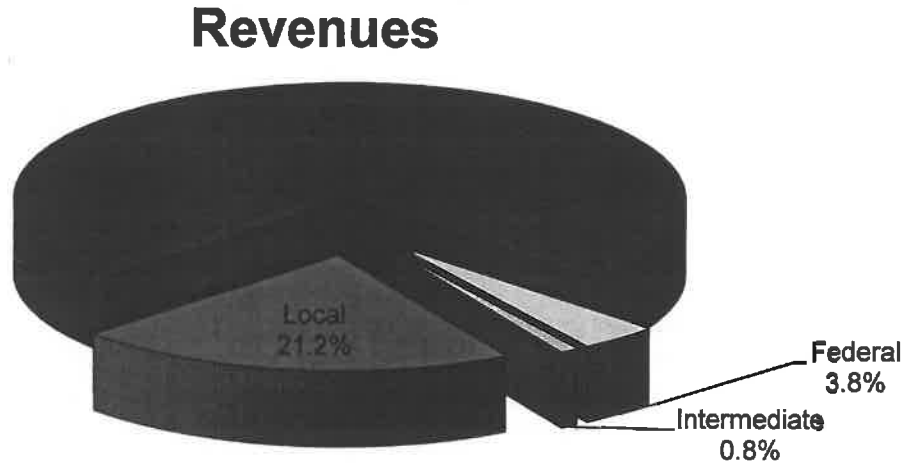
Program Revenues:	<u>2015</u>	<u>2016</u>
Charges for Services	\$ 409,900	\$ 411,554
Operating Grants and Contributions	<u>1,323,634</u>	<u>954,466</u>
Total Program Revenue	<u>\$ 1,733,534</u>	<u>\$ 1,366,020</u>
 General Revenues:		
Property taxes levied for general operations	\$ 1,095,217	\$ 1,246,589
Property taxes levied for debt service	1,521,841	1,590,064
State Foundation Allowance	10,515,967	11,349,473
Other	<u>177,563</u>	<u>205,681</u>
Total General Revenues	<u>\$13,310,588</u>	<u>\$14,391,807</u>
 Total Revenues	 <u>\$15,044,122</u>	 <u>\$15,757,827</u>
 Expenses:		
Instruction	\$ 7,581,334	\$ 8,244,133
Support Services	4,399,677	4,365,246
Depreciation-Unallocated	874,510	849,301
Interest on Long-Term Debt	535,534	492,475
Athletics	239,998	264,317
Food Services	541,165	606,279
Public Library	103,031	99,937
Loss on Asset Disposal	1,635	0
Other	<u>0</u>	<u>0</u>
Total Expenses	<u>\$14,276,884</u>	<u>\$14,921,688</u>
 Change in net position	 <u><u>\$ 767,238</u></u>	 <u><u>\$ 836,139</u></u>

As indicated above, net position due to operations increased \$836,139. This increase relates directly to the operations of the District during the year.

GLADSTONE AREA SCHOOLS Management's Discussion and Analysis

REVENUES

The following chart illustrates the District's sources of revenues:



Sources of Revenues - Local sources of revenues total \$3,343,192 and include revenues to the General Fund of \$1,413,381, School Lunch Fund of \$246,768, Public Library Fund of \$92,979 and Debt Retirement Fund of \$1,590,064. Local sources of revenue make up 21.2% of General Fund Revenues. This is up .5% from last year.

State sources of revenues total \$11,666,934 and include revenues to the General Fund of \$11,638,481, School Lunch Fund of \$21,462, and the Public Library Fund of \$6,991. State sources of revenue make up 74.1% of General Fund Revenues. This is up .3% from last year.

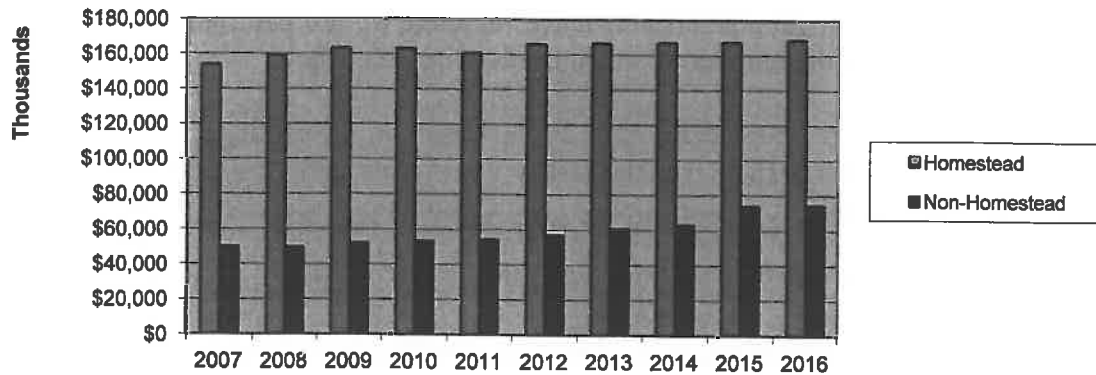
Federal sources of revenues total \$598,627 and include revenues to the General Fund of \$283,199 and School Lunch Fund of \$315,428. Federal sources of revenue make up 3.8% of General Fund Revenues. This is down .7% from last year.

Intermediate sources of revenues total \$132,538 and are made up entirely of General Funds. Intermediate sources of revenue make up .8% of General Fund Revenues. This is down .2% from last year.

Property Taxes - A significant portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Fund. Property tax revenue totaled \$2,836,653. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations and a voter approved 6.59-mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal. The following graph illustrates the taxable value trend over the last several years:

GLADSTONE AREA SCHOOLS Management's Discussion and Analysis

Taxable Values

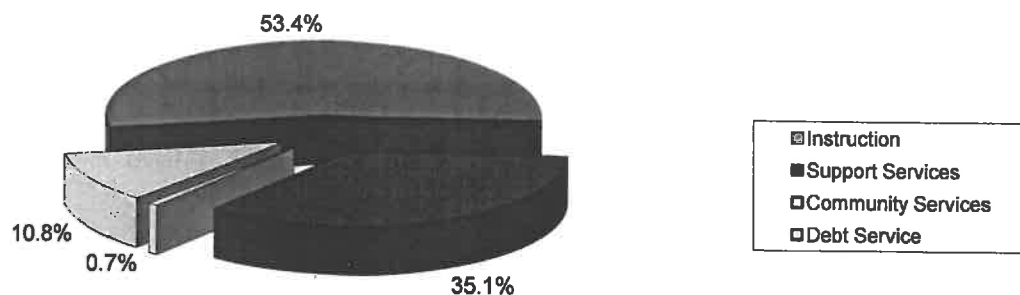


Unrestricted State Aid Foundation Allowance - The largest factor affecting our funding is the state's foundation allowance. The foundation allowance is funding from the state for each student. Our foundation allowance was \$7,391 per student for the 2015-2016 fiscal year. Funding is calculated by student enrollment and is a blend of 90% of current year fall count and 10% of the current year spring count. The state also has a mechanism to add or subtract funding to districts for students entering or exiting a district between count days. The blended student enrollment for fiscal year 2015-2016 was 1,568.72. The per student funding was then reduced by the District's non-homestead tax revenues (18.0 mills) and by the District's commercial personal property tax revenues (6.0 mills).

EXPENDITURES

The following chart illustrates the District's expenditures. Total Governmental Fund Expenditures are \$15,521,122 and include Instruction of \$8,194,031, Support Services of \$5,569,467, Community Services of \$99,937 and Debt Service of \$1,657,687. School Lunch Fund and Athletic Fund Expenses are included in Support Services.

Expenditures



GLADSTONE AREA SCHOOLS

Management's Discussion and Analysis

ECONOMIC FACTORS AFFECTING OUR BUDGET

The Board of Education and administration considered many factors when setting the School District's 2016 fiscal year budget. Two of the major factors affecting the budget are the State per pupil foundation allowance (amount we are paid per student which is discussed above) and the number of students attending our school.

The 2016 budget was adopted in June 2015, based on an estimate of students to be enrolled in September 2015. Over the last few years our area has been affected by the weak state and federal economies, though our community appears to be headed upward economically at the time of this writing. Our student numbers have stabilized. We continue to develop the Upper Peninsula Virtual Academy, an on-line educational alternative to a classroom based education. Our UPVA student numbers continue to increase since the program began 4 years ago. Birthrates in our area appear to have stabilized as we are beginning to see slightly larger kindergarten classes. We anticipate our kindergarten numbers will be stable or will slightly increase going forward. We also believe that Gladstone Area Schools has positioned itself well to compete for "Schools of Choice" students who are allowed to transfer to our school district from their neighboring school district. Our financial outlook is looking brighter going forward, but we must continue to closely monitor our budget to maximize revenues and reduce expenditures wherever possible.

ORIGINAL vs. REVISED BUDGET

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget three times during the school year. For fiscal year 2015-2016, the budget was revised in November 2015, March 2016, and June 2016.

General Fund Revenues - Budget

Total revenues-June revision	\$13,472,685
Total revenues-original budget	<u>12,913,554</u>
Difference	<u>\$ 559,131</u>

General Fund Revenues - Actual

The District's actual general fund revenues (including interest earned) were \$13,436,006 which is a negative variance of .27% from the June budget revision.

General Fund Expenditures - Budget

Total expenditures (including transfers) - June revision	\$13,457,104
Total expenditures (including transfers) - original budget	<u>12,680,992</u>
Difference	<u>\$ 776,112</u>

GLADSTONE AREA SCHOOLS Management's Discussion and Analysis

General Fund Expenditures - Actual

The District's actual general fund expenditures were \$13,307,440 which is a positive variance of 1.11% from the June budget revision.

Fund Balance – Budget versus Actual

The June budget amendment projected a year end increase of \$15,581 to our fund balance. There was an actual increase in fund balance of \$128,566.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's Office at Gladstone Area Schools, 400 South Tenth Street, Gladstone, Michigan, 49837.

GLADSTONE AREA SCHOOLS

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Equivalents	\$ 2,155,191
Accounts Receivable	2,307,278
Prepays	83,887
Inventories	<u>10,577</u>
Total Current Assets	<u>4,556,933</u>
Non-Current Assets:	
Capital Assets - net	<u>17,419,781</u>
TOTAL ASSETS	<u>\$ 21,976,714</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Related to Pensions	<u><u>\$ 2,314,584</u></u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	\$ 285,350
Notes Payable	1,375,000
Interest Payable	72,620
Accrued Payroll and Fringes	1,188,991
Current Maturities of Long-Term Debt	<u>1,418,934</u>
Total Current Liabilities	<u>4,340,895</u>
Non-Current Liabilities:	
Net Pension Liability	18,291,881
Bonds Payable	14,538,129
Notes Payable	69,095
Compensated Absences Payable	335,593
Early Retirement Payable	525,892
Less Current Maturities Reported Above	<u>(1,418,934)</u>
Total Non-Current Liabilities	<u>32,341,656</u>
TOTAL LIABILITIES	<u><u>\$ 36,682,551</u></u>
DEFERRED INFLOWS OF RESOURCES:	
Related to Pensions	<u><u>\$ 60,588</u></u>
NET POSITION:	
Net Investment in Capital Assets	\$ 2,812,557
Restricted for:	
Debt Service	691,280
Unrestricted	<u>(15,955,678)</u>
TOTAL NET POSITION	<u><u>\$(12,451,841)</u></u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS**STATEMENT OF ACTIVITIES**

For the year ended June 30, 2016

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position - Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Instruction:				
Basic Programs	\$ 7,012,504	\$ 103,070	\$ 33,945	\$ (6,875,489)
Added Needs	1,231,629	-	557,975	(673,654)
Total Instruction	8,244,133	103,070	591,920	(7,549,143)
Support Services:				
Pupil	550,184	-	-	(550,184)
Instructional Staff	271,909	-	-	(271,909)
General Administration	262,167	-	-	(262,167)
School Administration	1,234,254	-	-	(1,234,254)
Business	230,261	-	-	(230,261)
Operation and Maintenance	979,484	-	-	(979,484)
Pupil Transportation	723,969	-	-	(723,969)
Activities Office	33,025	-	-	(33,025)
School Improvement	-	-	-	-
Outgoing Transfers	79,993	-	-	(79,993)
Total Support Services	4,365,246	-	-	(4,365,246)
Other:				
Depreciation - Unallocated	849,301	-	-	(849,301)
Interest on Long-Term Debt	492,475	-	-	(492,475)
Athletics	264,317	45,908	-	(218,409)
Food Services	606,279	246,768	336,891	(22,620)
Public Library	99,937	15,808	25,655	(58,474)
Loss on asset disposal	-	-	-	-
Other	-	-	-	-
Total Other	2,312,309	308,484	362,546	(1,641,279)
Total Governmental Activities	\$ 14,921,688	\$ 411,554	\$ 954,466	(13,555,668)
General Revenues:				
Taxes:				
Property Taxes Levied for General Operations				1,246,589
Property Taxes Levied for Debt Service				1,590,064
State Aid Formula Grants				11,349,473
Medicaid				29,920
Investment Earnings				30,316
City of Gladstone Public Library Appropriation				15,245
Penal Fines for Public Library Operations				43,263
Rental of School Facilities				6,026
Miscellaneous Sources				80,911
Total General Revenues				14,391,807
CHANGE IN NET POSITION				836,139
Net Position, Beginning of Year				(13,287,980)
NET POSITION, END OF YEAR				<u>\$(12,451,841)</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2016

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and Equivalents	\$ 1,240,905	\$ 691,037	\$ 223,249	\$ 2,155,191
Accounts Receivable	2,294,229	593	13,306	2,308,128
Due from Other Funds	38,010	-	60,493	98,503
Prepays	83,887	-	-	83,887
Inventories	-	-	10,577	10,577
TOTAL ASSETS	\$ 3,657,031	\$ 691,630	\$ 307,625	\$ 4,656,286
LIABILITIES:				
Accounts Payable	\$ 259,143	\$ -	\$ 26,207	\$ 285,350
Notes Payable	1,375,000	-	-	1,375,000
Due to Other Funds	-	350	99,003	99,353
Unearned Revenue	86,511	-	-	86,511
Accrued Payroll and Fringes	1,188,991	-	-	1,188,991
TOTAL LIABILITIES	2,909,645	350	125,210	3,035,205
FUND BALANCES:				
Nonspendable				
Prepaid Expenses	83,887	-	-	83,887
Inventory	-	-	10,577	10,577
Restricted				
Debt Service	-	691,280	-	691,280
Assigned				
Debt Service	146,000	-	-	146,000
Public Library	-	-	14,311	14,311
Capital Projects	-	-	168,104	168,104
Unassigned	517,499	-	(10,577)	506,922
TOTAL FUND BALANCES	747,386	691,280	182,415	1,621,081
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,657,031	\$ 691,630	\$ 307,625	\$ 4,656,286

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2016

Total fund balances - governmental funds	\$ 1,621,081
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Amounts reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets is \$30,689,506, and the accumulated depreciation is \$13,269,725.	17,419,781
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Deferred outflows of resources related to pensions	2,314,584
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Long-term assets that are not available to pay for current period expenditures and are shown as deferred in the specific governmental funds.	86,511
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the specific governmental funds. Long-term liabilities at year-end consist of the following:

Net pension liability	\$ 18,291,881	
Bonds payable	14,538,129	
Installment notes payable	69,095	
Accrued interest on bonds and notes	72,620	
Compensated absences	335,593	
Early retirement payable	<u>525,892</u>	(33,833,210)

Deferred inflows of resources related to pensions	<u>(60,588)</u>
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Total net position - governmental activities	<u><u>\$ (12,451,841)</u></u>
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See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the year ended June 30, 2016

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Local Sources	\$ 1,413,381	\$ 1,590,064	\$ 339,747	\$ 3,343,192
State Sources	11,638,481	-	28,453	11,666,934
Federal Sources	283,199	-	315,428	598,627
Intermediate Sources	132,538	-	-	132,538
Other	-	-	-	-
TOTAL REVENUES	13,467,599	1,590,064	683,628	15,741,291
EXPENDITURES:				
Instruction:				
Basic Programs	6,962,402	-	-	6,962,402
Added Needs	1,231,629	-	-	1,231,629
Total Instruction	8,194,031	-	-	8,194,031
Support Services:				
Pupil	550,184	-	606,279	1,156,463
Instructional Staff	271,909	-	-	271,909
General Administration	262,167	-	-	262,167
School Administration	1,234,254	-	-	1,234,254
Business	230,261	-	-	230,261
Operation and Maintenance	1,313,109	-	-	1,313,109
Pupil Transportation	723,969	-	-	723,969
Activities Office	33,025	-	-	33,025
School Improvement	-	-	-	-
Outgoing Transfers	79,993	-	-	79,993
Community Services	-	-	99,937	99,937
Capital Outlay	-	-	-	-
Debt Service	144,625	1,513,062	-	1,657,687
Athletics and Bookstore	264,317	-	-	264,317
Total Support Services	5,107,813	1,513,062	706,216	7,327,091
TOTAL EXPENDITURES	13,301,844	1,513,062	706,216	15,521,122
EXCESS REVENUES (EXPENDITURES)	165,755	77,002	(22,588)	220,169
OTHER FINANCING SOURCES (USES):				
Bond Proceeds	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	-
Interest Earned	14,532	12,496	3,288	30,316
Operating Transfers In	-	-	51,721	51,721
Operating Transfers Out	(51,721)	-	-	(51,721)
TOTAL OTHER FINANCING SOURCES (USES)	(37,189)	12,496	55,009	30,316
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	128,566	89,498	32,421	250,485
Fund Balance, Beginning of Year	618,820	601,782	149,994	1,370,596
FUND BALANCE, END OF YEAR	\$ 747,386	\$ 691,280	\$ 182,415	\$ 1,621,081

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2016

Net change in fund balances - total governmental funds \$ 250,485

The change in fund balances reported for governmental activities in the statement of activities is different because:

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense (\$849,301) exceeds capital outlay (\$333,625) (515,676)

Repayment of principal on debt is an expenditure in the governmental funds but reduces the debt liability in the statement of net position. 1,207,540

Revenues in the statement of activities that provide current financial resources are not reported as revenues in the specific governmental funds. (13,780)

In the statement of activities expenses for compensated absences and special termination benefits for early retirement are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount paid out during the year. 19,023

Change in the pension expense for adjustments related to GASB #68 (122,083)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized when the interest accrues, regardless of when it is due. The additional interest reported is a net result of these factors.

10,630

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES

\$ 836,139

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	Private- Purpose Trusts	Agency Funds
ASSETS:		
Cash and Equivalents	\$ 8,080	\$ 792,814
Accounts Receivable	27,350	-
Due from Other Funds	850	-
TOTAL ASSETS	<u>\$ 36,280</u>	<u>\$ 792,814</u>
LIABILITIES:		
Scholarships Payable	\$ 28,450	\$ -
Due to Student Groups	-	107,804
Due to Other Organizations	-	34,218
Deposit Payable	-	650,792
TOTAL LIABILITIES	<u>\$ 28,450</u>	<u>\$ 792,814</u>
NET POSITION		
Reserved for Scholarships	\$ 6,176	
Unreserved	1,654	
TOTAL NET POSITION	<u>\$ 7,830</u>	

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2016

	Private- Purpose Trusts
ADDITIONS:	
Gifts and Contributions	\$ 28,076
Interest Earned	87
	<hr/>
TOTAL ADDITIONS	28,163
	<hr/>
DEDUCTIONS:	
Scholarships Awarded	27,200
Miscellaneous	1,154
	<hr/>
TOTAL DEDUCTIONS	28,354
	<hr/>
CHANGE IN NET POSITION	(191)
Net Position, Beginning of Year	8,021
	<hr/>
NET POSITION, END OF YEAR	\$ 7,830
	<hr/>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gladstone Area Schools (The District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant policies:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain significant items in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using the full accrual method of accounting for all of the District's activities.
- Fund financial statements that focus on the major funds of the District.

The District has also implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

(1) Reporting Entity – In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units as required under Government Accounting Standards Board Statement number 14, "The Financial Reporting Entity", as amended by GASB Statement number 39. Based upon the criteria outlined in this statement, the financial statements of the Gladstone Area Schools contain all the funds controlled by the District's Board of Education. There are no other entities that meet the criteria to be considered a blended component unit or a discretely presented component of the District, nor is the District a component unit of another entity.

(2) Basic Financial Statements – Government-Wide – The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

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

- Net investment in capital assets – This category consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Restricted – This category consists of net position with constraints placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. There is \$691,280 of restricted net position in the Statement of Net Position due to the provisions of enabling legislation.
- Unrestricted – All other net positions that do not meet the definition of the categories listed above.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The District's functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, and others).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

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

(3) Basic Financial Statements – Fund Financial Statements – The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise its' assets, liabilities, fund balances, revenues and expenditures. Government resources are allocated and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. An emphasis is placed on major funds in the governmental category. The General Fund is always considered a major fund and the remaining funds of the District are considered major if they meet the following criteria:

- a) Total assets, liabilities, revenues or expenditures of the individual governmental fund is at least ten percent of the corresponding total for all funds of that category or type; and
- b) Total assets, liabilities, revenues or expenditures of the individual governmental fund is at least five percent of the corresponding total of all governmental funds combined.

The District reports both the General Fund and the Debt Service Fund as major based on that criteria.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The various funds are grouped in the financial statements in this report into two broad fund categories and five generic fund types as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the activities of specific school service revenue sources such as the School Lunch Fund and the Public Library Fund.

Capital Project Funds - Capital project funds are used to account for financial resources to be used specifically for the acquisition, construction, or major repair of major capital facilities or other capital assets, including equipment. The Major Maintenance Fund, Energy Bonds, the 2012 Bonds and the Technology Fund are the capital project funds of the School District.

Debt Retirement Funds - Debt retirement funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the school district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Private Purpose Trust Funds and Agency Funds.

- a. Private-Purpose Trust Funds – Private-Purpose trust funds are used to account for the receipts and expenditures of assets held under a trust agreement. The Private-Purpose trust funds maintained by the District are the Scholarship Fund and the Health Services Fund.
- b. Agency Funds - Agency funds are used to account for assets held by the District as trustee or agent for individuals, private organizations and other governmental units. The agency funds maintained by the District are the Middle School Activity, the High School Activity, the James T. Jones Activity Fund, the Foundation Trust Fund and the Energy Bond Trust Fund.

(4) Measurement Focus and Basis of Accounting – The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus. The government-wide financial statements use the economic resources measurement focus.

- a. Accrual Basis – Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- b. Modified Accrual Basis – The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when the resource is both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized when the related fund liability is incurred with certain exceptions, such as interest of general long-term debt, which is recognized when due.

(5) Investments – Investments are recorded at fair market value.

(6) Inventory – The General Fund of the District utilizes the purchase method for recording the inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are acquired, regardless of when they are used.

The School Lunch Fund utilizes the consumption method of recording the inventory of food and supplies held for consumption, and accordingly, the inventory is recorded as an expenditure when it is used. This inventory is valued at the lower of cost (first-in, first-out) or market.

(7) Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are reported in the government-wide financial statements or the fund financial statements.

Government-wide Statements

In the government-wide financial statements fixed assets are capitalized. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Donated fixed assets are recorded at their estimated fair market value at the date of donation.

Depreciation on all exhaustible fixed assets is recorded as an unallocated expense in the Statement of Activities with accumulated depreciation being reflected in the Statement of Net Position. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and additions	20 - 50 years
Land improvements	15 - 20 years
Vehicles	8 years
Equipment	5 - 15 years

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. The District maintains a \$5,000 capitalization threshold for fixed assets.

(8) Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid expenditures and inventories as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The District has classified debt service resources as restricted as they can only be used for future servicing of the bonded debt of the District.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District did not have any committed resources as of June 30, 2016.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the District's superintendent. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has various assigned fund balances that are specifically identified on the face of the financial statements.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

For purposes of fund balance classification, expenditures are to be spent from restricted fund balances first (when appropriate), followed in order by assigned fund balance, committed fund balance and lastly, unassigned fund balance.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(9) Pension – 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 School Employees Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(10) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – CASH AND EQUIVALENTS

The composition of cash and equivalents as reported in the Statement of Net Position and the Statement of Fiduciary Net Position is presented below:

Financial statement presentation:

Cash and Equivalents - Governmental Funds	\$ 2,155,191
Cash and Equivalents - Trust & Agency	792,814
Cash and Equivalents - Private Purpose Trusts	<u>8,080</u>
TOTAL	<u>\$ 2,956,085</u>

Composition of balances:

Imprest Cash	\$ 1,487
Deposits:	
Checking Accounts	2,038,882
Savings Accounts	<u>915,716</u>
TOTAL	<u>\$ 2,956,085</u>

Cash and cash equivalents consist primarily of short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks,

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE B – CASH AND EQUIVALENTS (continued)

obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

Interest Rate Risk. The District carries no significant interest rate risk as all of its holdings are in bank accounts with a high degree of liquidity. The District's policies therefore do not address this risk.

Credit Risk. State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. As of year end the District did not hold any commercial paper.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned. At June 30, 2016 the District held \$3,370,931 in checking and savings accounts. Of this amount \$2,579,023 was uninsured and uncollateralized.

Concentration of Credit Risk. The District has no significant concentration of credit risk due to fact that its deposits are with several area banks. The District's policies therefore do not address this risk.

Foreign Currency Risk. The District has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the District are in accordance with statutory authority.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE C – CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
Land (not being depreciated)	\$ 149,340	\$ -	\$ -	\$ 149,340
Land Improvements	322,183	-	-	322,183
Buildings and Improvements	28,104,274	64,305	-	28,168,579
Vehicles	900,055	159,823	-	1,059,878
Machinery and Equipment	880,029	34,926	-	914,955
Work in Progress	-	74,571	-	74,571
Depreciable Assets	30,206,541	333,625	-	30,540,166
Total Assets	30,355,881	333,625	-	30,689,506
Accumulated Depreciation	(12,420,424)	(849,301)	-	(13,269,725)
Net Total	\$ 17,935,457	\$ (515,676)	\$ -	\$ 17,419,781

NOTE D - SCHOOL DISTRICT SCHOLARSHIP FUND

On March 17, 1997, the Gladstone Area School District entered into an agreement to create a charitable scholarship endowment within the Community Foundation for Delta County. The purpose of the fund is to benefit the education and development of graduates of the Gladstone Area School District through scholarships for college or post-secondary education. These assets no longer appear in the financial statements of the Gladstone Area School District. All assets of the fund will be repaid to the School District upon termination of the Community Foundation. Remaining cash in the Gladstone Area School's Scholarship Fund will be used for various miscellaneous scholarships.

NOTE E - ACCRUED FRINGE BENEFITS

The District, as part of the various employment contracts with its personnel, allows for sick and personal days. It also allows the accumulation of compensation hours for its teachers when acting as a substitute teacher. Each employment contract specifies an accumulation policy for these days, as follows:

Sick Leave - The various employment contracts with District personnel stipulate four different methods of accumulating and paying for unused sick leave.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE E – ACCRUED FRINGE BENEFITS (continued)

Teachers - Twelve days are allowed annually, accumulative to 160 days. Due to a contractual early retirement incentive there are no accrued sick leave benefits.

Non-Teaching Employees – Sick leave accumulates according to hours worked where 30 hours worked equals one hour of sick leave earned. There is no maximum. For employees hired before July 1, 1984, up to 120 accumulated days are payable in total at the employee's prevailing rate of pay upon retirement or death. Employees hired July 1, 1984 and thereafter are paid for one-half of their accumulated sick days (maximum accumulation of 120 days) multiplied by their prevailing rate of pay upon retirement or death. Employees hired after July 1, 2005 shall not accumulate any sick days.

Administrators - Fifteen days per year are allowed for all administrators, with a maximum accumulation of 170 days at any year end. Accumulated days are payable to administrators with 10 years employment upon severance, retirement or death. The amount payable is at a rate that varies from 60 percent to 85 percent of the administrator's daily rate of pay at retirement or death multiplied by the number of accumulated unused sick days up to a maximum of 180 days.

Superintendent – Fifteen days per year are allowed, accumulative to 180 days. Accumulated days are payable in total at 85% of the superintendent's actual rate of pay, upon severance, retirement or death.

The total unused sick leave earned as of June 30, 2016 has been calculated to be \$416,546. When subject to maximum days payable the amount is \$416,546. The accrued liability of \$293,801 represents the amount expected to be paid upon retirement or death for employees who have vested.

Personal Business Days - Teachers and administrators will be credited with three personal business days per school year, with an accumulation to a maximum of five days. Non-teaching employees will be credited with three personal days per school year. A teacher may elect to either receive a reimbursement for unused personal days, up to a maximum of five days at the rate of a substitute teacher's daily salary, or to carry two personal days to the next year. Teachers and administrators add unused personal days to accumulated sick leave. Non-teaching employees may carry two personal days over to the next fiscal year. The accrued liability for unused personal days as of June 30, 2016 amounted to \$18,353.

Compensation Hours – Teachers earn compensation hours when acting as a substitute teacher. The total compensation hours earned as of June 30, 2016 has been calculated to be \$23,439.

Early Retirement Incentive – Beginning with the year ended June 30, 2011, eligible employees have been allowed to participate in an early retirement incentive plan. The current employment contracts with teachers allow the option of early retirement to those employees who meet state requirements for retirement. Qualified retirees shall receive an early retirement incentive of up to \$1,150 per month for a period of up to six years. At June 30, 2016, 27 retirees were receiving early retirement incentive payments from early retirement incentive programs. The total estimated early retirement incentive liability under current employment contracts as of June 30, 2016 amounted to \$525,892.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE F - UNEARNED REVENUE

Unearned revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Unearned revenue represents unexpended funds received or receivable from state and federal project grants. Unearned revenue at June 30, 2016 consisted of the following:

General Fund:	
Durant	\$ 28,813
2% Grants	24,911
Other	<u>32,787</u>
 TOTAL	 <u>\$ 86,511</u>

NOTE G – SHORT-TERM DEBT

The District's short-term debt activity, used solely for the purpose of operating cash flow, was as follows:

	Balance June 30, 2015	Additions	Repayments	Balance June 30, 2016
Michigan Municipal Bond Authority	<u>\$ 922,456</u>	<u>\$ 1,375,000</u>	<u>\$ 922,456</u>	<u>\$ 1,375,000</u>

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT

The following is a summary of the changes in general long-term debt for the year ending June 30, 2016:

	Energy Bonds	Obligation Bonds	Notes Payable	Fringe Benefits	Total
Beginning Balance	\$ 1,105,856	\$ 14,575,000	\$ 80,950	\$ 933,466	\$ 16,695,272
Additions	-	-	-	122,969	122,969
Retirements	<u>(107,727)</u>	<u>(1,035,000)</u>	<u>(11,855)</u>	<u>(194,950)</u>	<u>(1,349,532)</u>
Ending Balance	<u>\$ 998,129</u>	<u>\$ 13,540,000</u>	<u>\$ 69,095</u>	<u>\$ 861,485</u>	<u>\$ 15,468,709</u>

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)

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

General Obligation Bonds

May 8, 2012 bonds for the purpose of District renovations. Payable in principle installments ranging from \$240,000 to \$1,060,000 from May 1, 2013 to May 1, 2026. Interest is due semi-annually on May 1 and November 1 with rates ranging from 2.0% to 3.5%.

\$ 6,535,000

February 5, 2008 used to refund a portion of the 1998 Refunding Bonds due and payable May 1, 2009 through May 1, 2018, inclusive, May 1, 2023 and May 1, 2026. Principal payments are due in annual installments varying from \$90,000 to the final principal payment of \$370,000 due May 1, 2026. Interest is due semiannually with variable rates ranging from 4.00% to 4.25%.

3,800,000

February 26, 2014 issue used to refund the November 8, 2004 issue due in annual installments varying from \$275,000 to \$400,000 with the final principal payment being due on May 1, 2026. Interest is due semiannually at variable rates ranging from 2.0% to 3.5%

3,205,000

TOTAL GENERAL OBLIGATION BONDS \$ 13,540,000

Notes Payable

Payable to bank, original loan amount of \$155,000, due in annual installments through 2019, including interest calculated at 3.85%.

\$ 69,095

Energy Bonds

Payable to bank, original issue of \$1,644,491, payable in annual installments of \$107,727 through 2024, not including interest earned on the deposits at .25%.

\$ 998,129

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)

The estimated debt service requirements for principal to maturity as of June 30, 2016, with the exception of the accrued fringe benefits other than early retirement, are as follows:

<u>Year Ending 6/30</u>	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Early Retirement Incentives</u>	<u>Principal Total</u>	<u>Interest Total</u>
2017	\$ 1,172,727	\$ 16,308	\$ 146,000	\$ 1,335,035	\$ 422,422
2018	1,212,727	16,935	146,950	1,376,612	388,244
2019	1,272,727	17,587	106,000	1,396,314	348,792
2020	1,337,727	18,265	70,575	1,426,567	307,365
2021	1,407,727	-	32,917	1,440,644	263,862
2022-2026	8,134,494	-	23,450	8,157,944	571,572
TOTAL	\$ 14,538,129	\$ 69,095	\$ 525,892	\$ 15,133,116	\$ 2,302,257

Accrued Employee Benefits

Accrued employee benefits included in general long-term debt is for the accumulated terminal leave built up by employees from vacation and personal days, as is further discussed in Note E. The accumulated employee benefits included in general long-term debt at June 30, 2016 was \$861,485.

The debt service requirements for accrued employee benefits (except for early retirement incentives) are dependent upon future employee retirements and terminations. Thus future payments are unknown at June 30, 2016.

Of the above debt, the Debt Service Fund is paying the general obligation bonds payable, the General Fund is paying the notes payable, the early retirement incentive and the fringe benefits, and the Energy Bond Trust is paying on the energy bonds.

NOTE I – INTERFUND ACTIVITY

During the year the District had interfund activity that was for operational purposes. The General Fund (major fund) transferred the following funds (all nonmajor funds): Athletic Fund - \$218,192; School Lunch Fund - \$21,721; Technology Capital Projects Fund - \$15,000; and the Major Maintenance Capital Projects Fund - \$15,000. For the government-wide financial statements this interfund activity has been eliminated.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE I – INTERFUND ACTIVITY (continued)

As of the fiscal year end, the following nonmajor funds had due to amounts recorded: Athletic Fund \$1,165, Public Library \$14,894, School Lunch \$84,109 and Debt Service \$350. The General Fund (major fund) had a \$39,175 due to other funds recorded at year end. The following nonmajor funds also had due to other funds at year end – Major Maintenance Capital Projects Fund \$30,227, Technology Capital Projects Fund \$30,227, 2012 Bond Capital Projects Fund \$39 and the Scholarship Fund \$850. With the exception of the Scholarship Fund, these balances have been eliminated on the government-wide financial statements.

NOTE J - PROPERTY TAXES

Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1 and payable by February 28 of the subsequent year. The School District tax is collected by the various local tax collecting units (townships, cities, etc.). Any real property taxes that are delinquent at March 1 are purchased by the Delta County Delinquent Tax Revolving Fund, thereby reducing the School District taxes receivable to only those personal property taxes which are uncollected and delinquent. The District maximum tax rates are 18.00 mills per \$1,000 taxable value on non-homestead property for general operations and 6.59 mills per \$1,000 taxable value on both homestead and non-homestead property for debt retirement. The District also levies 6.00 mills on commercial personal property.

NOTE K - RETIREMENT PLAN

Plan Description

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

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

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

Benefits Provided

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE K - RETIREMENT PLAN (Continued)

are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Contributions and Funded Status

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

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

valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year.

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

Pension Contribution Rates		
<u>Benefit Structure</u>	<u>Member</u>	<u>Employer</u>
Basic	0.0 - 4.0 %	22.52 - 23.07 %
Member Investment Plan	3.0 - 7.0	22.52 - 23.07
Pension Plus	3.0 - 6.4	21.99
Defined Contribution	0	17.72 - 18.76

Required contributions to the pension plan from the District were \$1,444,724 for the year ended September 30, 2015.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE K - RETIREMENT PLAN (Continued)

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

At June 30, 2016, the District reported a liability of \$18,291,881 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportionate share percent was 0.07488991 percent, which was an increase of .0004099 percent from its proportion measured as of September 30, 2014.

For the year ended June 30, 2016 the District recognized pension expense of \$1,567,816. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 60,588
Changes of assumptions	450,385	-
Net difference between projected and actual earnings on pension plan investments	93,365	-
Changes in proportion and differences between District contributions and proportionate share of contributions	80,621	-
District contributions subsequent to the measurement date	1,690,213	-
Total	\$ 2,314,584	\$ 60,588

\$1,690,213 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE K - RETIREMENT PLAN (Continued)

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

Deferred (Inflows) and Deferred Outflows of Resources by Year (to be Recognized in Future Pension Expenses)

Plan Year Ended September 30	Amount
2016	\$ 73,089
2017	73,089
2018	48,629
2019	368,976

Actuarial Assumptions

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

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions

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

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE K - RETIREMENT PLAN (Continued)

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

Notes:

- Assumption changes as a result of an experience study for the 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 total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr).

Long-Term Expected Return on Plan Assets

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.9 %
% Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
Total	<u>100.0 %</u>	

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

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE K - RETIREMENT PLAN (Continued)

Discount Rate

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

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

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

Current Single Discount		
1% Decrease	Rate Assumption	1% Increase
(Non-Hybrid/Hybrid)*	(Non-Hybrid/Hybrid)*	(Non-Hybrid/Hybrid)*
7.0% / 6.0%	8.0% / 7.0%	9.0% / 8.0%
\$ 23,582,923	\$ 18,291,881	\$ 13,831,315

*The Basic plan and the Member Investment Plan (MIP) are non-hybrid plans. Pension Plus is a hybrid plan, with a defined benefit (pension) component and a defined contribution (DC) component.

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

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 MPERS CAFR (www.michigan.gov/documents/orsschools/MPERS_CAFR_2015_Final_510211_7.pdf).

Pension Payable

Pension payable consisted of \$283,824 in the General Fund and \$482 in the Library Fund. This is a result of legally required contributions to the pension plan arising out of employee contract balances owed but unpaid as of June 30, 2016. These contributions are due to the pension plan within 7 business days after the pay period end date.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE L - STATE FOUNDATION REVENUE

For the fiscal year ended June 30, 1995 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on 10 percent of pupil membership count taken in February of 2015 and 90 percent of pupil membership count taken in October of 2015.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills and up to 6 mills on commercial personal property. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October through August. The local revenue is recognized as outlined in Note J which discusses property taxes.

NOTE M - BUDGETS AND BUDGETARY ACCOUNTING

The School District follows the procedures below in establishing the budgetary data reflected in the financial statements.

1. In June, the superintendent submits to the School Board proposed operating budgets for the fiscal year commencing the following July 1. Proposed budgets include projected expenditures and the means of financing them.
2. Numerous opportunities exist for public comment during the budget process, including at least two formal public hearings.
3. At the June School Board meeting, the budgets for the ensuing year are legally enacted through adoption by the Board and reference thereto in the Board minutes.
4. The general statute governing District budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE M – BUDGETS AND BUDGETARY ACCOUNTING (continued)

5. The Gladstone School District adopts its annual budgets on a program basis. The program is defined in a formal budget structure and glossary of terms adopted by Board action. The program budget structure consists of five levels of detail as follows:

Resource allocation
Major functional group
Department
Program
Activity

At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board, i.e., department, program, or activity level.

6. A detailed line item breakdown is prepared for each program, for the purpose of accounting control. Since each budget is adopted at a program level rather than the detailed line item level, transfers between line items are allowable without Board approval. Board approval is required for revision of any program budget.
7. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts in the financial statements are as originally adopted or amended by the School Board. Any unexpended appropriations lapse at year-end.

NOTE N – 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 property and casualty. 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 assessments 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 had no outstanding claims that exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years. The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

GLADSTONE AREA SCHOOLS

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

NOTE O - OTHER COMMITMENTS AND CONTINGENCIES

The District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the District as of June 30, 2016.

NOTE P – ATHLETIC FUND

To be in compliance with the guidelines issued under GASB Statement Number 54 the District has combined the Athletic Fund with the General Fund. A Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance for these two funds can be found on pages 46 and 47. Accordingly, all interfund activity between the Athletic and General Fund has been eliminated upon the combining of the funds.

NOTE Q – FORM R7120/GRANT AUDITOR REPORT RECONCILIATION

The amounts reported on the R7120 Grant Auditor Report reconcile with the amounts listed in these financial statements.

NOTE R – USDA COMMODITIES AGREEMENT

The amounts reported in these financial statements agree with the Recipient Entitlement Balance Report for the USDA Donated Food Commodities for the District.

NOTE S – SINGLE AUDIT

Because the District did not have \$750,000 or more in federal expenditures during the fiscal year the District was not required to have a Single Audit under the Uniform Guidance.

REQUIRED SUPPLEMENTAL INFORMATION

GLADSTONE AREA SCHOOLS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

For the year ended June 30, 2016

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Local Sources	\$ 1,307,044	\$ 1,391,425	\$ 1,367,473	\$ (23,952)
State Sources	11,114,292	11,647,018	11,638,481	(8,537)
Federal Sources	427,584	288,621	283,199	(5,422)
Intermediate Sources	64,634	131,257	132,538	1,281
TOTAL REVENUES	12,913,554	13,458,321	13,421,691	(36,630)
EXPENDITURES:				
Instruction:				
Basic Programs	6,414,862	7,060,378	6,962,402	97,976
Added Needs	1,161,535	1,211,038	1,231,629	(20,591)
Support Services:				
Pupil	619,700	551,942	550,184	1,758
Instructional Staff	267,300	285,108	271,909	13,199
General Administration	328,989	268,896	262,167	6,729
School Administration	1,060,938	1,253,581	1,234,254	19,327
Business Office	266,583	231,931	230,261	1,670
Operations and Maintenance	1,379,727	1,336,335	1,313,109	23,226
Pupil Transportation	631,481	731,789	723,969	7,820
School Improvement	1,455	-	-	-
Activities Office	69,417	32,123	33,025	(902)
Other	-	79,993	79,993	-
Debt Service:				
Principal	-	123,453	123,453	-
Interest	-	18,242	21,172	(2,930)
TOTAL EXPENDITURES	12,201,987	13,184,809	13,037,527	147,282
EXCESS REVENUES (EXPENDITURES)	711,567	273,512	384,164	110,652
OTHER FINANCING SOURCES (USES):				
Interest Earned	-	14,364	14,315	(49)
Operating Transfers In	-	-	-	-
Operating Transfers Out	(479,005)	(272,295)	(269,913)	2,382
TOTAL OTHER FINANCING SOURCES (USES)	(479,005)	(257,931)	(255,598)	2,333
NET CHANGE IN FUND BALANCES	232,562	15,581	128,566	112,985
Fund Balance, Beginning of Year	618,820	618,820	618,820	-
FUND BALANCE, END OF YEAR	\$ 851,382	\$ 634,401	\$ 747,386	\$ 112,985

GLADSTONE AREA SCHOOLS**BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND**

For the year ended June 30, 2016

	<u>Budgeted Amounts</u>			<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable</u>
				<u>(Unfavorable)</u>
REVENUES:				
Local Sources:				
Property Tax Levy	\$ 1,518,378	\$ 1,589,471	\$ 1,590,064	\$ 593
Other	-	-	-	-
TOTAL REVENUES	<u>1,518,378</u>	<u>1,589,471</u>	<u>1,590,064</u>	<u>593</u>
EXPENDITURES:				
Debt Service:				
Principal	1,010,000	1,035,000	1,035,000	-
Interest and Fiscal Charges	<u>506,411</u>	<u>478,062</u>	<u>478,062</u>	<u>-</u>
TOTAL EXPENDITURES	<u>1,516,411</u>	<u>1,513,062</u>	<u>1,513,062</u>	<u>-</u>
EXCESS REVENUES (EXPENDITURES)	<u>1,967</u>	<u>76,409</u>	<u>77,002</u>	<u>593</u>
OTHER FINANCING SOURCES (USES):				
Bond Proceeds	-	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	-
Interest Earned	<u>9,775</u>	<u>12,360</u>	<u>12,496</u>	<u>136</u>
TOTAL OTHER FINANCING SOURCES (USES):	<u>9,775</u>	<u>12,360</u>	<u>12,496</u>	<u>136</u>
NET CHANGE IN FUND BALANCES	<u>11,742</u>	<u>88,769</u>	<u>89,498</u>	<u>729</u>
Fund Balance, Beginning of Year	<u>601,782</u>	<u>601,782</u>	<u>601,782</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 613,524</u>	<u>\$ 690,551</u>	<u>\$ 691,280</u>	<u>\$ 729</u>

GLADSTONE AREA SCHOOLS

SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

For the year ended September 30, 2015

	<u>2015</u>	<u>2014</u>
Proportion of net pension liability	0.07488991%	0.07448%
Proportionate share of net pension liability	\$ 18,291,881	\$ 16,406,207
Covered employee payroll	\$ 6,388,473	\$ 6,269,009
Proportionate share of net pension liability as a percentage of covered employee payroll	34.92518%	38.21120%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

GLADSTONE AREA SCHOOLS

SCHEDULE OF CONTRIBUTIONS

For the year ended June 30, 2016

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 1,444,724	\$ 1,329,216
Contributions in relation to statutorily required contributions	<u>1,444,724</u>	<u>1,329,216</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 6,432,565	\$ 6,450,399
Contributions as a percentage of covered employee payroll	22.46%	20.61%

GLADSTONE AREA SCHOOLS

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

Changes of benefit terms: There were no changes of benefit terms in 2016.

Changes of assumptions: There were no changes of benefit assumptions in 2016.

OTHER SUPPLEMENTAL INFORMATION

GLADSTONE AREA SCHOOLS
COMBINING BALANCE SHEET
GENERAL AND ATHLETIC FUNDS

June 30, 2016

	<u>General</u>	<u>Athletics and Bookstore</u>	<u>Total</u>
ASSETS:			
Cash and Equivalents	\$ 1,237,011	\$ 3,894	\$ 1,240,905
Accounts Receivable	2,292,011	2,218	2,294,229
Due from Other Funds	39,175	-	39,175
Prepays	<u>83,887</u>	<u>-</u>	<u>83,887</u>
TOTAL ASSETS	<u>\$ 3,652,084</u>	<u>\$ 6,112</u>	<u>\$ 3,658,196</u>
LIABILITIES:			
Accounts Payable	\$ 254,196	\$ 4,947	\$ 259,143
Notes Payable	1,375,000	-	1,375,000
Due to Other Funds	-	1,165	1,165
Interest Payable	-	-	-
Unearned Revenue	86,511	-	86,511
Accrued Payroll and Fringes	<u>1,188,991</u>	<u>-</u>	<u>1,188,991</u>
TOTAL LIABILITIES	<u>2,904,698</u>	<u>6,112</u>	<u>2,910,810</u>
FUND BALANCES:			
Nonspendable			
Prepaid expenses	83,887	-	83,887
Assigned			
Debt Service	146,000	-	146,000
Unassigned	<u>517,499</u>	<u>-</u>	<u>517,499</u>
TOTAL FUND BALANCES	<u>747,386</u>	<u>-</u>	<u>747,386</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,652,084</u>	<u>\$ 6,112</u>	<u>\$ 3,658,196</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL AND ATHLETIC FUNDS**

For the year ended June 30, 2016

	General	Athletics and Bookstore	Total
REVENUES:			
Local Sources	\$ 1,367,473	\$ 45,908	\$ 1,413,381
State Sources	11,638,481	-	11,638,481
Federal Sources	283,199	-	283,199
Intermediate Sources	132,538	-	132,538
TOTAL REVENUES	13,421,691	45,908	13,467,599
EXPENDITURES:			
Instruction:			
Basic Programs	6,962,402	-	6,962,402
Added Needs	1,231,629	-	1,231,629
Total Instruction	8,194,031	-	8,194,031
Support Services:			
Pupil	550,184	-	550,184
Instructional Staff	271,909	-	271,909
General Administration	262,167	-	262,167
School Administration	1,234,254	-	1,234,254
Business Office	230,261	-	230,261
Operation and Maintenance	1,313,109	-	1,313,109
Pupil Transportation	723,969	-	723,969
Activities Office	33,025	-	33,025
School Improvement	-	-	-
Other	79,993	-	79,993
Debt Service	144,625	-	144,625
Athletics and Bookstore	-	264,317	264,317
Total Support Services	4,843,496	264,317	5,107,813
TOTAL EXPENDITURES	13,037,527	264,317	13,301,844
EXCESS REVENUES (EXPENDITURES)	384,164	(218,409)	165,755
OTHER FINANCING SOURCES (USES):			
Interest Earned	14,315	217	14,532
Operating Transfers In	-	218,192	218,192
Operating Transfers Out	(269,913)	-	(269,913)
TOTAL OTHER FINANCING SOURCES (USES)	(255,598)	218,409	(37,189)
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	128,566	-	128,566
Fund Balance, Beginning of Year	618,820	-	618,820
FUND BALANCE, END OF YEAR	\$ 747,386	\$ -	\$ 747,386

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2016

	Nonmajor Special Revenue Funds			Nonmajor Capital Project Funds			Total Nonmajor Governmental Funds
	School Lunch	Public Library	Technology Fund	Major Maintenance	Energy Bonds	2012 Bonds	
ASSETS:							
Cash and Equivalents	\$ 89,918	\$ 25,720	\$ -	\$ -	\$ 107,611	\$ -	\$ 223,249
Accounts Receivable	7,160	6,146	-	-	-	-	13,306
Due from Other funds	-	-	30,227	30,227	-	39	60,493
Inventory	10,577	-	-	-	-	-	10,577
TOTAL ASSETS	\$ 107,655	\$ 31,866	\$ 30,227	\$ 30,227	\$ 107,611	\$ 39	\$ 307,625
LIABILITIES:							
Accounts Payable	\$ 23,546	\$ 2,661	\$ -	\$ -	\$ -	\$ -	\$ 26,207
Due to Other Funds	84,109	14,894	-	-	-	-	99,003
Accrued Payroll	-	-	-	-	-	-	-
TOTAL LIABILITIES	107,655	17,555	-	-	-	-	125,210
FUND BALANCES							
Nonspendable:							
Inventory	10,577	-	-	-	-	-	10,577
Assigned							
Public Library	-	14,311	-	-	-	-	14,311
Capital projects	-	-	30,227	30,227	107,611	39	168,104
Unassigned	(10,577)	-	-	-	-	-	(10,577)
TOTAL FUND BALANCES	-	14,311	30,227	30,227	107,611	39	182,415
TOTAL LIABILITIES AND FUND BALANCES	\$ 107,655	\$ 31,866	\$ 30,227	\$ 30,227	\$ 107,611	\$ 39	\$ 307,625

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

For the year ended June 30, 2016

	Nonmajor Special Revenue Funds			Nonmajor Capital Project Funds			Total Nonmajor Governmental Funds
	School Lunch	Public Library	Technology Fund	Major Maintenance	Energy Bonds	2012 Bonds	
REVENUES:							
Local Sources	\$ 246,768	\$ 92,979	\$ -	\$ -	\$ -	\$ -	\$ 339,747
State Sources	21,462	6,991	-	-	-	-	28,453
Federal Sources	315,428	-	-	-	-	-	315,428
TOTAL REVENUES	583,658	99,970	-	-	-	-	683,628
EXPENDITURES:							
Support Services - Pupil:							
Food Services	606,279	-	-	-	-	-	606,279
Community Services:							
Library	-	99,937	-	-	-	-	99,937
Capital Outlay	-	-	-	-	-	-	-
TOTAL EXPENDITURES	606,279	99,937	-	-	-	-	706,216
EXCESS REVENUES (EXPENDITURES)	(22,621)	33	-	-	-	-	(22,588)
OTHER FINANCING SOURCES:							
Interest Earned	900	596	227	227	1,338	-	3,288
Operating Transfers In	21,721	-	15,000	15,000	-	-	51,721
Operating Transfers Out	-	-	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES	22,621	596	15,227	15,227	1,338	-	55,009
NET CHANGE IN FUND BALANCES	-	629	15,227	15,227	1,338	-	32,421
Fund Balances, Beginning of Year	-	13,682	15,000	15,000	106,273	39	149,994
FUND BALANCES, END OF YEAR	\$ -	\$ 14,311	\$ 30,227	\$ 30,227	\$ 107,611	\$ 39	\$ 182,415

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF NET POSITION
PRIVATE PURPOSE TRUSTS**

June 30, 2016

	Health Services	Scholarship	Totals
ASSETS:			
Cash and Equivalents	\$ 1,654	\$ 6,426	\$ 8,080
Accounts Receivable	-	27,350	27,350
Due from Other Funds	-	850	850
TOTAL ASSETS	\$ 1,654	\$ 34,626	\$ 36,280
LIABILITIES:			
Scholarships Payable	\$ -	\$ 28,450	\$ 28,450
TOTAL LIABILITIES	\$ -	\$ 28,450	\$ 28,450
NET POSITION:			
Reserved for Scholarships	\$ -	\$ 6,176	\$ 6,176
Unreserved	1,654	-	1,654
TOTAL NET POSITION	\$ 1,654	\$ 6,176	\$ 7,830

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
PRIVATE PURPOSE TRUSTS**

For the year ended June 30, 2016

	<u>Health Services</u>	<u>Scholarship</u>	<u>Totals</u>
ADDITIONS:			
Gifts and Contributions	\$ 1,126	\$ 26,950	\$ 28,076
Interest Earned	-	87	87
TOTAL ADDITIONS	<u>1,126</u>	<u>27,037</u>	<u>28,163</u>
DEDUCTIONS:			
Scholarships Awarded	-	27,200	27,200
Miscellaneous	1,154	-	1,154
TOTAL DEDUCTIONS	<u>1,154</u>	<u>27,200</u>	<u>28,354</u>
CHANGE IN NET POSITION	(28)	(163)	(191)
Net Position, Beginning of Year	<u>1,682</u>	<u>6,339</u>	<u>8,021</u>
NET POSITION, END OF YEAR	<u>\$ 1,654</u>	<u>\$ 6,176</u>	<u>\$ 7,830</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES**

For the year ended June 30, 2016

	Balances 6/30/2015	Additions	Deductions	Balances 6/30/2016
<u>MIDDLE SCHOOL STUDENT COUNCIL</u>				
ASSETS:				
Cash in Bank	\$ 24,203	\$ 28,661	\$ 29,135	\$ 23,729
LIABILITIES:				
Due to Student Groups:				
Builders Club	\$ 810	\$ 321	\$ 356	\$ 775
Music	834	-	150	684
Student Council	14,480	20,694	19,369	15,805
Science Olympiad	338	-	210	128
Athletics	4,732	5,112	6,399	3,445
Cheerleading	172	2,534	1,910	796
Drama	1,438	-	-	1,438
Washington D.C.	913	-	741	172
A Kositski Memorial Fund	486	-	-	486
TOTAL LIABILITIES	\$ 24,203	\$ 28,661	\$ 29,135	\$ 23,729
<u>HIGH SCHOOL ACTIVITY FUND</u>				
ASSETS:				
Cash in Bank	\$ 88,969	\$ 160,448	\$ 179,141	\$ 70,276
LIABILITIES:				
Due to Student Groups				
Class of 2014	4,762	-	4,762	-
Class of 2015	589	-	589	-
Class of 2016	2,365	10,818	7,776	5,407
Class of 2017	1,639	5,155	3,335	3,459
Class of 2018	161	2,054	544	1,671
Class of 2019	-	750	200	550
Class of 2022	684	-	-	684
Band	3,978	10	1,169	2,819
Boys Basketball	2,671	1,856	1,855	2,672
Building Use	978	985	205	1,758
Business	-	218	-	218
Choir	1,315	10	352	973
College Access Network	-	5,000	2,038	2,962
Compass Learning	3,579	2,558	1,116	5,021
Creative Arts Club	1,225	10	33	1,202
Digital Sign	1,687	5,868	3,000	4,555
Drama Club	4,086	1,252	1,132	4,206
EFL Scholarship	1,500	1,500	2,500	500
Football	11,177	10,200	16,577	4,800
Green Team	(256)	836	418	162
Industrial Arts Project	2,563	1,817	2,687	1,693
John Hansen Scholarship	784	-	-	784
Key Club	2,257	8,672	9,467	1,462
National Honor Society	1,196	3,632	3,463	1,365
Natural Helpers	244	-	244	-
Photo Club	417	-	417	-
Quill and Scroll	504	-	-	504
Quiz Bowl	-	401	401	-
Robotics	11,136	51,812	62,948	-
Sanville Scholarship	200	-	200	-
Science Olympiad	2,329	2,443	4,772	-
Senior Magazine	4,051	970	135	4,886
Smith Scholarship	693	-	312	381
Spanish Club	3,783	5,354	5,818	3,319
Student Activities	9,099	6,155	9,939	5,315
Student Council	1,327	4,037	3,187	2,177
Weight Room	20	-	-	20
Yearbook	6,436	5,424	7,109	4,751
Youth in Government	(210)	20,651	20,441	-
TOTAL LIABILITIES	\$ 88,969	\$ 160,448	\$ 179,141	\$ 70,276

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES**

For the year ended June 30, 2016

	<u>Balances 6/30/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances 6/30/2016</u>
<u>JAMES T. JONES ACTIVITY FUND</u>				
ASSETS:				
Cash in Bank	<u>\$ 13,499</u>	<u>\$ 6,536</u>	<u>\$ 6,236</u>	<u>\$ 13,799</u>
LIABILITIES:				
Due to Student Groups	<u>\$ 13,499</u>	<u>\$ 6,536</u>	<u>\$ 6,236</u>	<u>\$ 13,799</u>
<u>FOUNDATION TRUST</u>				
ASSETS:				
Cash in Bank	<u>\$ 33,510</u>	<u>\$ 708</u>	<u>\$ -</u>	<u>\$ 34,218</u>
LIABILITIES:				
Due to Other Organizations	<u>\$ 33,510</u>	<u>\$ 708</u>	<u>\$ -</u>	<u>\$ 34,218</u>
<u>ENERGY BOND TRUST</u>				
ASSETS:				
Cash in Bank	<u>\$ 541,855</u>	<u>\$ 108,937</u>	<u>\$ -</u>	<u>\$ 650,792</u>
LIABILITIES:				
Deposit Payable	<u>\$ 541,855</u>	<u>\$ 108,937</u>	<u>\$ -</u>	<u>\$ 650,792</u>
<u>TOTAL - ALL AGENCY FUNDS</u>				
ASSETS:				
Cash in Bank	<u>\$ 702,036</u>	<u>\$ 305,290</u>	<u>\$ 214,512</u>	<u>\$ 792,814</u>
LIABILITIES:				
Due to Student Groups	<u>\$ 126,671</u>	<u>\$ 195,645</u>	<u>\$ 214,512</u>	<u>\$ 107,804</u>
Due to Other Organizations	<u>33,510</u>	<u>708</u>	<u>-</u>	<u>34,218</u>
Deposit Payable	<u>541,855</u>	<u>108,937</u>	<u>-</u>	<u>650,792</u>
	<u>\$ 702,036</u>	<u>\$ 305,290</u>	<u>\$ 214,512</u>	<u>\$ 792,814</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**SCHEDULE OF TAXABLE VALUATIONS,
TAX RATES AND TAX LEVIES**

June 30, 2016

	<u>Taxable Valuation</u>	<u>Per \$1,000 Valuation</u>	<u>Tax Levy</u>
GENERAL FUND:			
(on Non-Homestead taxable valuation only)			
City of Gladstone	\$ 36,486,733	18.0000	\$ 656,761
Escanaba Township	26,854,248	18.0000	483,376
Brampton Township	5,112,458	18.0000	92,024
TOTALS	<u>\$ 68,453,439</u>	<u>18.0000</u>	<u>\$ 1,232,162</u>
(on commercial personal property)			
City of Gladstone	\$ 2,786,307	6.00	\$ 16,718
Escanaba Township	159,387	6.00	956
Brampton Township	74,558	6.00	447
TOTALS	<u>\$ 3,020,252</u>	<u>6.00</u>	<u>\$ 18,122</u>
DEBT RETIREMENT FUNDS:			
(on total taxable valuation)			
City of Gladstone	\$ 104,990,439	6.59	\$ 691,887
Escanaba Township	108,887,253	6.59	717,567
Brampton Township	26,416,437	6.59	174,084
TOTALS	<u>\$ 240,294,129</u>	<u>6.59</u>	<u>\$ 1,583,538</u>

See accompanying notes to financial statements.

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Kristine P. Berhow, CPA, Principal
Alan M. Stotz, CPA, Principal

OFFICES IN MICHIGAN AND WISCONSIN

Brandy M. Olson, CPA
Gary E. Maynard, CPA, PFS
Kathleen A. Ciantar, CPA

**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
Gladstone Area Schools
Gladstone, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Gladstone Area School's basic financial statements, and have issued our report thereon dated September 29, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Gladstone Area School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Certified Public Accountants

September 29, 2016

