

**NICE COMMUNITY SCHOOL DISTRICT
ISHPEMING, MICHIGAN**

FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
NICE Community School District
300 Westwood Drive
Ishpeming, Michigan 49849

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 NICE Community School District (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note V to the financial statements, in 2015, the School District adopted the following new accounting guidance: GASB Statement No. 68, Accounting and Financial Reporting for Pensions (an Amendment of GASB No. 27) and Financial Reporting for Pensions (an Amendment of GASB No. 27) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an Amendment of GASB No. 68)*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The 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 individual nonmajor fund financial

Board of Education of the
NICE Community School District

statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

October 26, 2015

NICE Community School District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of NICE Community School District's (School District) financial performance provides an overview of the School District's financial activities for the year ended June 30, 2015. Please read it in conjunction with the financial statements, which begin as listed in the table of contents.

FINANCIAL HIGHLIGHTS

- Net position for the School District as a whole was reported at \$(4,692,070). Net position is comprised of 100% governmental activities.
 - As enumerated upon in the notes to the financial statements the School District adopted GASB No. 68 to record its proportionate share of the net pension liability resulting in an overall net position deficit.
- During the year, the School District expenses were \$12,347,088 while revenues from all sources totaled \$13,512,416 resulting in an increase in net position of \$1,165,328.
- The general fund reported a decrease of \$131,391 before other financing sources (uses) and a total increase of \$78,029. This is \$72,597 lower than the forecasted increase of \$150,626. This was a result of revenues being \$10,386 higher than forecasted and expenses being \$83,003 higher than forecasted.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District financially as a whole. The *District-wide Financial Statements* Statement of Net Position and the Statement of Activities (as listed in the table of contents) provide information about the activities of the School District as a whole and present a longer-term view of those finances. The fund financial statements (as listed in the table of contents) present the next level of detail. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant funds (as listed in Note A), with all other funds presented in one column as non-major funds. The remaining statement, the Statement of Fiduciary Net Position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the School District as a whole begins in the section entitled "The School District as a Whole". One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

These two statements report the School District's net position and changes in it. The School District's net position – the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources – is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net position – as reported in the Statement of Activities – is an indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

The Statement of Net Position and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins in the section entitled "The School District's Funds". The fund financial statements (as listed in the table of contents) provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes.

- *Governmental Funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The School District as a Whole

Table 1 provides a summary of the School District's net position as of June 30, 2015:

**Table 1
Net Position**

	Governmental Activities – 2015	Governmental Activities – 2014
Current and other assets	\$5,781,143	\$5,535,455
Capital assets, net	10,580,960	10,098,217
Total Assets	<u>16,362,103</u>	<u>15,633,672</u>
Deferred outflows of resources	<u>2,272,426</u>	<u>-</u>
Current liabilities	3,601,312	3,364,839
Long-term liabilities	18,041,370	3,369,762
Total Liabilities	<u>21,642,682</u>	<u>6,734,601</u>
Deferred inflows of resources	<u>1,683,917</u>	<u>-</u>
Net Position:		
Net investment in capital assets	8,089,910	7,039,598
Restricted	1,280,369	1,351,267
Unrestricted	(14,062,349)	508,206
Total Net Position	<u><u>\$(4,692,070)</u></u>	<u><u>\$8,899,071</u></u>

The School District's net position was \$(4,692,070) at June 30, 2015. Net investment in capital assets totaling \$8,089,910, 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 comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net position for day-to-day operations. The remaining amount of net position of \$(14,062,349) was unrestricted.

The \$(14,062,349) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year. During the current year, the School District adopted GASB No. 68 to record its proportionate share of the net pension liability totaling \$15,232,025. The adoption of GASB No. 68 was the main perpetrator of the large swing in the School District's unrestricted net position as compared to the prior year

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2).

**Table 2
Changes in Net Position**

	Governmental Activities – 2015	Governmental Activities – 2014
Revenues:		
Program Revenues:		
Charges for services	\$414,411	\$392,366
Operating grants and contributions	1,956,513	1,785,377

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

**Table 2
Changes in Net Position (Continued)**

	Governmental Activities – 2015	Governmental Activities – 2014
General Revenues:		
Property taxes	\$4,386,106	\$3,324,373
State sources not restricted to specific program	6,703,580	6,869,685
Investment earnings	5,432	12,869
Gain on sale of fixed assets	-	-
Miscellaneous	46,374	47,379
Total Revenues	<u>13,512,416</u>	<u>12,432,049</u>
Program Expenses:		
Instruction	7,553,259	7,293,119
Supporting services	3,594,364	3,458,491
Community services	39,725	37,298
Food service activities	389,016	419,455
Interest on long-term debt	70,836	75,773
Depreciation – unallocated	700,338	670,499
Total Expenses	<u>12,347,088</u>	<u>11,954,635</u>
Increase (decrease) in net position	1,165,328	477,414
Net position, beginning	-	8,421,657
Net Position, beginning, as restated	<u>(5,857,398)</u>	<u>-</u>
Net Position, Ending	<u>\$ (4,692,070)</u>	<u>\$ 8,899,071</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$12,347,088. Certain activities were partially funded from those who benefited from the programs \$414,411 or by other governments and organizations that subsidized certain programs with grants and contributions \$1,956,513. We paid for the remaining “public benefit” portion of our governmental activities with \$4,386,106 in taxes, \$6,703,580 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position for the year of \$1,165,328.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

**Table 3
Governmental Activities**

	Total Cost of Services	Net Cost of Services
Instruction	\$7,553,259	\$5,844,951
Supporting services	3,594,364	3,326,023
Food service activities	389,016	(5,259)
Depreciation – unallocated	700,338	700,338

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet as listed in the table of contents) reported a combined fund balance of \$2,185,912, an increase of \$7,131 from the beginning of the year.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board of Education revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2015, the School District had \$10,580,960 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See Table 4 below)

Table 4
Capital Assets at Year-End
(net of depreciation)

	Governmental Activities – 2015	Governmental Activities – 2014
Land	\$41,000	\$41,000
Construction in progress	247,092	126,677
Land improvements	253,532	258,364
Buildings and additions	8,846,629	8,361,468
Machinery and equipment	741,078	877,394
Buses and other vehicles	451,629	433,314
Total	<u>\$10,580,960</u>	<u>\$10,098,217</u>

This year's additions of \$1,183,081 included various vehicle purchases, land and building improvements all financed through the sinking fund millage. We present more detailed information about our capital assets in the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Debt

At the end of this year, the School District had \$2,537,630 in bonds and installment loans outstanding as depicted in Table 5 below.

**Table 5
Outstanding Debt at Year-End**

	Governmental Activities – 2015	Governmental Activities – 2014
General obligation bonds	\$2,196,580	\$2,902,264
Installment loans	341,050	213,619
Total	<u>\$2,537,630</u>	<u>\$3,115,883</u>

We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

The Board and administration consider many factors to develop budgets. The 2015-16 budget plans to balance revenues and expenditures through various budget reductions and upcoming negotiation plans. School District enrollment has stabilized and should help keep future revenues steady. Locally, new mining interests in the area will bring increased tax values as well as new employment opportunities in the area.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School 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 financial information, contact the NICE Community School District, 300 Westwood Drive, Ishpeming, Michigan 49849.

NICE Community School District

STATEMENT OF NET POSITION

June 30, 2015

	Governmental Activities
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 1,428,284
Investments	2,549,361
Receivables:	
Accounts receivable	27,306
Due from other governmental units	1,771,399
Inventories	4,793
Prepaid expenses	-
Non-current Assets:	
Capital Assets:	
Land and construction in progress	288,092
Other capital assets, net	10,292,868
	<u>16,362,103</u>
TOTAL ASSETS	
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of related to proportionate share of net pension liability	562,029
District's contributions made subsequent to pension measurement date	1,710,397
	<u>2,272,426</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	
LIABILITIES	
Current Liabilities:	
Accounts payable	328,634
Accrued liabilities	866,597
Accrued interest	6,081
State anticipation note	2,300,000
Unearned revenue	100,000
Non-current Liabilities:	
Portion due or payable within one year:	
Notes payable	96,653
Bonds payable	565,000
Compensated absences	-
Portion due or payable after one year:	
Notes payable	244,397
Bonds payable	1,631,580
Compensated absences	271,715
Net pension liability	15,232,025
	<u>21,642,682</u>
TOTAL LIABILITIES	
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to proportionate share of net pension liability	1,683,917
	<u>1,683,917</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	
NET POSITION	
Net investment in capital assets	8,089,910
Restricted	1,280,369
Unrestricted	(14,062,349)
	<u>(4,692,070)</u>
TOTAL NET POSITION	<u>\$ (4,692,070)</u>

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

NICE Community School District

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 7,553,259	\$ 219,230	\$ 1,489,078	\$ (5,844,951)
Supporting services	3,594,364	-	268,341	(3,326,023)
Community services	39,275	-	-	(39,275)
Food service activities	389,016	195,181	199,094	5,259
Interest on retirement of debt	70,836	-	-	(70,836)
Depreciation - unallocated	700,338	-	-	(700,338)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 12,347,088	\$ 414,411	\$ 1,956,513	(9,976,164)
 General revenues:				
Taxes				
Property taxes, levied for general purposes				2,691,747
Property taxes, levied for debt services and sinking fund				1,694,359
State Aid not restricted to specific purposes				6,703,580
Contributions and other unrestricted grants				-
Interest and investment earnings				5,432
Miscellaneous				46,374
				<u>11,141,492</u>
				11,141,492
				CHANGES IN NET POSITION
				1,165,328
Net Position, July 1, as restated				<u>(5,857,398)</u>
				NET POSITION, JUNE 30
				<u>\$ (4,692,070)</u>

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

NICE Community School District

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2015

	General Fund	Debt Service Fund	Capital Projects: Sinking Fund	Other Non-major Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 191,076	\$ 184,002	\$ 994,561	\$ 58,645	\$ 1,428,284
Investments	2,509,442	-	-	39,919	2,549,361
Accounts receivable	18,431	2,761	4,186	1,928	27,306
Due from other governmental units	1,771,399	-	-	-	1,771,399
Due from other funds	9,957	-	-	-	9,957
Inventories	-	-	-	4,793	4,793
Prepaid expenses	-	-	-	-	-
TOTAL ASSETS	4,500,305	186,763	998,747	105,285	5,791,100
DEFERRED OUTFLOWS OF RESOURCES					
	-	-	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,500,305	\$ 186,763	\$ 998,747	\$ 105,285	\$ 5,791,100
LIABILITIES					
Accounts payable	\$ 328,165	\$ 111	\$ 168	\$ 190	\$ 328,634
Accrued liabilities	866,597	-	-	-	866,597
Due to other funds	-	-	-	9,957	9,957
State aid notes payable	2,300,000	-	-	-	2,300,000
Unearned revenue	100,000	-	-	-	100,000
TOTAL LIABILITIES	3,594,762	111	168	10,147	3,605,188
DEFERRED INFLOWS OF RESOURCES					
	-	-	-	-	-
FUND BALANCES					
Non-spendable	-	-	-	4,793	4,793
Restricted	-	186,652	998,579	90,345	1,275,576
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	905,543	-	-	-	905,543
TOTAL FUND BALANCES	905,543	186,652	998,579	95,138	2,185,912
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 4,500,305	\$ 186,763	\$ 998,747	\$ 105,285	\$ 5,791,100

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

NICE Community School District

GOVERNMENTAL FUNDS

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

June 30, 2015

Total Fund Balances for Governmental Funds \$ 2,185,912

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

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Cost of capital assets	\$ 20,534,375	
Accumulated depreciation	<u>(9,953,415)</u>	10,580,960

Net pension liability is not due and payable in the current period and is not
reported in the funds.

Proportionate share of net pension liability	15,232,025	
Deferred outflows related to proportionate share of net pension liability	(562,029)	
Deferred outflows made subsequent to pension measurement date	(1,710,397)	
Deferred inflows related to proportionate share of net pension liability	<u>1,683,917</u>	(14,643,516)

Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Notes payable - current	96,653	
Notes payable - non-current	244,397	
Bonds payable - current	565,000	
Bonds payable - non-current	1,585,000	
Compensated absences	271,715	
Accrued interest	6,081	
Deferred premium on bonds	46,580	
Deferred discount on bonds	<u>-</u>	<u>(2,815,426)</u>

Net Position of Governmental Activities \$ (4,692,070)

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

NICE Community School District

GOVERNMENTAL FUNDS

STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2015

	General Fund	Debt Service Fund	Capital Projects: Sinking Fund	Other Non-major Governmental Funds	Total
REVENUES:					
Local sources	\$ 3,008,971	\$ 674,530	\$ 1,022,085	\$ 196,717	\$ 4,902,303
State sources	8,200,885	-	-	30,224	8,231,109
Federal sources	210,134	-	-	168,870	379,004
TOTAL REVENUES	11,419,990	674,530	1,022,085	395,811	13,512,416
EXPENDITURES:					
Instruction	7,604,052	-	-	-	7,604,052
Supporting services	3,626,308	-	-	-	3,626,308
Community services	34,914	-	-	4,810	39,724
Food service activities	-	-	-	389,016	389,016
Debt Service:					
Principal	81,989	695,000	-	-	776,989
Interest and fees	39,512	44,092	-	-	83,604
Capital outlay	164,606	-	1,030,406	-	1,195,012
TOTAL EXPENDITURES	11,551,381	739,092	1,030,406	393,826	13,714,705
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(131,391)	(64,562)	(8,321)	1,985	(202,289)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	209,420	-	-	-	209,420
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	209,420	-	-	-	209,420
NET CHANGE IN FUND BALANCES	78,029	(64,562)	(8,321)	1,985	7,131
Fund balance, July 1	827,514	251,214	1,006,900	93,153	2,178,781
FUND BALANCE, JUNE 30	\$ 905,543	\$ 186,652	\$ 998,579	\$ 95,138	\$ 2,185,912

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

NICE Community School District

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds \$ 7,131

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	\$ 700,338	
Capital outlays	(1,183,081)	
Net book value of disposed assets	<u>-</u>	482,743

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position. (209,420)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 776,989

Governmental funds also report the effect of discounts and premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of general obligation bonds:

Bond discount	(961)	
Bond premium	<u>11,645</u>	10,684

Increase in net pension liability reported in the statement of activities does not require the use of current resources, and therefore, is not reported in the fund statements until it comes due for payment.

Pension expense	(159,847)	
Change in deferred outflows related to timing of pension contributions	<u>272,800</u>	112,953

Some expense reported in the Statement of Activities do no require the use of current financial resources and therefore are not reported as expenditures in governmental funds, as follows:

Change in compensated absences		(17,836)
--------------------------------	--	----------

Interest on long-term debt is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the net amount of accrued interest recognized in the statement of activities. 2,084

Change in Net Position of Governmental Activities \$ 1,165,328

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

NICE Community School District

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY FUNDS NET POSITION

June 30, 2015

	<u>Agency Fund</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 133,064</u>
TOTAL ASSETS	<u><u>\$ 133,064</u></u>
LIABILITIES:	
Due to groups, organizations and activities	<u>\$ 133,064</u>
TOTAL LIABILITIES	<u><u>\$ 133,064</u></u>

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

NICE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the NICE Community School District (the School 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 more significant policies:

REPORTING ENTITY

The School District is a local school district as defined by Michigan law that operates under a locally elected seven member Board form of government, and that provides elementary and secondary education and related support services to the residents of National Mine, Ishpeming, Champion, Ely, Tilden, and Humboldt Townships in Marquette County and Spurr Township in Baraga County.

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units by applying the criteria set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the basic financial statements of the School District contain all the funds controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Financial Statements:

The accounts of the School 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 set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type; and
- b. Total assets/deferred outflows of resources, liabilities/deferred inflows of resources, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund, the Debt Service Fund, and the Sinking Fund as its major governmental funds in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main 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 – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Lunch and Scholarship Funds.

Debt Service Funds – The Debt Service Funds are used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

Capital Projects Funds – The Capital Projects Funds are used to record bond proceeds or other revenue to be used for the acquisition or construction of major capital facilities or other capital assets, including equipment.

Fiduciary Funds

Agency Fund – The Agency Fund is used to account for assets held by the School District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The School District's fiduciary funds are presented in the Fund Financial Statements by type. Since, by definition, these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

The School District will first apply restricted net position for expenses incurred for purposes for which both restricted and unrestricted net position is available.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (a) below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "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, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Cash Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Position are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Land improvements	15 – 20 years
Buildings and additions	20 – 50 years
Machinery and equipment	5 – 20 years
Buses and other vehicles	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualify for reporting in this category:

On the district-wide financial statements, changes in assumptions, differences between expected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions for the pension plan create a deferred outflow of resources.

On the district-wide financial statements, the district's contributions made into the pension plan subsequent to the plan's fiscal year end creates a deferred outflow of resources.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

State Anticipation Note

The School District issued notes through the Michigan Municipal Bond Authority for cash flow purposes. The School District has pledged a portion of their state aid to repay the principal and interest on the notes. Furthermore, the School District has irrevocably pledged its full faith and credit in case of the insufficiency of the pledged state aid.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using straight-line amortization. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. Premiums received on debt issuance are reported as other financing sources and bond discounts are reported as other financing uses.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category:

On the district-wide financial statements, the net difference between projected and actual pension plan investment earnings, differences between expected and actual experience, changes in assumptions and changes in proportion and differences between employer contributions and proportionate share of contributions create a deferred inflow of resources.

Equity Classification

District-Wide Statements

Equity is classified as net position and displayed in three components:

- a. Net investment in Capital Assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Position – Consists of net position with constraints placed on its use 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. These amounts are derived from the fund financial statements by combining non-spendable and restricted fund balance classifications.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- c. Unrestricted Net Position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned, and unassigned.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District’s policy to use the restricted resources first.

Property Taxes

Property taxes are levied on December 1, on behalf of the School District by various taxing units and are payable without penalty by July 1 and September 30. The School District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year). Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Position.

Budgets and Budgetary Accounting

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

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year-end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through October 26, 2015, the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTE B – DEPOSITS AND INVESTMENTS:

Cash Equivalents

As of June 30, 2015, the School District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$1,428,284	\$133,064	\$1,561,348
Investments	2,549,361	-	2,549,361
Total	<u>\$3,977,645</u>	<u>\$133,064</u>	<u>\$4,110,709</u>

NOTE B – DEPOSITS AND INVESTMENTS (Continued):

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District’s deposits may not be returned to it. State law does not require and the School District does not have a deposit policy for custodial credit risk. The carrying amounts of the School’s deposit with financial institutions were \$1,561,348 and the bank balance was \$1,773,525. The bank balance is categorized as follows.

Amount insured by the FDIC	\$250,000
Amount uncollateralized and uninsured	1,523,525
Total	<u>\$1,773,525</u>

Investments

As of June 30, 2015, the School District had the following investments.

Investment Type	Fair Value	Investment Maturities Less Than One year
<i>Governmental Activities:</i>		
Michigan Liquid Asset Fund – Mutual Funds	\$2,509,442	\$2,509,442
Mutual Funds	39,919	39,919
Total	<u>\$2,549,361</u>	<u>\$2,549,361</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the School District’s investments. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes authorize the School 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 and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers’ acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The School District has no investment policy that would further limit its investment choices and has no investments for which ratings are required. The School District’s investments are in accordance with statutory authority.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments totaled \$1,771,399. Of that balance \$1,385,998 is due from the State of Michigan for State Aid, \$253,419 is due from the Federal Government for grants and \$131,982 due from other governmental units for the operation of special programs and grant projects.

NOTE D – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

The School District reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payables are as follows:

		DUE FROM OTHER FUNDS				
		General Fund	Debt Service Fund	Sinking Fund	Non-major Governmental Funds	Total Due To Other Funds
DUE TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-	\$-
	Debt Service Fund	-	-	-	-	-
	Sinking Fund	-	-	-	-	-
	School Lunch Fund	9,957	-	-	-	9,957
	Scholarship Fund	-	-	-	-	-
	Total Due From Other Funds	<u>\$9,957</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$9,957</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. See table below.

The amounts transferred to and from individual funds for the year ended June 30, 2015 are as follows:

		TRANSFERS IN FROM OTHER FUNDS				
		General Fund	Debt Service Fund	Sinking Fund	Non-major Governmental Funds	Total Transfers Out
TRANSFER OUT TO OTHER FUNDS	General Fund	\$-	\$-	\$-	\$-	\$-
	Debt Service Fund	-	-	-	-	-
	Sinking Fund	-	-	-	-	-
	School Lunch Fund	-	-	-	-	-
	Scholarship Fund	-	-	-	-	-
	Total Transfers In	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The School District did not make any transfers in the current year.

NOTE E – CAPITAL ASSETS:

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

	Balance 6/30/14	Additions	Deductions	Balance 6/30/15
GOVERNMENTAL ACTIVITIES:				
Capital assets not being depreciated:				
Land	\$41,000	\$-	\$-	\$41,000
Construction in progress	126,677	247,092	(126,677)	247,092
Capital assets being depreciated:				
Land improvements	403,390	13,960	-	417,350
Buildings and additions	15,153,139	872,100	-	16,025,239
Machinery and equipment	2,347,236	12,000	-	2,359,236
Buses and other vehicles	1,385,724	164,606	(105,872)	1,444,458
Total Capital Assets	<u>19,457,166</u>	<u>1,309,758</u>	<u>(232,549)</u>	<u>20,534,375</u>
Less accumulated depreciation:				
Land improvements	(145,026)	(18,792)	-	(163,818)
Buildings and additions	(6,791,671)	(386,939)	-	(7,178,610)
Machinery and equipment	(1,469,842)	(148,316)	-	(1,618,158)
Buses and other vehicles	(952,410)	(146,291)	105,872	(992,829)
Total Accumulated Depreciation	<u>(9,358,949)</u>	<u>(700,338)</u>	<u>105,872</u>	<u>(9,953,415)</u>
CAPITAL ASSETS, NET	<u>\$10,098,217</u>	<u>\$609,420</u>	<u>\$(126,677)</u>	<u>\$10,580,960</u>

Depreciation expense charged to governmental activities was \$700,338.

NOTE F – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2015 is as follows:

	Governmental Activities
Accrued wages	\$644,644
Accrued fringes	204,640
Other accruals	17,313
Total	<u>\$866,597</u>

NOTE G – SHORT-TERM DEBT:

The School District utilizes short-term borrowing secured with pledged state aid for cash flow purposes due to the timing of state aid payments. A summary of the changes in short-term debt for the year ended June 30, 2015 is as follows:

	Balance 6/30/14	Additions	Deductions	Balance 6/30/15
State anticipation note:				
2013-2014	\$2,100,000	\$-	\$2,100,000	\$-
2014-2015	-	2,300,000	-	2,300,000
TOTAL	<u>\$2,100,000</u>	<u>\$2,300,000</u>	<u>\$2,100,000</u>	<u>\$2,300,000</u>

NOTE H – LONG-TERM DEBT:

The following is a summary of the long-term debt activity for the year ending June 30, 2015:

	Balance 6/30/14	Additions	Deductions	Balance 6/30/15	Due Within One year
2009 Technology and Bus Bonds	\$195,000	\$-	\$(195,000)	\$-	\$-
Less: Deferred discount	(961)	-	961	-	-
2013 Refunding Bonds	2,650,000	-	(500,000)	2,150,000	565,000
Plus: Deferred premium	58,225	-	(11,645)	46,580	-
Bonds Subtotal	<u>2,902,264</u>	<u>-</u>	<u>(705,684)</u>	<u>2,196,580</u>	<u>565,000</u>
Bus Loan 2012	47,893	-	(15,657)	32,236	15,962
Bus Loan 2013	165,726	-	(33,726)	132,000	33,000
Bus Loan 2014	-	164,606	(32,606)	132,000	33,000
Laptop Loan 2015	-	44,814	-	44,814	14,691
Notes Subtotal	<u>213,619</u>	<u>209,420</u>	<u>(81,989)</u>	<u>341,050</u>	<u>96,653</u>
Bonds and Notes Subtotal	<u>3,115,883</u>	<u>209,420</u>	<u>(787,673)</u>	<u>2,537,630</u>	<u>661,653</u>
Employee Benefits:					
Compensated absences	253,879	17,836	-	271,715	-
Subtotal	<u>253,879</u>	<u>17,836</u>	<u>-</u>	<u>271,715</u>	<u>-</u>
TOTAL	<u>\$3,369,762</u>	<u>\$227,256</u>	<u>\$(787,673)</u>	<u>\$2,809,345</u>	<u>\$661,653</u>

Long-term debt at June 30, 2015 consists of the following:

**2013 Refunding Bonds
June 30, 2015**

	November 1	May 1		Total
	Interest	Principal	Interest	
2015-2016	\$15,362	\$565,000	\$15,362	\$595,724
2016-2017	11,831	550,000	11,831	573,662
2017-2018	8,394	530,000	8,394	546,788
2018-2019	4,419	505,000	4,419	513,838
Total	<u>\$40,006</u>	<u>\$2,150,000</u>	<u>\$40,006</u>	<u>\$2,230,012</u>

The School District issued \$3,150,000 in general obligation bonds for the purpose of an advance refunding of the 2003 Refunding Bonds. Portions of the refunding bonds, with interest rates that range from 1.00% to 1.75%, are redeemed annually beginning on May 1, 2014. Semiannual interest payments are paid on November 1 and May 1 of each year on the outstanding amount of the bonds. The remaining bonds or portions of the bonds in multiples of \$5,000 maturing on or after May 1, 2019 are subject to redemption at the option of the School District. The net proceeds of \$3,311,756 (after payment of \$55,122 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003 Refunding Bonds. As a result, the 2003 Refunding Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net position. The School District completed the advance refunding to reduce its total debt service payments over the next 6 years by \$438,400.

NOTE H – LONG-TERM DEBT (Continued):

The irrevocable trust accounts for the assets and the liability for the defeased 2005 Refunding Bonds are not included in the School District's financial statements. On June 30, 2015, \$2,140,000 of the bonds outstanding are considered defeased.

**2012 Bus Loan
June 30, 2015**

	June 1		Total
	Principal	Interest	
2015-2016	\$15,962	\$629	\$16,591
2016-2017	16,274	317	16,591
Total	<u>\$32,236</u>	<u>\$946</u>	<u>\$33,182</u>

The School District borrowed \$78,314 for the purpose of purchasing a new school bus. The Note is payable annually on June 1, with an interest rate of 1.925%, and matures on June 1, 2017.

**2013 Bus Loan
June 30, 2015**

	November 1		Total
	Principal	Interest	
2015-2016	\$33,000	\$2,145	\$35,145
2016-2017	33,000	1,609	34,609
2017-2018	33,000	1,072	34,072
2018-2019	33,000	536	33,536
Total	<u>\$132,000</u>	<u>\$5,362</u>	<u>\$137,362</u>

The School District borrowed \$165,726 for the purpose of purchasing a new school bus. The Note is payable annually on November 1, with an interest rate of 1.625%, and matures on November 1, 2018.

**2014 Bus Loan
June 30, 2015**

	June 1		Total
	Principal	Interest	
2015-2016	\$33,000	\$2,310	\$35,310
2016-2017	33,000	1,733	34,733
2017-2018	33,000	1,155	34,155
2018-2019	33,000	577	33,577
Total	<u>\$132,000</u>	<u>\$5,775</u>	<u>\$137,775</u>

The School District borrowed \$164,606 for the purpose of purchasing a new school bus. The Note is payable annually on June 1, with an interest rate of 1.75%, and matures on June 1, 2019.

**2015 Laptop Loan
June 30, 2015**

	Principal	Interest	Total
2015-2016	\$14,691	\$630	\$15,321
2016-2017	14,947	373	15,320
2017-2018	15,176	145	15,321
Total	<u>\$44,814</u>	<u>\$1,148</u>	<u>\$45,962</u>

NOTE H – LONG-TERM DEBT (Continued):

The School District borrowed \$44,814 for the purpose of purchasing a new laptops. The Note is payable quarterly on July 15, October 15, January 15, and April 15, with an interest rate of 1.5%, and matures on April 15, 2018.

As of June 30, 2015 the aggregate maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$661,653	\$36,438	\$698,091
2017	647,221	27,694	674,915
2018	611,176	19,160	630,336
2019	571,000	9,951	580,951
2020	-	-	-
TOTAL	<u>\$2,491,050</u>	<u>\$93,243</u>	<u>\$2,584,293</u>

NOTE I – COMPENSATED ABSENCES:

The School District offers an unused sick leave incentive plan provided to teachers eligible to retire under the Michigan Teacher Retirement Act. This payment is based upon the accumulated sick days paid at a rate based upon the appropriate union contract. The sick leave liability has been calculated in accordance with GASB #16.

The liability has been recognized in the Statement of Net Position as follows:

Compensated absences	<u>\$271,715</u>
TOTAL	<u>\$271,715</u>

NOTE J – FUND BALANCES – GOVERNMENTAL FUNDS:

As of June 30, 2015, fund balances of the governmental funds are classified as follows:

Non-spendable — amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted — amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed — amounts that can be used only for specific purposes determined by a formal action of the Board of Education. Board of Education is the highest level of decision-making authority for the School District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board of Education.

Assigned — amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the School District’s adopted policy, only the Board of Education may assign amounts for specific purposes.

Unassigned — all other spendable amounts.

As of June 30, 2015, fund balances are composed of the following:

NOTE J – FUND BALANCES – GOVERNMENTAL FUNDS (Continued):

	General Fund	Debt Service Funds	Capital Projects Funds	Non-major Governmental Funds	Total Governmental Funds
Non-spendable:					
Inventories	\$-	\$-	\$-	\$4,793	\$4,793
Prepaid expenses	-	-	-	-	-
Restricted:					
School Lunch	-	-	-	41,797	41,797
Scholarship	-	-	-	48,548	48,548
Debt Service	-	186,652	-	-	186,652
Capital Projects	-	-	998,579	-	998,579
Committed	-	-	-	-	-
Assigned					
FY15/16 budgeted shortfall	-	-	-	-	-
Unassigned	905,543	-	-	-	905,543
Total fund balances	<u>\$905,543</u>	<u>\$186,652</u>	<u>\$998,579</u>	<u>\$95,138</u>	<u>\$2,185,912</u>

The Board of Education establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund. Assigned fund balance is established by the Board of Education through amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

NOTE K – ECONOMIC DEPENDENCY:

The School District receives approximately 64 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of NICE Community School District.

NOTE L – STATE REVENUE:

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

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 which may be levied at a rate of

NOTE L – STATE REVENUE (Continued):

up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2014 – August 2015.

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

NOTE M – NON-MONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities utilized. The School District recognized \$19,965 during the fiscal year 2014-15 in revenues and expenditures for USDA commodities.

NOTE N – PROPERTY TAXES:

The taxable value of real and personal property located in the School District for the 2014 tax year, totaled \$252,531,647 (consisting of \$128,131,656 for PRE, \$2,101,250 for Industrial Personal Property, \$8,966,588 for Commercial Personal Property, and \$113,332,153 for NON-PRE). The tax levy for the year was based on a rate of 18.0000 mills on the NON-PRE property, 6.0000 mills on the Commercial Personal Property, and 1.15 mills on all property types for Debt Retirement. One mill is equal to \$1.00 per \$1,000 of taxable value.

NOTE O – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Organization

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

- Two active classroom teachers or other certified school personnel.
- One active member or retirant from a non-certified support position.
- One active school system superintendent.
- One active finance or operations (non-superintendent) member.
- One retirant from a classroom teaching position.
- One retirant from a finance or operations management position.
- One administrator or trustee of a community college that is a member of the System.
- Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience.
- One elected member of a member's board of control.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 685 participating employers. A list of employers is provided in the Statistical Section of MPSERS' Comprehensive Annual Financial Report. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

The System is administered by the Office of Retirement Services 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.

Membership

At September 30, 2014, the System's membership consisted of the following:

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Inactive plan members or their beneficiaries currently receiving benefits:	
Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
	Subtotal 204,512
Inactive plan members entitled to but not yet receiving benefits:	16,979
Active plan members:	
Vested	108,934
Non-vested	101,843
	Subtotal 210,777
	Total 432,268

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. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 beginning on page 23. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

Summary of Significant Accounting Policies Basis of Accounting and Presentation

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below and details are provided in the supporting schedules.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Reserves

Reserve for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was \$1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$59.5 million.

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was \$4.7 billion.

Reserve for Employer Contributions - This reserve represents all member contributions, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was (\$25.8) billion.

Reserve for Pension Plus Employer Contributions - This reserve represents all member contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve for Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was \$55.5 million.

Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was \$44.6 billion.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was \$0.

Reserve for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in this reserve was \$18.6 billion.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Starting in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was \$3.5 billion.

Reporting Entity

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "antialienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

Investment Income

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Other Postemployment Benefit Plan Fiduciary Net Position. Such assets are depreciated on a straight-line basis over 10 years. As of September 30, 1998, all capitalized equipment was fully depreciated. No additional equipment has been capitalized for the System since that date.

Related Party Transactions

Leases and Services - The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The schedule below summarizes costs incurred by the System for such services.

Cash - At September 30, 2014, the System had \$246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to (\$0.6) thousand for the year ended September 30, 2014.

Contributions and Funding Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0-4.0%	18.34-19.61%
Member Investment Plan	3.0-7.0%	18.34-19.61%
Pension Plus	3.0-6.4%	18.11%
Defined Contribution	0.0%	15.44-16.61%

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records.

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was \$29.7 million and the discounted long-term receivable was \$83.6 million at September 30, 2014.

Net Pension Liability—Non-University Measurement of the MPSERS Net Pension Liability

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

MPSERS (Plan) Net Pension Liability – Non-University

As of September 30, 2014

Total Pension Liability	\$65,160,887,182
Plan Fiduciary Net Position	43,134,384,072
Net Pension Liability	<u>\$22,026,503,110</u>
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%
Net Pension Liability as a Percentage of Covered-Employee Payroll	250.11%

Year 1 MPSERS GASB 68 implementation recognizes a 0.00% change in the member's proportionate share between beginning net pension liability and ending net pension liability.

MPSERS (Plan) Net Pension Liability – Non-University

As of October 1, 2013

Total Pension Liability	\$62,859,499,994
Plan Fiduciary Net Position	39,427,686,072
Net Pension Liability	<u>\$23,431,813,922</u>

Proportionate Share of the District's Net Pension Liability

At September 30, 2014, the District reported a liability of \$15,232,025 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all members

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

statutorily required contributions for the measurement period. At September 30, 2014, the District's proportionate share percent was 0.06915 percent.

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, 2014, are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	4.8%
% Alternative Investment Pools	18.0	8.5
International Equity	16.0	6.1
Fixed Income Pools	10.5	1.5
Real Estate and Infrastructure Pools	10.0	5.3
Absolute Return Pools	15.5	6.3
Short Term Investment Pools	2.0	(0.2)
Total	100%	

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

Rate of Return

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense, was 12.58%. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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.

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

As required by GASB Statement No. 68, the following presents the District’s proportionate share of the net pension liability, calculated using a 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:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
<u>\$20,082,099</u>	<u>\$15,232,025</u>	<u>\$11,145,766</u>

Timing of the Valuation

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan’s fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan’s fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Additional information as of the latest actuarial valuation follows:

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Summary of Actuarial Assumptions

Actuarial Assumptions:

Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	8.0%
- Pension Plans (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
Healthcare Cost Trend Rate:	8.5% Year 1 graded to 3.5% Year 12
	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB.
Mortality:	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, 2014, is based on the results of an actuarial valuation date of September 30, 2013, 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: 4.8457
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions—Non-University

For the year ended June 30, 2015, the District recognized total pension expense of \$1,233,837. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	\$-	\$-
Changes of assumptions	562,029	-
Net difference between projected and actual earnings on pension plan investments	-	(1,683,917)
Changes in proportion and differences between the District contributions and proportionate share of contributions	-	-
Subtotal	<u>562,029</u>	<u>(1,683,917)</u>
District contributions subsequent to the measurement date	<u>1,710,397</u>	-
Total	<u>\$2,272,426</u>	<u>\$(1,683,917)</u>

NOTE P – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Other amounts reported 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	Amount
September 30	
2015	\$(274,835)
2016	(274,835)
2017	(274,835)
2018	(297,383)

During the fiscal year, the School District recognized revenue in the amount of \$548,596 from the State for the unfunded actuarial accrued liability.

NOTE Q – EMPLOYEE RETIREMENT SYSTEM – DEFINED CONTRIBUTION PLANS:

Employees of the School District who began working for a Michigan public school July 1, 2010, or later, are members of the Pension Plus plan or Defined Contribution (DC) plan, defined contribution pension plans. Under Public Act 300 of 2012, eligible members of MPSERS had the option to increase, maintain, or stop their contributions to the pension fund as of the transition date. Members of MPSERS who elected to stop their contributions became participants in the DC plan as of their transition date.

Pension Plus Plan

The Pension Plus Plan is administered by Voya Financial. Benefit terms, including employer contribution requirements are established and may be amended by MPSERS. Within the plan employees have three options to choose from: 1) Pension Plus with Premium Subsidy, 2) Pension plus to DC with PHF, and 3) Basic/MIP to DC with Premium Subsidy. The School District's required to contribute ranges 1% to 4% of annual salary for plan members based on the type of plan the employee is participating in. Employees are permitted to make contributions up to applicable Internal Revenue Service Code limits. Employees are considered 100% vested for their own contributions; for employer contributions employees are considered 100% vested after four years of service. Employees are eligible to receive benefits from the Plan in accordance with IRS regulations for 401(k) plans.

Defined Contribution Plan

The Defined Contribution Plan, is a defined contribution plan under sections 401(k) and section 457 of the Internal Revenue Code and is administered by Voya Financial. Benefit terms, including employer contribution requirements are established and may be amended by MPSERS. Employee contributions are 8% of wages with the employer matching contributions dollar for dollar on the first 2% of wages and 50 cents on the dollar on the next 6% of wages. Employee contributions are made into the 457 Plan while employer matching contributions are made in othe 401(k) Plan. Employees are considered 100% vested for their own contributions; for employer contributions employees are considered 100% vested after four years of service. Employees are eligible to receive benefits and make contributions to the Plan in accordance with IRS regulations for 401(k) and 457 plans.

**NOTE Q – EMPLOYEE RETIREMENT SYSTEM – DEFINED CONTRIBUTION PLANS
(Continued):**

Contributions

The total amount contributed to the Plan for the year ended June 30, 2015 was \$31,084 which consisted of \$11,182 from the School District and \$19,902 from employees.

NOTE R – EMPLOYEE RETIREMENT SYSTEM – POST-EMPLOYMENT BENEFITS:

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees electing this coverage contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage at the time of receiving the benefits. MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.45% (of the total 24.79% required contribution) of covered payroll for the period from July 1, 2014 through September 30, 2014 and 6.83% (of the total 24.78% required contribution) from October 1, 2014 through June 30, 2015. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, PO Box 30171, Lansing, Michigan, 48909.

NOTE S – NET POSITION RESTATEMENT:

The following net position restatement were made resulting from the adoption of GASB No. 68 and GASB No. 71. The adjustment records the beginning proportionate share of net pension liability and related deferred outflows of resources as listed below.

	Governmental Activities
Net position, beginning of year	<u>\$8,889,071</u>
Prior period adjustments:	
Proportionate share of net pension liability	(16,194,066)
District's contributions made subsequent to pension measurement date	<u>1,437,597</u>
Net position, beginning of year, as restated	<u><u>\$(5,857,398)</u></u>

NOTE T – SINKING FUNDS:

The Sinking Fund Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

NOTE U – SINGLE AUDIT:

The School District's audited financial statements report a total of \$379,004 in federal expenditures. As this amount is less than the single audit threshold of \$500,000, the School District is not required to have an audit in accordance with OMB Circular A-133 for the fiscal year ended June 30, 2015.

NOTE V – NEW GASB STANDARDS:

Recently Issued and Adopted Accounting Pronouncements

In March 2012, the GASB issued Statement No. 66, *2012 Technical Corrections (an Amendment to GASB 10 and GASB 62)*. GASB No. 66 eliminates conflicting guidance that resulted from the issuance of GASB 54 and GASB 62, which are both already effective. GASB 10 was amended to allow for risk financing activities to be accounted for in whichever fund type is most applicable (no longer limited to the general fund or an internal service fund). GASB 62 was amended to modify specific guidance related to (1) operating leases with scheduled rent increases, (2) purchase of loans at an amount other than the principal amount, and (3) service fees related to mortgages that are sold when the service rate varies significantly from the current (normal) service fees. This Statement is effective for periods beginning after December 15, 2013. The adoption of GASB No. 66 does not have any impact on the District's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB 68 establishes new requirements for governments to report a "net pension liability" for the unfunded portion of its pension plan. Governments that participate in a cost sharing plan will report a liability for their "proportionate share" of the net pension liability of the entire system. It also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The methods used to determine the discount rate (the assumed rate of return on plan assets held in trust) are mandated and must be disclosed, along with what the impact would be on the net pension liability if that rate changed by 1% in either direction. Other new disclosure requirements include details of the changes in the components of the net pension liability, comparisons of actual employer contributions to actuarially determined contributions, and ratios to put the net pension liability in context. This information will be derived from the financial reports of the plan itself, multiplied by the government's proportionate share of plan. This Statement is effective for periods beginning after June 15, 2014. The adoption of GASB No. 68 required the District to record a prior period adjustment for the District's portion the net pension liability at the beginning of the year as detailed in Note S of the financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an Amendment of GASB Statement No. 68)*. This standard is an amendment to GASB 68, and seeks to clarify implementation issues related to amounts that are deferred and amortized at the time GASB 68 is first adopted. It applies to situations in which the measurement date of an actuarial valuation differs from the government's fiscal year. This Statement is effective at the same time GASB 68 is adopted. The adoption of GASB No. 71 required the District to record a prior period adjustment resulting from timing differences between the District's fiscal year and the actuarial valuation measurement date as detailed in Note S of the financial statements.

Other Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement No. 67 *Financial Reporting for Pension Plans*. GASB No. 67 establishes the requirements for pension plans administered by trusts to report on their operations, including setting new uniform requirements for actuarial valuations of the total pension liability, and reporting various 10-year trend data as required supplementary information. The financial statements of pension plans will not change substantially as a result of GASB 67, though

NOTE V – NEW GASB STANDARDS (Continued):

the additional note disclosures and required supplementary information will be significant. Additionally, actuarial valuations conducted in accordance with GASB 67 will have to match the government's fiscal year, or be rolled forward to that date by the actuary. This Statement is effective for periods beginning after June 15, 2013. The adoption of GASB No. 67 does not have any impact on the District's financial statements as the District does not have a pension plan administered by trusts.

In January 2013, the GASB issued Statement No. 69 *Government Combinations and Disposals of Government Operations*. GASB No. 69 provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity. This Statement is effective for periods beginning after December 15, 2013. The adoption of GASB No. 69 does not have any impact on the District's financial statements.

In April 2013, the GASB issued Statement No. 70 *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB No. 70 addresses the accounting and disclosure of situations in which one government offers a financial guarantee on behalf of another government, not-for-profit organization, private entity, or individual without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). A government that extends a nonexchange financial guarantee will be required to recognize a liability when qualitative factors and/or historical data indicate that it is "more likely than not" that the government will be required to make a payment on the guarantee. It further requires governments to disclose any outstanding financial guarantees in the notes to the financial statements. This Statement is effective for periods beginning after June 15, 2013. The District has no such arrangements, therefore the adoption of GASB No. 70 does not have any impact on the District's financial statements.

NOTE W – UPCOMING STANDARDS:

The following pronouncements of the Governmental Accounting Standards Board (GASB) have been released recently and may be applicable to the School District in the near future. We encourage management to review the following information and determine which standard(s) may be applicable to the School District.

GASB 72: Fair Value Measurement and Application

Effective for fiscal years beginning after June 15, 2015 (District's fiscal year 2016)

This standard addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard provides guidance for determining a fair value measurement for financial reporting purposes. It also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

NOTE W – UPCOMING STANDARDS (Continued):

GASB 73: Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68

Effective for fiscal years beginning after June 15, 2015 (District's fiscal year 2016)

This standard establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

GASB 74: Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective for fiscal years beginning after June 15, 2016 (District's fiscal year 2017)

This standard replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*.

The scope of this Statement includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet certain criteria. It also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria.

GASB 75: Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

Effective for fiscal years beginning after June 15, 2017 (District's fiscal year 2018)

This standard replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount

NOTE W – UPCOMING STANDARDS (Continued):

projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity.

GASB 75 also requires more extensive note disclosures and required supplementary information, including 10 years of historical information. The particular accounting and financial reporting requirements and footnote disclosures are dependent upon the type of plan being used (defined benefit, defined contribution, or special funding situations) and whether the OPEB plans are administered through trusts meeting certain criteria.

GASB 76: The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

Effective for fiscal years beginning after June 15, 2015 (District's fiscal year 2016)

This standard supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB 77: Tax Abatement Disclosures

Effective for fiscal years beginning after December 15, 2015 (District's fiscal year 2017)

This standard requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. This Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Governments will be required to disclose information about tax abatement agreements including the taxes being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanisms by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments being made by tax abatement recipients. Additionally the gross dollar amount of taxes abated during the period will have to be disclosed along with any other commitments made by a government, other than to abate taxes, as part of the tax abatement agreement.

REQUIRED SUPPLEMENTAL INFORMATION

NICE Community School District

SCHEDULE OF THE NICE COMMUNITY SCHOOLS' CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN

For the Year Ended June 30

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Statutorily required contributions	\$ 1,342,247									
Contributions in relation to statutorily required contributions	1,342,247									
Contributions deficiency (excess)	\$ -									
District's covered-employee payroll	\$ 6,065,621									
Contributions as a percentage of covered-employee payroll	22%									

NICE Community School District

**SCHEDULE OF THE NICE COMMUNITY SCHOOLS' CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT PLAN**

For the Plan Year Ended September 30

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
District's proportion of net pension liability	0.06915%									
District's proportionate share of net pension liability	\$ 15,232,025									
District's covered-employee payroll	\$ 5,877,240									
District's proportionate share of net pension liability as a percentage of covered-employee payroll	259.17%									
Plan fiduciary net position as a percentage of total pension liability	66.20%									

NICE Community School District

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

For the Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 2,189,163	\$ 3,009,672	\$ 3,008,971	\$ 820,509	\$ (701)
State sources	8,346,967	8,190,689	8,200,885	(156,278)	10,196
Federal sources	238,185	209,243	210,134	(28,942)	891
TOTAL REVENUES	10,774,315	11,409,604	11,419,990	635,289	10,386
EXPENDITURES:					
Instruction	7,360,076	7,607,075	7,604,052	(246,999)	3,023
Supporting services	3,321,518	3,542,295	3,626,308	(220,777)	(84,013)
Community services	32,900	32,900	34,914	-	(2,014)
Debt service:					
Principal	46,568	81,989	81,989	(35,421)	-
Interest and fees	30,632	39,513	39,512	(8,881)	1
Capital outlay	164,606	164,606	164,606	-	-
TOTAL EXPENDITURES	10,956,300	11,468,378	11,551,381	(512,078)	(83,003)
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(181,985)	(58,774)	(131,391)	123,211	(72,617)
OTHER FINANCING SOURCES (USES):					
Proceeds from borrowing	165,726	209,400	209,420	43,674	20
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	165,726	209,400	209,420	43,674	20
NET CHANGE IN FUND BALANCE	(16,259)	150,626	78,029	166,885	(72,597)
Fund balance, July 1	827,514	827,514	827,514	-	-
FUND BALANCE, JUNE 30	\$ 811,255	\$ 978,140	\$ 905,543	\$ 166,885	\$ (72,597)

OTHER SUPPLEMENTAL INFORMATION

NICE Community School District

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2015

	<u>Special Revenue Funds</u>		
	<u>School Lunch Fund</u>	<u>Scholarship Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 50,016	\$ 8,629	\$ 58,645
Investments	-	39,919	39,919
Accounts receivable	1,928	-	1,928
Inventories	4,793	-	4,793
Due from other funds	-	-	-
Prepaid expenses	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>56,737</u>	<u>48,548</u>	<u>105,285</u>
DEFERRED OUTFLOWS OF RESOURCES	<hr/> -	<hr/> -	<hr/> -
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 56,737</u>	<u>\$ 48,548</u>	<u>\$ 105,285</u>
LIABILITIES			
Accounts payable	\$ 190	\$ -	\$ 190
Due to other funds	9,957	-	9,957
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	<u>10,147</u>	<u>-</u>	<u>10,147</u>
DEFERRED INFLOWS OF RESOURCES	<hr/> -	<hr/> -	<hr/> -
FUND BALANCES			
Non-spendable	4,793	-	4,793
Restricted	41,797	48,548	90,345
Committed	-	-	-
Assigned	-	-	-
Unassigned	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL FUND BALANCES	<u>46,590</u>	<u>48,548</u>	<u>95,138</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 56,737</u>	<u>\$ 48,548</u>	<u>\$ 105,285</u>

NICE Community School District

NON-MAJOR GOVERNMENTAL FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

For the Year Ended June 30, 2015

	<u>Special Revenue Funds</u>		
	<u>School Lunch</u>	<u>Scholarship</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
REVENUES:			
Local sources	\$ 195,493	\$ 1,224	\$ 196,717
State sources	30,224	-	30,224
Federal sources	168,870	-	168,870
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	394,587	1,224	395,811
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Community services	-	4,810	4,810
Food service activities	389,016	-	389,016
Capital outlay	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES	389,016	4,810	393,826
	<hr/>	<hr/>	<hr/>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,571	(3,586)	1,985
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfers (out)	-	-	-
	<hr/>	<hr/>	<hr/>
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCE	5,571	(3,586)	1,985
	<hr/>	<hr/>	<hr/>
Fund Balance, July 1	41,019	52,134	93,153
	<hr/>	<hr/>	<hr/>
FUND BALANCE, JUNE 30	<u>\$ 46,590</u>	<u>\$ 48,548</u>	<u>\$ 95,138</u>

NICE Community School District

SCHOOL LUNCH FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

For the Year Ended June 30, 2015

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Local Sources:			
Student lunches	\$ 195,200	\$ 195,181	\$ (19)
Interest earned	800	312	(488)
State Sources:			
Entitlement payments	26,019	30,224	4,205
Federal Sources:			
Entitlement payments	154,000	148,905	(5,095)
Donated commodities	20,000	19,965	(35)
	<u>396,019</u>	<u>394,587</u>	<u>(1,432)</u>
TOTAL REVENUES			
EXPENDITURES:			
Food Service Activities:			
Salaries	103,300	103,055	245
Fringe benefits	77,471	79,556	(2,085)
Purchased services	7,000	6,673	327
Other costs and expenses	25,217	26,557	(1,340)
Food and milk	154,500	151,677	2,823
Donated commodities	20,000	19,965	35
Capital outlay	1,500	1,533	(33)
	<u>388,988</u>	<u>389,016</u>	<u>(28)</u>
TOTAL EXPENDITURES			
EXCESS REVENUES OVER (UNDER) EXPENDITURES			
	7,031	5,571	(1,460)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	-
Transfer (out)	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)			
NET CHANGE IN FUND BALANCE			
	7,031	5,571	(1,460)
Fund balance, July 1	<u>41,019</u>	<u>41,019</u>	<u>-</u>
FUND BALANCE, JUNE 30			
	<u>\$ 48,050</u>	<u>\$ 46,590</u>	<u>\$ (1,460)</u>

COMPLIANCE SECTION



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 of the
NICE Community School District
300 Westwood Drive
Ishpeming, Michigan 49849

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 NICE Community School District (the School District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 26, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain

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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.

Anderson, Tackman & Company, PLLC

Certified Public Accountants

October 26, 2015

COMMUNICATIONS SECTION



NICE Community School District
Report to Management
For the Year Ended June 30, 2015

To the Board of Education of the
NICE Community School District
300 Westwood Drive
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of NICE Community School District (the School District) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the School District's internal control over financial reporting (internal control) as a basis for designing 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

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

Anderson, Tackman & Company, PLLC
Certified Public Accountants

October 26, 2015



NICE Community School District
Communication with Those Charged with Governance
For the Year Ended June 30, 2015

October 26, 2015

To the Board of Education of the
NICE Community School District
300 Westwood Drive
Ishpeming, Michigan 49849

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of NICE Community School District (the School District) for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 13, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in the notes to the financial statements. As described in Note V to the financial statements, the School District adopted the following new accounting guidance: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions (an Amendment of GASB No. 27)* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date (an Amendment of GASB No. 68)*, in 2015. Accordingly, the cumulative effect of the new accounting changes as of the beginning of the year is reported as a prior period adjustment on the Statement of Activities as enumerated upon in Note S to the financial statements. We noted no transactions entered into by the School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of accumulated depreciation is based on historical cost. Depreciation is calculated using the straight-line method. We evaluated the key

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factors and assumptions used to develop the current years depreciation expense and accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of employee benefit obligations is based on employee pay rates and the various subsidiary ledgers maintained for hour balances. We evaluated the key factors and assumptions used to develop the accrued employee benefit balances in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the District's proportionate share of Net Pension Liability is based on an actuarial performed for the Michigan Public Employees' Retirement System (MPSERS) to determine its liability. We evaluated the key factors and assumptions used to develop the District's proportionate share of Net Pension Liability, based on information provided by the Michigan Department of Technology, Management and Budget Office of Retirement Services, in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of the District's proportionate share of the Defined Benefit Pension Plan includes significant actuarial assumptions used in calculating the valuation. Gabriel, Roeder, Smith & Company was the actuarial company hired by the Retirement Board of the Michigan Public Employees' Retirement System (MPSERS) and the Michigan Department of Technology, Management and Budget Office of Retirement Services for preparation of the annual actuarial valuation. A full listing of the actuarial assumptions used can be found MPSERS' Comprehensive Annual Financial Report of the Fiscal Year Ended September 30, 2014.

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 26, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

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

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

Board of Education of the
NICE Community School District

Restriction on Use

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

Very truly yours,

Anderson, Tackman & Company, PLLC
Certified Public Accountants