ST. JOSEPH PUBLIC SCHOOLS

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FINANCIAL REPORT

WITH SUPPLEMENTARY INFORMATION

JUNE 30, 2016

KRUGGEL LAWTON CPA

St. Joseph, MI

ST. JOSEPH PUBLIC SCHOOLS
St. Joseph, Michigan
June 30, 2016

St. Joseph Public Schools
St. Joseph, Michigan
June 30, 2016

KRUGGEL LAWTON CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
St. Joseph Public Schools
St. Joseph, Michigan

Report to the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of St. Joseph Public Schools (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

INDEPENDENT AUDITOR'S REPORT, CONCLUDED

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying other supplementary information, as described in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information is 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 other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of the 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 District's internal control over financial reporting and compliance.

Respectfully submitted,

Kruggel, Lawton & Company, LLC

Certified Public Accountants

St. Joseph, Michigan
September 30, 2016

St. Joseph Public Schools, a K-12 School District located in Berrien County, Michigan, has adopted the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34"). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2016 of the management of St. Joseph Public Schools (the "District").

Generally accepted accounting principles ("GAAP") and GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand St. Joseph Public School financially as a whole. The district-wide financial statements provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a long-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the district-wide financial statements by providing information about the District's most significant funds, the General Fund and 2016 Capital Projects Bond Fund, with all other funds presented in one column as non-major funds. The remaining statement, the Statement of Fiduciary Assets and Liabilities, presents financial information about activities for which the District acts solely as an agent for the benefit of students and parents.

District-Wide Financial Statements

The District-wide financial statements are full accrual basis statements. They report all of the District's assets, deferred outflows of resources, deferred inflows of resources and liabilities, both short and long-term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long-term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the District-wide financial statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Capital Projects Funds, Debt Service Funds, and the School Service Funds.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future years' debt obligations are not recorded.

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

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

The Private Purpose Trust fund is an unbudgeted fund which is used to provide for general education needs and to pay scholarships for selected high school students. The Agency Fund is an unbudgeted fund that accounts for the activities of student groups and other types of clearing accounts.

Summary of Net Position

The District had a deficit net position of $17,801,835 and $18,679,634 as of June 30, 2016 and 2015, respectively. The net deficit of the District is summarized in the table below:

	June 30, 2016	June 30, 2015
Assets:		
Cash and cash equivalents	$ 2,920,076	$ 2,175,485
Investments	2,491,272	13,149
Receivables	3,486,638	3,482,040
Other assets	174,856	198,592
Net capital assets	60,622,202	62,304,378
Total Assets	$ 69,695,044	$ 68,173,644
Deferred Outflows of Resources:		
Deferred interest charges on bond issuance	$ 1,947,551	$ 2,108,650
Deferred outflows of resources from pensions	4,436,659	2,614,808
Total Deferred Outflows of Resources	$ 6,384,210	$ 4,723,458
Total Assets and Deferred Outflows of Resources	$ 76,079,254	$ 72,897,102
Liabilities:		
Accounts payable and other accrued liabilities	$ 3,531,195	$ 2,869,298
Bonds payable	51,361,614	51,056,765
Net pension liability	38,774,207	35,067,772
Total Liabilities	$ 93,667,016	$ 88,993,835
Deferred Inflows of Resources:		
Deferred inflows of resources from pensions	214,073	2,582,901
Total Liabilities and Deferred Inflows of Resources	$ 93,881,089	$ 91,576,736
Net Position (Deficit):		
Net investment in capital assets	$ 11,208,139	$ 13,356,263
Restricted for:		
Debt service	478,201	405,185
Unrestricted	(29,488,175)	(32,441,082)
Total Net Position (Deficit)	$ (17,801,835)	$ (18,679,634)

Analysis of Financial Position

During fiscal year ended June 30, 2016, the District's net position increased by $877,799. A few of the significant factors affecting net position during the year are discussed below:

A. General Operations
The District's total revenues decreased slightly by $36,282 for the fiscal year ended June 30, 2016. Capital grants and contributions decreased due to the refunding of the Build American Bonds which resulted in less federal revenue received. Total expenses decreased by $169,398 for the fiscal year ended June 30, 2016. This decrease is a result of a net change in many expenditure categories.

B. Debt Activity
The District made principal payments on bonds and note payable long-term debt obligations which reduced the amount of the District's long-term liabilities. Principal payments made during the year ended June 30, 2016 totaled $1,875,000 which reduced the 2010 Series A Bonds, 2015 Refunding Bonds and the Capital Improvement Tax Anticipation Note. In June of 2016, the District issued $2,450,000 of School Building Equipment Bonds, Series I. These bonds were issued with a premium of $57,127. The bonds are to be used in all school buildings for technology improvements, safety and security enhancements, and bus purchasing. The bonds were recorded in the 2016 Capital Projects Bond Fund.

On July 1, 2015, the District issued a State Anticipation Note maturing October 21, 2015 in the amount of $825,000 with an interest rate of 1.27%. On June 1, 2016, the District issued a State Anticipation Note maturing October 21, 2016 in the amount of $600,000 with an interest rate of .96%. Both notes were issued to meet short-term cash flow needs. The notes are secured by the full faith and credit of the District.

C. Net Investment in Capital Assets
The District's capital assets, net of accumulated depreciation decreased by $1,682,176 during the year. The net activity for the year is summarized in the following table:

	Balance July 1, 2015	Additions	Deletions and Adjustments and Reclassifications	Balance June 30, 2016
Capital Assets	$ 84,409,763	$ 408,895	$ (82,000)	$ 84,736,658
Less: accumulated depreciation	(22,105,385)	(2,091,071)	82,000	(24,114,456)
Net investment capital outlay	$ 62,304,378	$ (1,682,176)	$ -	$ 60,622,202

This year, the School District's additions of $408,895 included multiple building improvements in all of the schools and a auto tool changer. The District's deletions were from the disposal of a bus.

D. Capital Projects
In June, the District issued $2,450,000 of School Building Equipment Bonds, Series I. The bonds are to be used in all school buildings for technology improvements, safety and security enhancements, and bus purchases. The bonds were recorded in the 2016 Capital Projects Bond Fund. These funds will start being spent down in fiscal year 2017.

Results of Operations

The District-wide results of operations for the fiscal years ended June 30, is summarized in the table below:

	June 30, 2016	June 30, 2015
Revenues:		
General Revenues:		
Property taxes levied for general operations	$ 5,704,519	$ 5,678,169
Property taxes levied for debt service	3,527,269	3,449,867
Property taxes levied for capital projects	984,416	971,506
State of Michigan unrestricted foundation aid	15,684,828	15,559,374
Interest and investment earnings	5,439	2,786
Other general revenues	170,495	248,405
Total general revenues	$ 26,076,966	$ 25,910,107
Capital Grants and Contributions:		
Federal - Build American Bonds	$ -	$ 295,339
Total capital grants and contributions	$ -	$ 295,339
Operating Grants and Contributions:		
Federal	$ 286,550	$ 696,503
State of Michigan	2,894,664	2,583,794
Other operating grants	1,024,997	814,568
Total operating grants	$ 4,206,211	$ 4,094,865
Charges for Services:		
Food service	$ 710,196	$ 727,011
Athletics	186,864	184,521
Other charges for services	125,185	129,861
Total charges for services	$ 1,022,245	$ 1,041,393
Total revenues	$ 31,305,422	$ 31,341,704
Expenses:		
Instruction and instructional support	$ 15,564,185	$ 15,502,125
Support services	8,761,912	9,156,261
Community services	29,944	79,516
Food service	1,099,816	1,114,934
Athletics	766,638	764,129
Interest on long-term debt	2,114,057	1,889,933
Depreciation (unallocated)	2,091,071	2,090,123
Total expenses	$ 30,427,623	$ 30,597,021
Change in Net Position	$ 877,799	$ 744,683
Beginning Net Position	(18,679,634)	(19,424,317)
Ending Net Position	$ (17,801,835)	$ (18,679,634)

State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following variables:

1. State of Michigan State Aid Act per student foundation allowance,

2. Student Enrollment - Blended at 90 percent of current year fall count and 10 percent of the current year winter count, and

3. The District's non-homestead levy.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The St. Joseph Public Schools' foundation allowance, paid by the State of Michigan, for the fiscal year 2016 was $7,397 per student which is a $140 increase from the fiscal year 2015 foundation allowance of $7,257.

The State of Michigan has announced the per pupil foundation at $7,522 for fiscal year 2016-2017.

Student Enrollment

The District's enrollment increased from the prior year's student count. The following summarizes blended student enrollments in the past five years:

Fiscal Year	Student FTE	FTE Change from Prior Year
2015-2016	2,925	8
2014-2015	2,917	6
2013-2014	2,911	76
2012-2013	2,835	35
2011-2012	2,800	(39)

Subsequent to year end June 30, 2016, preliminary student enrollments for 2016-2017 indicate that enrollments may increase by about 20 students from 2015-2016.

Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)

The District levies property taxes for operations (General Fund) of 18 mills on Non-Personal Residence exemption properties and 6 mills on Commercial Personal Property. Under Michigan law, the taxable levy is based on the taxable valuation of the properties. Annually the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of market value. The District's non-homestead property levy for the 2015-2016 fiscal year was $5,671,186. The non-homestead tax levy increased by .60 percent from the prior year.

Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes), Concluded

The following summarizes the District's non-homestead levy over the past five years:

Fiscal Year	Non-Homestead Tax Levy	% Increase (decrease) from Prior Year
2015-2016	$ 5,671,186	0.60%
2014-2015	5,637,635	0.43%
2013-2014	5,613,469	-0.80%
2012-2013	5,658,592	1.63%
2011-2012	5,567,593	0.70%

Debt Administration and Capital Projects Sinking Fund

The District's debt and capital projects sinking fund levies are based on the taxable valuation of all properties: homestead and non-homestead. The debt fund levy is used to pay principal and interest on bond obligations and the capital projects sinking fund is for capital improvements in the District. The taxpayers have authorized debt levies that will fund the debt principal payments of $49,414,063 through 2035.

For 2015-2016, the District's debt millage levy was 3.55 mills that generated a levy of $3,515,596. The capital projects sinking fund levy was .9946 mills and generated a levy of $984,416.

Food Sales to Students & Adults (School Lunch Program)

The total revenues in the Food Service Fund exceeded the expenditures and transfers out for the year by $37,319. This year, the District received $51,542 more in federal sources due to the children falling under the Free and Reduced guidelines. The District's food and milk sales to students and adults decreased by $16,815. In recent years food costs have increased due to newer nutrition guidelines that require the District to provide healthier food choices to the students. The District continues to strive to offer the best pricing and service possible.

General Fund Expenditures Budget vs. Actual—Five Year History

	Expenditures Preliminary Budget	Expenditures Final Budget	Expenditures Final Audit	Variance: Audit vs. Prelim Budget	Variance: Audit vs. Final Budget
2015-2016	$ 24,710,094	$ 25,652,143	$ 25,535,507	-3.34%	0.45%
2014-2015	24,352,938	25,382,557	25,543,293	-4.89%	-0.63%
2013-2014	24,440,077	24,730,819	24,579,819	-0.57%	0.61%
2012-2013	23,568,042	24,094,417	23,901,497	-1.41%	0.80%
2011-2012	22,968,265	24,047,312	23,281,357	-1.36%	3.19%
	Five Year Average (Over/-Under) Budget			-2.32%	0.88%

General Fund Revenues Budget vs. Actual—Five Year History

	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Variance: Audit vs. Prelim Budget	Variance: Audit vs. Final Budget
2015-2016	$ 24,696,302	$ 25,630,045	$ 25,656,217	3.89%	0.10%
2014-2015	24,444,945	25,389,746	25,532,672	4.45%	0.56%
2013-2014	23,671,405	24,192,010	24,067,672	1.67%	-0.51%
2012-2013	22,268,095	23,876,155	23,377,153	4.98%	-2.09%
2011-2012	22,369,303	23,448,350	23,095,248	3.25%	-1.51%
	Five Year Average (Over/-Under) Budget			3.65%	-0.69%

Original vs. Final Budget

The Uniform Budget and Accounting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. As a matter of practice, St. Joseph Public Schools amends its budget during the school year. For the fiscal year June 30, 2016, the budget was amended in December, March, and June of 2016.

Factors Bearing on the District's Future

Our elected officials and administration considered many factors when setting the District's 2016-2017 fiscal year budget. One of the most important factors affecting the budget is our student count. The State Foundation Allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016-2017 fiscal year is 10 percent and 90 percent of the February 2016 and September 2016 student counts, respectively. The 2016-2017 fiscal year budget was adopted in June 2016, based on an estimated number of students that will be enrolled in September 2016. Approximately 75 percent of total General Fund revenue is from the foundation allowance. Under State law, the District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the, 2016 fiscal year, we anticipate that the fall student count could be slightly higher than the estimate used in creating the 2016-2017 fiscal year operating budget. Once the final count and related per pupil funding is validated, the budget will then be amended.

Due to the fact that funding does not begin for the 2016-17 fiscal year until October, the district conducted a cash flow analysis for operations. A short term note was entered into in June 2016, for $600,000 at a rate of .96% to fund operations.

Contacting the District's Financial Management

The financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have questions about this report or need additional financial information, contract or Business Department of St. Joseph Public Schools at 3275 Lincoln Avenue, St. Joseph, Michigan.

STATEMENT OF NET POSITION
JUNE 30, 2016

		Governmental Activities
Assets		
Current assets:		
Cash and cash equivalents	$	2,920,076
Investments		2,491,272
Receivables		75,768
Due from other governmental units		3,404,567
Due from fiduciary funds		6,303
Inventories		9,774
Prepaid expenditures		165,082
Total current assets	$	9,072,842
Noncurrent assets:		
Capital assets, not being depreciated	$	1,077,901
Capital assets, depreciated		83,658,757
Less: accumulated depreciation		(24,114,456)
Total noncurrent assets	$	60,622,202
Deferred Outfows of Resources		
Deferred interest charges on bond issuance	$	1,947,551
Deferred outflows of resources related to pensions		4,436,659
Total deferred outflows of resources	$	6,384,210
Total Assets and Deferred Outflows of Resources	$	76,079,254
Liabilities		
Current liabilities:		
Accounts payable	$	85,646
Accrued payroll and other liabilities		2,334,179
State aid anticpation note		600,000
Unearned revenue		50,010
Accrued interest payable		332,787
Notes and bonds payable, due within one year		2,197,991
Compensated absences - current		12,857
Total current liabilities	$	5,613,470
Noncurrent liabilities:		
Notes and bonds payable, due in more than one year	$	49,163,623
Net pension liability		38,774,207
Compensated absences		115,716
Total noncurrent liabilities	$	88,053,546
Total Liabilities	$	93,667,016
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions		214,073
Total Liabilities and Deferred Inflows of Resources	$	93,881,089
Net Position (Deficit)		
Net investment in capital assets	$	11,208,139
Restricted for:		
Debt Service		478,201
Unrestricted		(29,488,175)
Total Net Position (Deficit)	$	(17,801,835)

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Revenues				Governmental Activities
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Primary government -					
Governmental activities:					
Instruction	$ 15,564,185	$ 19,725	$ 1,989,690	$ -	$ (13,554,770)
Support services	8,761,912	105,460	1,741,846	-	(6,914,606)
Community services	29,944	-	-	-	(29,944)
Food services	1,099,816	710,196	474,675	-	85,055
Athletics	766,638	186,864	-	-	(579,774)
Interest on long-term debt	2,114,057	-	-	-	(2,114,057)
Depreciation (unallocated)	2,091,071	-	-	-	(2,091,071)
	$ 30,427,623	$ 1,022,245	$ 4,206,211	$ -	$ (25,199,167)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	$ 5,704,519
Property taxes, levied for debt purposes	3,527,269
Property taxes, levied for capital project purposes	984,416
State aid not restricted to specific purposes	15,684,828
Interest and investment earnings	5,439
Other	170,495
Total general revenues	$ 26,076,966
Change in Net Position	$ 877,799
Net Position- beginning of year	(18,679,634)
Net Position- end of year	$ (17,801,835)

See accompanying notes to the financial statements.

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	2016 Capital Projects Bond Fund	Other Non-Major Governmental Funds	Total
Assets				
Cash and cash equivalents	$ 2,096,685	$ -	$ 823,391	$ 2,920,076
Investments	13,182	2,478,090	-	2,491,272
Accounts receivable	75,768	-	-	75,768
Due from other governmental funds	3,158	-	125,453	128,611
Due from other governmental units	3,393,149	-	11,418	3,404,567
Due from fiduciary funds	6,051	-	252	6,303
Inventory	-	-	9,774	9,774
Prepaid expenditures	34,602	-	-	34,602
Total Assets	$ 5,622,595	$ 2,478,090	$ 970,288	$ 9,070,973
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable	$ 85,646	$ -	$ -	$ 85,646
Accrued payroll and related liabilities	2,334,179	-	-	2,334,179
State aid anticipation note	600,000	-	-	600,000
Unearned revenue	30,195	-	19,815	50,010
Due to other governmental funds	-	490	128,121	128,611
Total Liabilities	$ 3,050,020	$ 490	$ 147,936	$ 3,198,446
Deferred Inflows of Resources				
Receivables for use in subsequent year "unavailable revenue"	$ 1,846	-	$ -	$ 1,846
Fund Balances				
Non-spendable - prepaid expenditures	$ 34,602	$ -	$ -	$ 34,602
Non-spendable - inventory	-	-	9,774	9,774
Restricted for debt retirement	-	-	478,201	478,201
Restricted for capital projects	-	2,477,600	319,366	2,796,966
Restricted for food service	-	-	94,365	94,365
Unassigned	2,536,127	-	(79,354)	2,456,773
Total Fund Balances	$ 2,570,729	$ 2,477,600	$ 822,352	$ 5,870,681
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 5,622,595	$ 2,478,090	$ 970,288	$ 9,070,973

See accompanying notes to the financial statements.

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET POSITION

JUNE 30, 2016

Total Fund Balances - Governmental Funds	$	5,870,681
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred interest charges from bond refundings not capitalized in the governmental funds		1,947,551
Contributions receivable earned but not received within 60 days.		1,846
Deferred outflows of resources related to pension contributions made after measurement date		3,206,696
Deferred outflows related to pensions		1,229,963
Prepaid bond insurance costs		130,480
Capital assets used in governmental activities are not financial resources and are not reported in the funds.		
Cost of the capital assets		84,736,658
Accumulated depreciation		(24,114,456)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Notes and bonds payable		(47,095,000)
Bond premium associated with bonds		(4,266,614)
Compensated absences		(128,573)
Net pension liability		(38,774,207)
Deferred inflows of resources related to pension changes in assumptions and changes in differences actual earnings on plan investments		(214,073)
Accrued interest payable is not included as a liability in governmental funds		(332,787)
Total Net Position - Governmental Activities	**$**	**(17,801,835)**

See accompanying notes to the financial statements.

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

	General Fund	2016 Capital Projects Bond Fund	Other Non-Major Governmental Funds	Total
Revenues				
Property taxes	$ 5,704,519	$ -	$ 4,511,685	$ 10,216,204
Local sources	632,559	-	710,196	1,342,755
State sources	18,523,165	-	56,327	18,579,492
Federal sources	286,550	-	418,348	704,898
Interdistrict sources	283,737	-	-	283,737
Athletic sources	186,864	-	-	186,864
Earnings on investments	277	95	5,067	5,439
Total Revenues	$ 25,617,671	$ 95	$ 5,701,623	$ 31,319,389
Expenditures				
Instruction and instructional support services	$ 15,859,970	$ -	$ -	$ 15,859,970
Supporting services	8,835,141	29,622	1,114,120	9,978,883
Community services	30,428	-	-	30,428
Athletics	776,807	-	-	776,807
Capital outlay capitalized	10,485	-	398,410	408,895
Debt service:				
Principal on long-term debt	-	-	1,875,000	1,875,000
Interest on long-term debt	-	-	2,416,118	2,416,118
Intergovernmental payments	22,676	-	-	22,676
Total Expenditures	$ 25,535,507	$ 29,622	$ 5,803,648	$ 31,368,777
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 82,164	$ (29,527)	$ (102,025)	$ (49,388)
Other Financing Sources (Uses)				
Operating transfers in	$ 38,546	$ -	$ -	$ 38,546
Operating transfers out	-	-	(38,546)	(38,546)
Face value of debt issued	-	2,450,000	-	2,450,000
Premium on debt issued	-	57,127	-	57,127
Total Other Financing Sources (Uses)	$ 38,546	$ 2,507,127	$ (38,546)	$ 2,507,127
Net Change in Fund Balances	$ 120,710	$ 2,477,600	$ (140,571)	$ 2,457,739
Fund Balances - Beginning of year	2,450,019	-	962,923	3,412,942
Fund Balances - End of year	$ 2,570,729	$ 2,477,600	$ 822,352	$ 5,870,681

See accompanying notes to the financial statements.

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds		$ 2,457,739
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	$ (2,091,071)	
Capitalized capital outlay	408,895	
Total		(1,682,176)
Decrease in accrued interest.		135,882
Increase in the liability for compensated absences not reported in the governmental funds.		(31,108)
Current year use of deferred interest charges associated with the issuance of 2005, 2010, 2013 and 2015 advance refunding bonds.		(161,099)
Governmental funds report prepaid bond insurance costs as expenditures; in the statement of activities, these costs are allocated over the life of the bonds.		(6,867)
Bond and note proceeds are reported as an other financing source revenue item in the governmental funds, but is recorded as a long-term liability in the statement of activities.		(2,450,000)
Bond premiums associated with the 2016 Bonds is reported as an other financing source revenue item in the governmental funds, but is recorded as a long-term liability in the statement of activities.		(57,127)
Current year change in contributions not available within 60 days after year-end.		(13,967)
Amortization of bond premiums for 2013 and 2015 refunding bonds.		327,278
Change in pension expense related to pension plan.		484,244
Repayment of bond and note payable principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).		1,875,000
Change in Net Position of Governmental Activities		**$ 877,799**

See accompanying notes to the financial statements.

Statement of Fiduciary Net Position
June 30, 2016

	Private-Purpose Trusts Scholarship Fund	Agency Fund- Student Activities	Total
Assets:			
Cash and cash equivalents	$ 49,236	$ 492,238	$ 541,474
Total assets	$ 49,236	$ 492,238	$ 541,474
Liabilities:			
Due to student groups	$ -	$ 485,935	$ 485,935
Payable to other governmental funds	-	6,303	6,303
Total liabilities	$ -	$ 492,238	$ 492,238
Net Position:			
Reserved for scholarships	$ 49,236	$ -	$ 49,236
Total net position	$ 49,236	$ -	$ 49,236

Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2016

	Private-Purpose Trusts Scholarship Fund
Additions:	
Interest	$ 4
Donations	2,000
Deductions:	
Scholarships awarded	(1,500)
Change in net position	$ 504
Net Position-Beginning	48,732
Net Position-Ending	$ 49,236

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of St. Joseph Public Schools (the "School District") conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board ("GASB") for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-Wide and Fund Financial Statements

The District-wide financial statements (i.e., the statement of net position and the statement of changes in activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the School District's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements – The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District-Wide Statements (concluded) – Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

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

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

The 2016 Capital Projects Bond Fund is the fund that accounts for the use of the 2016 bond proceeds.

Additionally, the School District reports the following fund types:

Special Revenue Funds are used to account for the specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. As of June 30, 2016, the special revenue fund maintained by the School District is the Food Services Fund.

Capital Projects Funds are used to account for financial resources that are restricted for capital outlays, including the acquisition or construction of capital facilities and other capital assets. As of June 30, 2016, the capital projects fund maintained by the School District are the Capital Projects Sinking Fund and the 2010 Capital Projects Bond Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Retirement Funds are used to account for financial resources that are restricted for principal and interest.. As of June 30, 2016, the debt retirement funds maintained by the School District are the 2005/2010/2015 B Debt Service Fund and the 2010/2013/2015 A Debt Service Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents. The School District also maintains a Scholarship Fund to pay for scholarships for selected high school students. These scholarships are paid from the principal and investment earnings of the fund, and are treated as private-purpose trusts.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

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

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For St. Joseph Public Schools, taxpayers in the City of St. Joseph and St. Joseph, Royalton, and Lincoln Townships, properties are assessed as of December 31st and the related property taxes are levied and become a lien on July 1st for 100 percent of the taxes which are due September 15th . The final collection date is February 28th , after which uncollected taxes are added to the Berrien County delinquent tax rolls.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a statewide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables and Payables (Concluded)

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 used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory.

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both District-wide and fund financial statements.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental 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 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The School District does not have infrastructure type assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualifies for reporting in this category. It is the deferred outflow related to the pension plan and deferred outflow of charges for the bond refunding.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences – The liability for compensated absences reported in the District-wide financial statements consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments. The amount reported is salary related and includes fringe benefits.

Long-Term Obligations – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Where applicable, premiums and discounts, are capitalized and amortized over the life of the bonds using the effective interest method. Bond issuance costs except for prepaid insurance is expensed.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Inflows of Resources – In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of sources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, for long-term receivables. These amounts are unavailable and recognized as an inflow of resources in the period that amounts become available. The School District only has one item that qualifies for reporting in this category. It is the deferred inflows related to the pensions plan.

Comparative Data – Comparative data is not included in the School District's financial statements.

Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amount of expenditures during the reported period. Actual results may differ from those estimates.

Fund Equity – The School District has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Equity - (concluded)

The following are the School District's fund balance classifications:

Non-spendable Fund Balance – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. As of June 30, 2016, the following fund balances were classified as non-spendable: $9,774 for inventories and $34,602 for prepaid expenditures.

Restricted Fund Balance – includes amounts that can be spent only for specific purposes stipulated by what the external resource provides (for example grant providers, constitutionally, or through enabling legislation). Effectively, restrictions may be changed or lifted only with the consent of resource providers. As of June 30, 2016, the following fund balances have been restricted: $2,796,966 for capital projects, $478,201 for debt retirement, and $94,365 for food service.

Committed Fund Balance – includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed constraint originally. As of June 30, 2016, none of the School District's governmental fund balances were classified as committed.

Assigned Fund Balance – includes amounts that are constrained by the government's intent to be used for a specific purpose, but are neither restricted nor committed. As of June 30, 2016, none of the School District's governmental fund balances were classified as assigned.

Unassigned Fund Balance – is the residual classification for General Fund. This classification represents governmental fund balances that have not been assigned to other funds or that have not been restricted, committed, or assigned to specific purposes within the respective governmental fund balances. As of June 30, 2016, $2,456,773 of the governmental fund balances was classified as unassigned.

GASB Statement No. 54 also changed the fund definition of a special revenue fund. Before GASB Statement No. 54, the special revenue fund's purposes was to account for the proceeds of revenue sources (other than trusts for individual, private organizations, or other governments or for major capital projects) that are *legally restricted* to expenditure for *specified purposes*. The standard's new definition of a special revenue fund is a fund established to account for and report the proceeds of specific revenue sources that are *restricted or committed to expenditures* for specific purposes other than debt service or capital projects. A special revenue fund must now have a specific restricted or committed revenue source which comprises a substantial portion of fund's resources on an ongoing basis. If a current fund does not have this trait the fund is now reported in the General Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

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

Net Position Flow Assumption – Sometimes the School District will fund outlays for particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the School District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information — Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year-end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year.

Encumbrance accounting is employed in governmental funds. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. There were no encumbrances at year end.

Excess of Expenditures Over Appropriations in Budgeted Funds — The School District had expenditures that exceeded appropriations in the following budgeted functions:

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONCLUDED)

General Fund		
Instruction - Basic programs	$	2,346
Supporting Services - Pupil		72,716
Supporting Services - School administration		3,609
Supporting Services - Business services		12,613
Supporting Services - Operations and maintenance		842
Athletics		7,330
Intergovernmental payments		1,421

Funds sufficient to provide for excess expenditures were made available from other functions in the fund, and the excess had no impact on the financial results of the School District.

Net Positon Deficit – As of June 30, 2016, the Government-wide Statement of Net Position had a cumulative net position deficit of $17,801,835.

Fund Balance Deficit – As of June 30, 2016, the School District has a fund balance deficit in the 2010/2013/2015 A Debt Service Fund. The School District plans to eliminate the deficit through future tax collections.

NOTE 3. DEPOSITS AND INVESTMENTS

As of June 30, 2016, the School District's deposits and investments include the following:

	Cash and Cash Equivalents	Investments	Fiduciary Funds	Total
Cash on hand	$ 2,020	$ -	$ -	$ 2,020
Deposits	2,918,056	-	541,474	3,459,530
Investments	-	2,491,272	-	2,491,272
	$ 2,920,076	$ 2,491,272	$ 541,474	$ 5,952,822

Bank Deposits: All cash of the School District is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

Custodial Credit Risk-Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2016, $3,284,998 of the School District's bank balance of $3,525,241 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name

Investments: Michigan law permits investments in: 1) Bonds and other obligations of the United States Governments, 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively, 3) Certain commercial paper, 4) United States Government repurchase agreements, 5) Banker's acceptance of the United States Bank, and 6) Certain mutual funds. The School District has put further restrictions on those investments through its current policy, and the following investment is permitted by law and policy.

NOTE 3. DEPOSITS AND INVESTMENTS (CONCLUDED)

			Investment Maturities		
Investment Type	Fair Value	Current	1 - 5 years	6 - 10 years	More than 10
Investment Pools	$ 2,491,272	$ 2,491,272	$ -	$ -	$ -
Total Investments	$ 2,491,272	$ 2,491,272	$ -	$ -	$ -

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

Credit Risk: State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by Nationally Recognized Statistical Rating Organizations ("NRSRO's"). As of June 30, 2016, the School District's investments were rated AAAm by Standard's & Poors.

Concentration of Credit Risk: The School District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the School District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The majority of the school's investments are held in multiple asset backed securities and U.S. Treasury/Agency securities.

Custodial Credit Risk—Investments: For an investment, this is the risk that in the event of bank failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in the investment pool of $2,491,272 the School District has a custodial credit risk exposure of $2,491,272, because the related securities are uninsured, unregistered, and held by the School District's brokerage firm which is also the counterparty for these particular securities.

NOTE 4. RECEIVABLES AND PAYABLES

Receivables as of year-end for the School District's individual major funds, and the non-major funds and fiduciary funds in the aggregate, including any allowance for uncollectible amounts are as follows:

	General Fund	2016 Capital Projects Bond Fund	Non-Major	Total
Receivables:				
Intergovernmental	$ 3,393,149	$ -	$ 11,418	$ 3,404,567
Trade	75,768	-	-	75,768
Fiduciary funds	6,051	-	252	6,303
	$ 3,474,968	$ -	$ 11,670	$ 3,486,638

Payables as of year-end for the School District's individual major funds, and the non-major and fiduciary funds in the aggregate, are as follows:

	General Fund	2016 Capital Projects Bond Fund	Non-Major	Total
Payables:				
Trade	$ 85,646	$ -	$ -	$ 85,646

NOTE 5. RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims, workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 6. CAPITAL ASSETS

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

	July 1, 2015	Additions	Disposals	Reclassifications & Adjustments	June 30, 2016
Assets not being depreciated:					
Land	$ 1,077,901	$ -	$ -	$ -	$ 1,077,901
Subtotal	$ 1,077,901	$ -	$ -	$ -	$ 1,077,901
Capital assets being depreciated:					
Building and building improvements	$ 79,642,717	$ 398,410	$ -	$ -	$ 80,041,127
Land improvements	1,160,628	-	-	-	1,160,628
Buses and other vehicles	1,381,797	-	(82,000)	-	1,299,797
Furniture and equipment	1,146,720	10,485	-	-	1,157,205
Subtotal	$ 83,331,862	$ 408,895	$ (82,000)	$ -	$ 83,658,757
Accumulated depreciation:					
Building and building improvements	$ 19,148,038	$ 1,941,359	$ -	$ -	$ 21,089,397
Land improvements	821,263	58,104	-	-	879,367
Buses and other vehicles	1,149,921	46,549	-	-	1,196,470
Furniture and equipment	986,163	45,059	(82,000)	-	949,222
Subtotal	$ 22,105,385	$ 2,091,071	$ (82,000)	$ -	$ 24,114,456
Net capital assets being depreciated	$ 61,226,477				$ 59,544,301
Net capital assets	$ 62,304,378				$ 60,622,202

Depreciation expense of $2,091,071 was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

NOTE 7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Significant Due To/From Other Fund Descriptions:

The 2010/2013/2015 A Debt Service Fund owes the 2005/2010/2015 B Debt Service Fund $125,453 for principal and interest paid during the year.

NOTE 7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONCLUDED)

Interfund Transfers Descriptions

The Food Service Fund transferred $38,546 to the General Fund for the indirect costs associated with running the Food Service Fund.

The composition of interfund balances is as follows:

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	2016 Capital Projects Bond Fund	$ 490
General Fund	Other Non-Major Governmental Funds - Food Service Fund	$ 1,318
General Fund	Other Non-Major Governmental Funds - 2005/2010/2015B Debt Service Fund	$ 1,055
General Fund	Other Non-Major Governmental Funds - Capital Projects Sinking	$ 295
Other Non-Major Governmental Funds - 2005/2010/2015B Debt Service Fund	Other Non-Major Governmental Funds - 2010/2013/2015A Debt Service Fund	$ 125,453

Interfund Transfers:

Transfer In:	Transfer Out:	Amount
General Fund	Other Non-Major Governmental Funds - Food Service Fund	$ 38,546

NOTE 8. FOUNDATION

The School District has established a Foundation that has a 501(c)(3) status with the Internal Revenue Service. As of June 30, 2016, the School District's transactions with the Foundation were as follows:

Donations recognized in current period	$ 343,623
Donations received for future periods	-
Total	$ 343,623

NOTE 9. LONG-TERM DEBT

The School District issues bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds	$ 45,770,000	$ 2,450,000	$ (1,125,000)	$ 47,095,000	$ 1,865,000
Unamortized Premiums	4,536,765	57,127	(327,278)	4,266,614	332,991
Deferred outflow of resources					
Deferred charges on bond refunding	(2,108,650)	-	161,099	(1,947,551)	(161,099)
Notes and installment purchases	750,000	-	(750,000)	-	-
Total Long-Term Debt Worth	$ 48,948,115	$ 2,507,127	$ (2,041,179)	$ 49,414,063	$ 2,036,892

Governmental Activities:

At June 30, 2016, long-term debt consisted of:

$3,035,000 - 2010 School Building and Site Bonds, Series A, (general obligation-unlimited tax); payable in annual installments of $570,000 to $735,000 beginning 5/1/2013 through 5/1/2018; interest at 2.0% to 3.5%.	$ 1,440,000
$22,100,0000 - 2015 Refunding Bonds, Series A; payable in annual installments of $305,000 to $3,205,000 beginning 5/1/2027 through 5/1/2035; interest at 3.0% to 5.0%.	22,100,000
$5,335,000 - 2010 Refunding Bonds; payable in annual installments of $1,300,000 to $1,365,000 beginning 5/1/2023 through 5/1/2026; interest at 3.5% to 3.75% .	5,335,000
$6,895,000 - 2015 Refunding Bonds, Series B; payable in annual installments of $555,000 to $1,135,000 beginning 5/1/2016 through 5/1/2022; interest at 5.0%.	6,340,000
$9,430,000 - 2013 Refunding Bonds; payable in annual installments of $375,000 to $210,000 beginning 5/1/2017 through 5/1/2026; interest at 1.692%.	9,430,000
$2,450,000 -2016 School Building and Equipment Bonds, Series I (general obligation-unlimited tax); payable in annual installments of $375,000 to $210,000 beginning 5/1/2017 through 5/1/2026; interest at 1.692%.	2,450,000
	$47,095,000

NOTE 9. LONG-TERM DEBT, CONTINUED

Annual debt service requirements to maturity for the above Governmental bond and note obligations are as follows:

	Governmental Activities:		
	Principal	Interest	Total
2017	$ 1,865,000	$ 2,002,769	$ 3,867,769
2018	2,025,000	1,939,981	3,964,981
2019	2,140,000	1,858,506	3,998,506
2020	2,295,000	1,783,756	4,078,756
2021	2,205,000	1,701,006	3,906,006
2022-2026	12,570,000	7,221,200	19,791,200
2027-2031	12,050,000	4,824,950	16,874,950
2032-2035	11,945,000	1,529,000	13,474,000
Unamortized premium, net of deferred outflows	2,319,063	-	2,319,063
	$49,414,063	$ 22,861,168	$ 72,275,231

Interest expense of $2,091,071 was not charged to activities, as the School District considers its debt and related assets to impact multiple activities and allocation was not practical.

Compensated absences at June 30, 2016 consist of the following:

	Beginning Balance	Net Change	Ending Balance	Due Within One Year
Compensated absences which are payable upon termination of employment.	$ 97,465	$ 31,108	$ 128,573	$ 12,857

NOTE 9. LONG-TERM DEBT, CONCLUDED

Advance Refunding – The School District has defeased in 2005, 2010, 2013, and 2015 certain unlimited tax school improvement bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for defeased bonds are not included in the School District's financial statements. As of June 30, 2016, $53,535,000 of bonds considered defeased are still outstanding.

During the fiscal year 2005, the School District issued $8,905,000 of unlimited tax refunding bonds, plus premium on capital appreciation bonds, to provide resources to place in escrow account for the purpose of generating resources for future debt service payments of $14,608,050 of unlimited tax school improvement bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District-wide financial statements.

During fiscal year 2011, the School District issued $8,195,000 of unlimited tax refunding bonds, less a discount on capital appreciation bonds, to provide resources to place in escrow account for the purpose of generating resources for future debt service payments of $11,632,774 of unlimited tax school improvement bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District-wide financial statements.

During fiscal year 2014, the School District issued $9,430,000 of unlimited tax refunding bonds, plus a premium on capital appreciation bonds, to provide resources to place in escrow account for the purpose of generating resources for future debt service payments of $13,455,655 of unlimited tax school improvement bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District-wide financial statements.

During fiscal year 2015, the School District issued $25,380,000 of unlimited tax refunding bonds, plus a premium on capital appreciation bonds, to provide resources to place in escrow account for the purpose of generating resources for future debt service payments of $44,412,129 of unlimited tax school improvement bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District-wide financial statements.

During fiscal year 2015, the School District issued $7,680,000 unlimited tax refunding bonds, plus a premium on capital appreciation bonds, to provide resources to place in escrow account for the purpose of generating resources for future debt service payments of $9,092,600 of unlimited tax school improvement bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the District-wide financial statements.

NOTE 10. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Plan Description – The School District is a participating employer in the Michigan Public School Employees' Retirement System ("MPSERS" or "System"), a cost-sharing multi-employer plan, of which substantially all of School District's employees are covered. MPSERS's pension plan was established by the State of Michigan to provide retirement, survivor and disability benefits to public school employees. In addition, MPSERS's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. Financial statements, required supplementary information, and full actuarial assumptions of the MPSERS plan are included in the MPSERS's comprehensive annual financial report. Copies of the report can be obtained by writing to 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Benefits Provided – Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit ("DB") pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB 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 10. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM, 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. 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.

Contributions – The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits ("OPEB"). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. 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, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0-4.0%	22.52-23.07%
Member Investment Plan	3.0-7.0%	22.52-23.07%
Pension Plus	3.0-6.4%	21.99%
Defined Contribution	0.00%	17.72-18.76%

Proportionate Share of Reporting Unit's Net Pension Liability – At June 30, 2016, the School District reported a liability of $38,774,207 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period. At September 30, 2015, the District's proportion was 0.15875 percent, which was a decrease of 0.00046 percent from its proportion measured as of September 30, 2014.

NOTE 10. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM, CONTINUED

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

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

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

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 provided through non-university employers only). 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 10. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM, CONTINUED

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (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%
$ 49,989,893	$ 38,774,207	$ 29,318,925

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

NOTE 10. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM, CONTINUED

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:

Summary of Actuarial Assumptions

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

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

Notes:

- Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr)

NOTE 10. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM, CONTINUED

Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2016, the School District recognized total pension expense of $3,275,017. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 128,432
Changes of assumptions	954,703	-
Net difference between projected and actual earnings on pension plan investments	197,911	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	77,349	85,641
School District contributions subsequent to the measurement date*	3,206,696	-
Total	$ 4,436,659	$ 214,073

*This amount, reported as deferred outflows of resources related to pensions resulting from the School District's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Year Ending June 30	Amount:
2017	$ 106,571
2018	106,571
2019	54,806
2020	747,942
	$ 1,015,890

Payables to the Pension Plan – As of June 30, 2016, the School District has payables to the MPSERS pension plan of $273,440 for the outstanding amount of contributions due to the pension plan required for the year ended June 30, 2016.

MPSERS Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR.

NOTE 10. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM, CONCLUDED

Post-Employment Benefits Other than Pensions - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 20 percent of the monthly premium amount for the health, dental and vision coverages. 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. The School District's contribution rates vary depending on which plan the employee is enrolled in. For the period of July 1, 2014 to September 30, 2014 the contribution rates ranged from 5.52% to 6.45% of covered payroll. For the period of October 1, 2014 to September 30, 2015, the contribution rates ranged from 2.20% to 2.71% of covered payroll. The School District's contributions to the MPSERS plan for retiree healthcare benefits for the years ended June 30, 2016, 2015, and 2014 were $797,457, $577,636, and $1,077,625, respectively.

NOTE 11. OTHER BENEFITS

In addition to the pension benefits described in Note 10, the School District also provides 403(b) tax deferred annuity plans. All employees are eligible to participate in the plans and are fully vested immediately for all contributions.

The School District is also able to offer a tax deferred "buy-in" program for years of service for all eligible employees in the state-provided pension plan. The percentage rate for the employee's contribution was calculated based on the previous year's salary and age.

NOTE 12. CAPITAL PROJECTS SINKING FUND

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212 of the Revised School Code.

NOTE 13. CAPITAL PROJECTS BOND EXPENDITURES

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

Beginning with the year of bond issuance, The School District reported the annual construction activity in the 2016 Capital Projects Bond Fund.

NOTE 14. OPERATING LEASES

The School District leases copiers under operating leases. These leases were entered into in June 2010 and April 2008. Rent expense was $49,320 for the fiscal year ended June 30, 2016.

NOTE 14. OPERATING LEASES, CONCLUDED

In July 2012, the School Board authorized a two year lease for a handicap lift school bus. Rent expense was $10,965 for the fiscal year ended June 30, 2015. In August 2014, the School Board renewed this lease to a two-year lease through June 2016. Annual payments of $10,965 are payable in August 2014 and August 2015.

In August, 2012, the School Board approved a new seven year lease agreement with the St. Joseph Lincoln Senior Citizen Center. The lease is "rent free" for the duration and ends August 31, 2019. The School District estimates the estimated value of the "rent free" space is $1,500 per month. Rent expense of $18,000 was expensed for the fiscal year ended June 30, 2016.

In July 2013, the School District entered into a three year lease of (#2) 235 MacBook Air computers for one to one use by the sixth graders (class of 2020) during their time at Upton Middle School. An initial payment of $94,871 was made in July 2013. Rent expense was $94,871 for the year ended June 30, 2016.

In July, 2014, the School District entered into a three-year lease of (#3) 180 MacBook Pro computers for classroom use by the teaching staff. Rent expense was $65,054. Future payments of $65,054 are due in July 2016 and July 2017.

In August, 2014, the School District entered into a three-year lease of (#4) 50 MacBook Air computers for one to one use by the sixth graders (class of 2021) during their time at Upton Middle School. Rent expense was $80,959. Future payments of $80,959 are due in August 2016.

In August, 2015, the School District entered into a three-year lease of (#5) 235 MacBook Air computers for one to one use by the sixth graders (class of 2022) during their time at Upton Middle School. Rent expense was $37,889 paid in August 2015 and February 2016. Future payments of $37,889 are due in August 2016 and February 2017.

NOTE 15. UNEARNED/UNAVAILABLE REVENUE

Governmental funds report revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned/unavailable revenue are as follows:

Liability - Unearned Revenue	**Food Services Fund**	**General Fund**	**Total**
Funds in students' lunch accounts at year-end	$ 19,815	$ -	$ 19,815
Targeted Literacy Instruction and Interventions Grant	-	30,195	30,195
Total	$ 19,815	$ 30,195	$ 50,010
Deferred Inflow - Unavailable			
Booster contributions for donated scoreboards	$ -	$ 1,846	$ 1,846

NOTE 16. STATE AID ANTICIPATION NOTES

On July 1, 2015, the School District issued a State Anticipation Note maturing October 21, 2015 in the amount of $825,000 with an interest rate of 1.27%. On June 1, 2016, the School District issued a State Anticipation Note maturing October 21, 2016 in the amount of $600,000 with an interest rate of .96%. Both notes were issued to meet short-term cash flow needs. The notes are secured by the full faith and credit of the School District.

Beginning Balance	Additions	Reductions	Ending Balance
$ -	$ 1,425,000	$ (825,000)	$ 600,000

NOTE 17. SUBSEQUENT EVENTS

The School District has evaluated subsequent events through September 30, 2016, the date of the financial statements were available to be issued. No events or transactions occurred during this period which requires recognition or disclosure in the financial statements.

NOTE 18. UPCOMING PRONOUNCEMENTS

In March 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement 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 Statement provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The School District is currently evaluating the impact this standard will have on the financial statements when adopted for the 2017-2018 fiscal year.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (“OPEB”) to their employees. This pronouncement applies to post-retirement health care provided to School District employees that is provided through MPSERS. This OPEB standard will require the School District to recognize on the face of the financial statements (government-wide statements) its proportionate share of the net OPEB liability related to its participation in the MPSERS plan. The Statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The provisions of this statement are effective for School District’s financial statements for the year ending June 30, 2018. The School District is currently evaluating what impact the standard will have on its financial statements once adopted.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE — GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Amended Budget	Actual
Revenues			
Property taxes	$ 5,674,130	$ 5,716,030	$ 5,704,519
Local sources	419,500	604,108	632,559
State sources	17,872,706	18,511,561	18,523,165
Federal sources	284,197	299,518	286,550
Interdistrict sources	260,000	283,890	283,737
Athletic sources	160,019	184,638	186,864
Earnings on investments	750	300	277
Total Revenues	$ 24,671,302	$ 25,600,045	$ 25,617,671
Expenditures			
Instruction:			
Basic programs	$ 13,219,663	$ 14,107,397	$ 14,109,743
Added needs	1,760,290	1,873,492	1,750,227
Supporting services:			
Pupil	1,126,763	1,212,848	1,285,564
Instructional staff	1,074,519	1,146,881	1,078,797
General administration	387,295	400,015	397,159
School administration	1,338,128	1,372,040	1,375,649
Business services	499,435	553,712	566,325
Operations and maintenance	2,793,344	2,730,607	2,731,449
Transportation	913,289	860,236	854,469
Technology/Communication	720,225	556,055	545,729
Community services	50,701	37,643	30,428
Athletics	826,442	769,477	776,807
Capital outlay	-	10,485	10,485
Intergovernmental payments	-	21,255	22,676
Total Expenditures	$ 24,710,094	$ 25,652,143	$ 25,535,507
Excess (Deficit) of Revenues Over (Under) Expenditures	$ (38,792)	$ (52,098)	$ 82,164
Other Financing Sources (Uses)			
Operating transfers in	$ 25,000	$ 30,000	$ 38,546
Operating transfers out	-	-	-
Total Other Financing Sources (Uses)	$ 25,000	$ 30,000	$ 38,546
Net Change in Fund Balances	$ (13,792)	$ (22,098)	$ 120,710
Fund Balances - Beginning of year	2,450,019	2,450,019	2,450,019
Fund Balances - End of year	$ 2,436,227	$ 2,427,921	$ 2,570,729

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ST. JOSEPH PUBLIC SCHOOLS' PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
AMOUNTS WERE DETERMINED AS OF THE PLAN YEAR ENDED SEPTEMBER 30

	2015	2014
School District's proportion of net pension liability	0.15875%	0.15921%
School District's proportionate share of net pension liability	$ 38,774,207	$ 35,067,772
School District's covered-employee payroll	$ 13,401,946	$ 13,637,853
School District's proportionate share of net pension liability as a percentage of its covered-employee payroll	289.32%	257.14%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF ST. JOSEPH PUBLIC SCHOOLS' CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
AMOUNTS WERE DETERMINED AS OF THE YEAR ENDED JUNE 30

	2015	2014
Statutorily required contributions	$ 3,678,904	$ 2,853,827
Contributions in relation to statutorily required contributions	3,678,904	2,853,827
Contribution deficiency (excess)	$ -	$ -
School District's covered-employee payroll	$ 13,427,369	$ 13,419,865
Contributions as a percentage of covered-employee payroll	27.40%	21.27%

Changes of benefit terms: There were no changes of benefit terms for the plan year ended September 30, 2015.

Changes of assumptions: There were no changes of benefit assumptions for the plan year ended September 30, 2015.

OTHER SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

	Food Services Fund	Capital Projects Sinking Fund	2010 Capital Projects Bond Fund	2005/2010/2015 B Debt Service Fund	2010/2013/2015 A Debt Service Fund	Total Non-Major Governmental Funds
Assets						
Cash and cash equivalents	$ 105,395	$ 319,318	$ -	$ 353,269	$ 45,409	$ 823,391
Due from other governmental funds	-	-	-	125,453	-	125,453
Due from other governmental units	9,851	343	-	534	690	11,418
Due from fiduciary funds	252	-	-	-	-	252
Inventory	9,774	-	-	-	-	9,774
Total Assets	$ 125,272	$ 319,661	$ -	$ 479,256	$ 46,099	$ 970,288
Liabilities and Fund Balances						
Liabilities						
Unearned revenue	$ 19,815	$ -	$ -	$ -	$ -	$ 19,815
Due to other governmental funds	1,318	295	-	1,055	125,453	128,121
Total Liabilities	$ 21,133	$ 295	$ -	$ 1,055	$ 125,453	$ 147,936
Fund Balances						
Non-spendable inventory	$ 9,774	$ -	$ -	$ -	$ -	$ 9,774
Restricted for debt retirement	-	-	-	478,201	-	478,201
Restricted for capital projects	-	319,366	-	-	-	319,366
Restricted for food service	94,365	-	-	-	-	94,365
Unassigned fund balance	-	-	-	-	(79,354)	(79,354)
Total Fund Balances	$ 104,139	$ 319,366	$ -	$ 478,201	$ (79,354)	$ 822,352
Total Liabilities and Fund Balances	$ 125,272	$ 319,661	$ -	$ 479,256	$ 46,099	$ 970,288

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES– NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Food Services Fund	Capital Projects Sinking Fund	2010 Capital Projects Bond Fund	2005/2010/2015 B Debt Service Fund	2010/2013/2015 A Debt Service Fund	Total Non-Major Governmental Funds
Revenues						
Property taxes	$ -	$ 984,416	$ -	$ 1,540,657	$ 1,986,612	$ 4,511,685
Local sources	710,196	-	-	-	-	710,196
State sources	56,327	-	-	-	-	56,327
Federal sources	418,348	-	-	-	-	418,348
Earnings on investments	11	35	-	2,017	3,004	5,067
Total Revenues	$ 1,184,882	$ 984,451	$ -	$ 1,542,674	$ 1,989,616	$ 5,701,623
Expenditures						
Supporting services	$ 1,109,017	$ -	$ 2,353	$ 1,750	$ 1,000	$ 1,114,120
Capital outlay capitalized	-	398,410	-	-	-	398,410
Debt retirement:						
Principal on long-term debt	-	750,000	-	555,000	570,000	1,875,000
Interest on long-term debt	-	5,240	-	614,113	1,796,765	2,416,118
Total Expenditures	$ 1,109,017	$ 1,153,650	$ 2,353	$ 1,170,863	$ 2,367,765	$ 5,803,648
Excess (Deficiency) of Revenues over (under) Expenditures	$ 75,865	$ (169,199)	$ (2,353)	$ 371,811	$ (378,149)	$ (102,025)
Other Financing Sources (Uses)						
Operating transfers in	$ -	$ -	$ -	$ -	$ -	$ -
Operating transfers out	(38,546)	-	-	-	-	(38,546)
Total Other Financing Sources (Uses)	$ (38,546)	$ -	$ -	$ -	$ -	$ (38,546)
Net Change in Fund Balances	$ 37,319	$ (169,199)	$ (2,353)	$ 371,811	$ (378,149)	$ (140,571)
Fund Balances - Beginning of year	66,820	488,565	2,353	106,390	298,795	962,923
Fund Balances - End of year	$ 104,139	$ 319,366	$ -	$ 478,201	$ (79,354)	$ 822,352

Management Compliance Letter

KRUGGEL LAWTON CPA

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

To the Board of Education of
St. Joseph Public Schools
St. Joseph, Michigan

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

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Joseph Public Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Respectfully submitted,

Kruggel, Lawton & Company, LLC

Certified Public Accountants

St. Joseph, Michigan
September 30, 2016

SECTION I – STATUS OF PRIOR YEAR FINDINGS

Finding: 2015-001 – Material Weakness – Material Audit Adjustments

Criteria – School Districts are responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition – During the audit there were material audit adjustments that were required to reflect accurate ending balances in the debt fund.

Cause - During the 2015 fiscal year, the School District had a bond refinancing which included IRS interest subsidies. Three material adjustments were posted to correct financial postings.

Effect – Without the proposed audit adjustments the financial statements would have been materially misstated.

Recommendation – The School District has already reviewed and approved the necessary correcting journal entries, and their effect is properly included in the audited financial statements. Accordingly, no further corrective action is necessary.

Views of Responsible Officials and Planned Corrective Actions – The School District feels with recent changes in our Business Office practices and procedures, the cause of this material weakness finding has been corrected. We are confident that in our future audit years, there will not be any material audit adjustments.

Status of Finding –This finding will not be repeated. There were no material audit entries proposed by the auditors for audit..

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no findings for the current year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The School District has spent under the $750,000 threshold for federal expenditures and is not required to have a single audit under the Uniform Guidance.