

THREE RIVERS COMMUNITY SCHOOLS

**FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION**

JUNE 30, 2015

Three Rivers Community Schools

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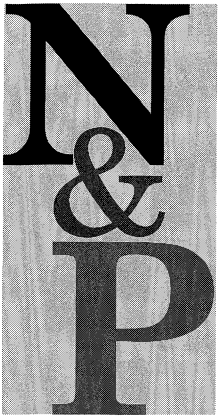
Three Rivers Community Schools

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Three Rivers Community Schools, Michigan

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Rivers Community Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Three Rivers Community School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Emphasis of Matter

Accounting Changes

As described in Note 10 to the financial statements, the School District adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Financial Reporting for Pension Plans* during the year ended June 30, 2015.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Three Rivers Community Schools' basic financial statements. The additional supplementary information, as identified in the table of contents, and schedule of expenditures of federal awards as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

Board of Education
Three Rivers Community Schools

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, on our consideration of the Three Rivers Community School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Three Rivers Community School's internal control over financial reporting and compliance.

October 30, 2015

Norman & Paulsen, P.C.

THREE RIVERS COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2015

This section of Three Rivers Community Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2015. Please read it in conjunction with the School 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 those statements. These statements are organized so the reader can understand Three Rivers Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and the Debt Service Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statement Fund Financial Statements

Notes to the Basic Financial Statement

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a whole - District-wide Financial Statements

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

THREE RIVERS COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2015

These two statements report the School District's net position - the difference between assets and liabilities, as reported in the statement of net position - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net position - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

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

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

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

THREE RIVERS COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2015

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

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

The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2015 and 2014:

| TABLE I | June 30, | |
|--|------------------------|----------------------|
| | 2015 | 2014 |
| Assets | | |
| Current and other assets | \$ 8,706,574 | \$ 8,701,330 |
| Capital assets - Net of accumulated depreciation | <u>44,446,303</u> | <u>45,449,601</u> |
| Total assets | 53,152,877 | 54,150,931 |
| Deferred outflows of resources | 3,862,217 | 1,052,578 |
| Liabilities | | |
| Current liabilities | 6,092,546 | 5,695,620 |
| Long-term liabilities | <u>62,070,248</u> | <u>33,864,080</u> |
| Total liabilities | 68,162,794 | 39,559,700 |
| Deferred outflows of resources | 3,418,134 | - |
| Net Position | | |
| Invested in property and equipment - net of related debt | 11,674,930 | 10,084,694 |
| Restricted for capital projects | - | 200,374 |
| Restricted for debt service | 549,409 | 640,545 |
| Restricted for food service | 421,404 | 399,553 |
| Restricted for scholarships | 79,471 | 82,549 |
| Unrestricted (deficit) | <u>(27,291,048)</u> | <u>4,236,094</u> |
| Total net position (deficit) | <u>\$ (14,565,834)</u> | <u>\$ 15,643,809</u> |

THREE RIVERS COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2015

The above analysis focuses on the net position (see Table I). The change in net position (see Table 2) of the School District's governmental activities is discussed below. The School District's net position was \$(14,565,834) at June 30, 2015. Capital assets, net of related debt totaling \$11,674,930 compares the original cost, less depreciation of the School District's capital assets to long-term debt. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net position for day-to-day operations. The remaining amount of net position \$(27,291,048) was unrestricted.

The \$(27,291,048) in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal years ended June 30, 2015 and 2014.

TABLE 2

| | Year Ended June 30, | |
|--------------------------------------|---------------------|-------------------|
| | 2015 | 2014 |
| Revenue | | |
| Program revenue: | | |
| Charges for services | \$ 736,498 | \$ 987,744 |
| Grants and catagoricals | 5,142,679 | 4,835,216 |
| General revenue: | | |
| Property taxes | 7,737,858 | 7,669,919 |
| State foundation allowance | 15,258,784 | 14,916,639 |
| Interest and other | <u>114,129</u> | <u>56,202</u> |
| Total revenue | 28,989,948 | 28,465,720 |
| Function/Program Expenses | | |
| Instruction | 15,180,005 | 14,481,356 |
| Support services | 7,976,179 | 8,296,695 |
| Community services | 25,364 | 30,075 |
| Food services | 1,320,174 | 1,243,790 |
| Athletics | 481,187 | 446,228 |
| Endowment activities | 13,070 | 3,700 |
| Interest on long-term debt | 1,404,061 | 1,520,644 |
| Depreciation (unallocated) | <u>1,641,201</u> | <u>1,732,508</u> |
| Total expenses | <u>28,041,241</u> | <u>27,754,996</u> |
| Change in net position | <u>\$ 948,707</u> | <u>\$ 710,724</u> |

THREE RIVERS COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2015

As reported in the statement of activities, the cost of all governmental activities this year was \$28,041,241. Certain activities were partially funded from those who benefited from the programs \$736,498 or by other governments and organizations that subsidized certain programs with grants and categoricals \$5,142,679. We paid for the remaining "public benefit" portion of our governmental activities with \$7,737,858 in taxes, \$15,258,784 in State foundation Allowance, and with our other revenues, such as interest and general entitlements.

The School District experienced an increase in net position of \$948,707. Key reasons for the change in net position were capitalizable expenditures and the repayment of bond principal and other long-term obligations. The increase in net position differs from the change in fund balance and a reconciliation appears on page 16.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted sources.

The School District's Funds

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$5,401,203, which is a decrease of \$396,295 from last year. In the General Fund, our primary operating fund, the fund balance decreased \$323,932 to \$4,350,919, a change of 6.9 percent. The General Fund fund balance reflects nonspendable for prepaid expenditures - \$35,205; nonspendable for inventory - \$11,682; committed for future projects - \$2,165,191; and unassigned - \$2,138,841.

In the Debt Service Fund the fund balance decreased \$91,136 to \$549,409. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue - related debt service. Debt Service Fund fund balance is restricted since it can only be used to pay debt service obligations.

Our Food Service Fund fund balance increased \$21,851 to \$421,404.

THREE RIVERS COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (CONTINUED) YEAR ENDED JUNE 30, 2015

General Fund Budgetary Highlights

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

Budgeted revenues were increased \$943,614, to better reflect state per student foundation funding and adjustments to categorical funding. Actual revenues were within \$512,548 of final budgeted revenues or 2.1 percent.

Budgeted expenditures were increased \$605,838 during the year to better reflect operating costs. Actual expenditures ended the year under the final budget by \$547,745 or 2.2 percent.

There were no significant variances between the final budget and actual amounts.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2015, the School District had \$68,690,200 invested in a broad range of capital assets, including land, buildings, buses, furniture and equipment, and outside site improvements. This amount represents a net increase (including additions and disposals) of \$637,903, or 1.0 percent, from last year.

| | <u>2015</u> | <u>2014</u> |
|-------------------------------|----------------------|----------------------|
| Land | \$ 530,006 | \$ 530,006 |
| Buildings and improvements | 61,471,255 | 61,212,310 |
| Buses and other vehicles | 2,319,413 | 2,319,413 |
| Furniture and equipment | 2,186,489 | 2,005,031 |
| Outside site improvements | <u>2,183,037</u> | <u>1,985,537</u> |
| Total capital assets | 68,690,200 | 68,052,297 |
| Less accumulated depreciation | <u>24,243,897</u> | <u>22,602,696</u> |
| Net capital assets | <u>\$ 44,446,303</u> | <u>\$ 45,449,601</u> |

THREE RIVERS COMMUNITY SCHOOLS

ADMINISTRATION'S DISCUSSION AND ANALYSIS - (Continued) YEAR ENDED JUNE 30, 2015

Debt

At the end of this year, the School District had long-term debt obligations totaling \$33,879,579 outstanding versus \$36,544,961 in the previous year - a change of 7.3 percent. The debt obligations consisted of the following:

| | <u>2015</u> | <u>2014</u> |
|-------------------------------|----------------------|----------------------|
| General Obligation Bonds, net | \$ 33,055,243 | \$ 35,523,791 |
| Installment loans payable | 692,474 | 893,694 |
| Other | <u>131,862</u> | <u>127,476</u> |
| | <u>\$ 33,879,579</u> | <u>\$ 36,544,961</u> |

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below the statutorily imposed limit.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following areas that could have a major impact on the 2015 fiscal year, and the near future.

The 2015-2016 foundation allowance is expected to increase \$265 per student from \$7,126 to \$7,391. The foundation allowance represents 64% of the total District revenue.

Student count is projected to increase slowly over the next five years. However, the uncertain economy in the State of Michigan could impact the number of enrolled students.

Continued projected increases in retirement funding costs and health insurance costs are a concern for the School District.

Contacting the School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Department, 851 Sixth Avenue, Three Rivers, Michigan 49093.

THREE RIVERS COMMUNITY SCHOOLS

STATEMENT OF NET POSITION JUNE 30, 2015

| <u>ASSETS</u> | <u>Governmental Activities</u> |
|---|------------------------------------|
| Current Assets: | |
| Cash and cash equivalents | \$ 5,088,050 |
| Accounts receivable | 55,385 |
| Taxes receivable (net) | - |
| Due from other governmental units | 3,493,704 |
| Prepaid expenses | 36,981 |
| Inventories | <u>32,454</u> |
| Total current assets | 8,706,574 |
| Noncurrent Assets: | |
| Capital assets, net of accumulated depreciation | <u>44,446,303</u> |
| Total assets | 53,152,877 |
| Deferred Outflows of Resources – | |
| Deferred charges from bond refundings | 976,344 |
| Deferred outflow for pension obligation | <u>2,885,873</u> |
| <u>LIABILITIES</u> | |
| Current Liabilities: | |
| Accounts payable | 234,940 |
| Accrued payroll | 1,600,930 |
| Accrued benefits | 881,146 |
| Accrued interest | 213,386 |
| Due to other governments | 352,843 |
| Unearned revenue | 103,650 |
| Notes payable, due within one year | 125,500 |
| Bonds payable, due within one year | 2,578,548 |
| Compensated absences | <u>1,603</u> |
| Total current liabilities | 6,092,546 |
| Noncurrent Liabilities: | |
| Compensated absences | 130,259 |
| Notes payable | 566,974 |
| Bonds payable – net | 30,476,695 |
| Net pension liability | <u>30,896,320</u> |
| Total noncurrent liabilities | <u>62,070,248</u> |
| Total liabilities | 68,162,794 |
| Deferred inflow of resources for pension obligation | <u>3,418,134</u> |
| <u>NET POSITION</u> | |
| Invested in capital assets, net of related debt | 11,674,930 |
| Restricted for debt service | 549,409 |
| Restricted for food service | 421,404 |
| Restricted for scholarships | 79,471 |
| Unrestricted (deficit) | <u>(27,291,048)</u> |
| Total net position (deficit) | \$ <u>(14,565,834)</u> |

See accompanying notes to financial statements

THREE RIVERS COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES JUNE 30, 2015

| Functions/Programs | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Governmental Activities</u> |
|---|----------------------|---------------------------------|--|---|
| | | <u>Charges for Services</u> | <u>Operating Grants/ Contributions</u> | <u>Net (Expense) Revenue and Changes in Net Contributions</u> |
| Governmental activities: | | | | |
| Instruction | \$ 15,180,005 | \$ 339,260 | \$ 3,847,935 | \$ (10,992,807) |
| Support services | 7,976,179 | 31,071 | 243,639 | (7,701,469) |
| Food services | 1,320,174 | 300,284 | 1,041,278 | 21,388 |
| Athletics | 481,187 | 54,338 | - | (426,849) |
| Community services | 25,364 | 11,545 | - | (13,819) |
| Endowment activities | 13,070 | - | 9,827 | (3,243) |
| Interest on long-term debt | 1,404,061 | - | - | (1,404,061) |
| Depreciation (unallocated) | <u>1,641,201</u> | <u>-</u> | <u>-</u> | <u>(1,641,201)</u> |
| Total governmental activities | <u>\$ 28,041,241</u> | <u>\$ 736,498</u> | <u>\$ 5,142,679</u> | (22,162,064) |
| General revenues: | | | | |
| Taxes | | | | |
| Property taxes, levied for general operations | | | | 4,217,192 |
| Property taxes, levied for debt service | | | | 3,520,666 |
| State aid not restricted to specific purposes | | | | 15,258,784 |
| Interest and investment earnings | | | | 2,373 |
| Other | | | | <u>111,756</u> |
| Total general revenues | | | | <u>23,110,771</u> |
| Change in Net Position | | | | 948,707 |
| Net Position - Beginning of year, as restated (deficit) | | | | <u>(15,514,541)</u> |
| Net Position - End of year (deficit) | | | | <u>\$ (14,565,834)</u> |

See accompanying notes to financial statements

THREE RIVERS COMMUNITY SCHOOLS

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

| <u>ASSETS</u> | <u>General</u> | <u>Debt Service</u> |
|--------------------------------------|---------------------|-------------------------|
| Cash and cash equivalents | \$ 4,429,739 | \$ 553,009 |
| Accounts receivable | 45,975 | - |
| Taxes receivable | - | - |
| Due from other governmental units | 3,493,704 | - |
| Due from other funds | 3,600 | - |
| Prepaid expenditures | 35,205 | - |
| Inventories | <u>11,682</u> | <u>-</u> |
| Total assets | <u>\$ 8,019,905</u> | <u>\$ 553,009</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | |
| Liabilities: | | |
| Accounts payable | \$ 231,261 | \$ - |
| Accrued payroll | 1,600,930 | - |
| Accrued benefits | 881,146 | - |
| Due to other funds | 499,156 | 3,600 |
| Due to other governmental units | 352,843 | - |
| Unearned revenue | <u>103,650</u> | <u>-</u> |
| Total liabilities | 3,668,986 | 3,600 |
| Fund Balances: | | |
| Nonspendable: | | |
| Prepaid expenditures | 35,205 | - |
| Inventories | 11,682 | - |
| Restricted: | | |
| Scholarships | - | - |
| Debt service | - | 549,409 |
| Food service | - | - |
| Committed for future projects | 2,165,191 | - |
| Unassigned | <u>2,138,841</u> | <u>-</u> |
| Total fund balances | <u>4,350,919</u> | <u>549,409</u> |
| Total liabilities and fund balances | <u>\$ 8,019,905</u> | <u>\$ 553,009</u> |

See accompanying notes to financial statements

| Other Nonmajor Governmental Funds | Total |
|--|---------------------|
| \$ 105,302 | \$ 5,088,050 |
| 9,410 | 55,385 |
| - | - |
| - | 3,493,704 |
| 382,900 | 386,500 |
| 1,776 | 36,981 |
| <u>20,772</u> | <u>32,454</u> |
| <u>\$ 520,160</u> | <u>\$ 9,093,074</u> |

| | |
|----------|----------------|
| \$ 3,679 | \$ 234,940 |
| - | 1,600,930 |
| - | 881,146 |
| 15,606 | 518,362 |
| - | 352,843 |
| <u>-</u> | <u>103,650</u> |
| 19,285 | 3,691,871 |

| | |
|-------------------|---------------------|
| 1,776 | 36,981 |
| 20,772 | 32,454 |
| 79,471 | 79,471 |
| - | 549,409 |
| 398,856 | 398,856 |
| - | 2,165,191 |
| <u>-</u> | <u>2,138,841</u> |
| <u>500,875</u> | <u>5,401,203</u> |
| <u>\$ 520,160</u> | <u>\$ 9,093,074</u> |

THREE RIVERS COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

| | |
|--|------------------------|
| Total Fund Balances - Governmental Funds | \$ 5,401,203 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Deferred charges on bond refundings | 976,344 |
| Deferred outflow for pension obligation | 2,885,873 |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | |
| The cost of the capital assets is | 68,690,200 |
| Accumulated depreciation is | <u>(24,243,897)</u> |
| Total | 44,446,303 |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds: | |
| Notes payable | (692,474) |
| Bonds payable, net | (33,055,243) |
| Net pension liability | (30,896,320) |
| Accrued interest payable on long-term liabilities is not included as a liability in governmental activities | (213,386) |
| Deferred inflow for pension obligation | <u>(3,418,134)</u> |
| Net position of governmental activities | <u>\$ (14,565,834)</u> |

See Notes to Financial Statements

THREE RIVERS COMMUNITY SCHOOLS

GOVERNMENTAL FUNDS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2015**

| | <u>General</u> | <u>Debt Service</u> |
|-----------------------------|---------------------|-------------------------|
| Revenues: | | |
| Local sources | \$ 4,388,694 | \$ 3,521,597 |
| State sources | 18,289,386 | - |
| Federal sources | 1,027,019 | - |
| Interdistrict | <u>411,235</u> | <u>-</u> |
| Total revenues | 24,116,334 | 3,521,597 |
| Expenditures: | | |
| Instruction | 14,909,774 | - |
| Supporting services | 8,355,137 | - |
| Community services | 25,364 | - |
| Food services | - | - |
| Athletics | 481,187 | - |
| Endowment activities | - | - |
| Capital outlay | 258,945 | - |
| Debt service | | |
| Principal payment | 351,220 | 2,235,000 |
| Interest and fiscal charges | <u>58,639</u> | <u>1,377,733</u> |
| Total expenditures | <u>24,440,266</u> | <u>3,612,733</u> |
| Net change in fund balances | (323,932) | (91,136) |
| Fund balances, July 1 | <u>4,674,851</u> | <u>640,545</u> |
| Fund balances, June 30 | <u>\$ 4,350,919</u> | <u>\$ 549,409</u> |

See Notes to Financial Statements

| Other Nonmajor Governmental Funds | Total |
|--|---------------------|
| \$ 310,739 | \$ 8,221,030 |
| 42,409 | 18,331,795 |
| 998,869 | 2,025,888 |
| <u>-</u> | <u>411,235</u> |
| 1,352,017 | 28,989,948 |
| - | 14,909,774 |
| - | 8,355,137 |
| - | 25,364 |
| 1,320,174 | 1,320,174 |
| - | 481,187 |
| 13,070 | 13,070 |
| - | 258,945 |
| - | 2,586,220 |
| <u>-</u> | <u>1,436,372</u> |
| <u>1,333,244</u> | <u>29,386,243</u> |
| 18,773 | (396,295) |
| <u>482,102</u> | <u>5,797,498</u> |
| <u>\$ 500,875</u> | <u>\$ 5,401,203</u> |

THREE RIVERS COMMUNITY SCHOOLS

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015**

| | |
|--|--------------|
| Net change in Fund Balances - Total Governmental Funds | \$ (396,295) |
|--|--------------|

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 | (1,641,201) |
| Capital outlays | 637,903 |

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid:

| | |
|--|-----------|
| Accrued interest payable beginning of the year | 238,383 |
| Accrued interest payable end of the year | (213,386) |

Repayments of principal on long-term debt are expenditures in the governmental funds, but not in the statement of activities (where it is a reduction of liabilities)

| | |
|---|-----------|
| Repayment of principal on long-term debt | 2,586,220 |
| Amortization of bond issue premium | 99,061 |
| Amortization of bond issue discount | (15,513) |
| Amortization of deferred amount on bond refunding | (76,234) |

| | |
|--|--------------------|
| Change in deferred outflows of resources | 2,885,873 |
| Change in net pension obligation | 262,030 |
| Change in deferred inflows of resources | <u>(3,418,134)</u> |

| | |
|---|-------------------|
| Change in net position of Governmental Activities | <u>\$ 948,707</u> |
|---|-------------------|

See Notes to Financial Statements

THREE RIVERS COMMUNITY SCHOOLS

**INTERNAL SERVICE FUND
STATEMENT OF NET POSITION
JUNE 30, 2015**

ASSETS

| | |
|----------------------|------------|
| Due from other funds | \$ 131,862 |
|----------------------|------------|

LIABILITIES

| | |
|------------------------------|-------------------|
| Accrued compensated absences | <u>\$ 131,862</u> |
|------------------------------|-------------------|

NET POSITION

| | |
|------------|--------------------|
| Restricted | <u><u>\$ -</u></u> |
|------------|--------------------|

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015**

| | |
|----------------------------------|--------------------|
| Operating Revenues: | |
| Charges to other funds | \$ 4,386 |
| Operating Expenses: | |
| Compensated absences | <u>4,386</u> |
| Change in Net Position | - |
| Net Position - Beginning of year | <u>-</u> |
| Net Position - End of year | <u><u>\$ -</u></u> |

**INTERNAL SERVICE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015**

| | |
|---------------------------------------|--------------------|
| Cash Flows from Operating Activities: | |
| Received from charges to other funds | \$ - |
| Cash - Beginning of year | <u>-</u> |
| Cash - End of year | <u><u>\$ -</u></u> |

See Notes to Financial Statements

THREE RIVERS COMMUNITY SCHOOLS

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

Student
Activities
Agency Fund

ASSETS

Cash and cash equivalents

\$ 175,728

LIABILITIES

Due to student groups

\$ 175,728

See accompanying notes to financial statements

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Three Rivers Community Schools conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. 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 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 Districts' reporting entity, and which organizations are legally separate, component units of the school district. Based on the application of the criteria, the 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 net position) report information on all of the nonfiduciary 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 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 segment 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.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. 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 interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include (1) charges to customer or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

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 claims and judgments, 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.

Fiduciary fund statements also are 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 district, except those required to be accounted for in another fund.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Debt Service Fund is used to record tax, interest, other revenue for payment of principal, interest and other expenditures on the bond issues.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Food Services Fund.

The Internal Service Fund is used to account for operations that provide services to other departments or agencies of the government.

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.

Assets, Liabilities, and Net Assets 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." Activity 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."

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide 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.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain 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 are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items - 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. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-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 government-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 five years. 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 | 5-10 years |
| Outside site improvements | 10-20 years |

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences - The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

Deferred Outflows - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the deferred charge on refunding and pension contributions reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow is recognized for pension related items. These amounts are expensed in the plan year in which they apply.

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

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Pension Plan

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

Net Position Flow Assumption

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

Fund Balance Flow Assumptions

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

Fund Balance Policies

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

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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 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. During the year, the budget was amended in a legally permissible manner.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The School district did not have significant expenditure budget variances.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 3 - CASH AND CASH EQUIVALENTS

The School District's cash and cash equivalents at June 30, 2015, are composed of the following:

| | <u>Governmental Activities</u> | <u>Fiduciary Funds</u> | <u>Total Primary Government</u> |
|----------|------------------------------------|----------------------------|-------------------------------------|
| Deposits | <u>\$ 5,088,050</u> | <u>\$ 175,728</u> | <u>\$ 5,263,778</u> |

Deposits consist of checking, savings, and time certificates. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared, or of deposits in transit) at \$5,264,014. Of that amount, \$525,800 was covered by federal depository insurance coverage or secured and \$4,738,214 was uninsured and uncollateralized.

The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. The School District evaluates each financial institution it deposits School District funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 4 - CAPITAL ASSETS

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

| | Balance July 1, 2014 | Additions | Disposals and Adjustments | Balance June 30, 2015 |
|---|-------------------------|----------------|------------------------------|--------------------------|
| Assets, not being depreciated - Land | \$ 530,006 | \$ - | \$ - | \$ 530,006 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 61,212,310 | 258,945 | - | 61,471,255 |
| Buses and other vehicles | 2,319,413 | - | - | 2,319,413 |
| Furniture and equipment | 2,005,031 | 181,458 | - | 2,186,489 |
| Outside site improvements | <u>1,985,537</u> | <u>197,500</u> | <u>-</u> | <u>2,183,037</u> |
| Subtotal | 67,522,291 | 637,903 | - | 68,160,194 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | 18,861,916 | 1,305,180 | - | 20,167,096 |
| Buses and other vehicles | 1,850,876 | 112,249 | - | 1,963,125 |
| Furniture and equipment | 1,047,033 | 143,222 | - | 1,190,255 |
| Outside site improvements | <u>842,871</u> | <u>80,550</u> | <u>-</u> | <u>923,421</u> |
| Subtotal | <u>22,602,696</u> | 1,641,201 | - | <u>24,243,897</u> |
| Net capital assets being depreciated | <u>44,919,595</u> | | | <u>43,916,297</u> |
| Net capital assets | <u>\$ 45,449,601</u> | | | <u>\$ 44,446,303</u> |

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

| Receivable Fund | Payable Fund | Amount |
|--------------------------|-------------------|-------------------|
| Due To/From Other Funds: | | |
| General Fund | Debt Service Fund | \$ 3,600 |
| Other governmental funds | General Fund | <u>382,900</u> |
| | | <u>\$ 386,500</u> |
| Interfund Transfers: | | |
| | Transfer Out: | |
| | General Fund | |
| Transfer in: | | |
| Other governmental funds | <u>\$ -</u> | |

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 6 - UNAVAILABLE/UNEARNED REVENUE

Governmental funds report unavailable revenue in connection with receivables for revenue that is 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 revenue include categorial aid payments received prior to meeting all eligibility requirements in the amount of \$103,650.

NOTE 7 - LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments 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. Other long-term obligations include compensated absences.

Long-term obligation activity can be summarized as follows:

Governmental Activities

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due within One Year</u> |
|---------------------|------------------------------|------------------|---------------------|---------------------------|--------------------------------|
| Bonds | \$ 34,895,000 | \$ - | \$ 2,385,000 | \$ 32,510,000 | \$ 2,495,000 |
| Premiums | 807,979 | - | 99,061 | 708,918 | 99,061 |
| Discounts | (179,188) | - | (15,513) | (163,675) | (15,513) |
| Bonds, net | <u>\$ 35,523,791</u> | <u>\$ -</u> | <u>\$ 2,468,548</u> | <u>\$ 33,055,243</u> | <u>\$ 2,578,548</u> |
| Installment | | | | | |
| Loans | <u>\$ 893,694</u> | <u>\$ -</u> | <u>\$ 201,220</u> | <u>\$ 692,474</u> | <u>\$ 125,500</u> |
| Other | | | | | |
| Oblig. | <u>\$ 127,476</u> | <u>\$ 15,862</u> | <u>\$ 11,476</u> | <u>\$ 131,862</u> | <u>\$ 1,603</u> |
| Deferred Outflows - | | | | | |
| Deferred charges | | | | | |
| from bond | | | | | |
| refundings | <u>\$ (1,052,578)</u> | <u>\$ -</u> | <u>\$ (76,234)</u> | <u>\$ (976,344)</u> | |

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 7 - LONG-TERM DEBT – (Continued)

The annual requirement to service the bonds and notes outstanding to maturity, including both principal and interest, are as follows:

| Year ended June 30, | Principal | Interest | Total |
|------------------------|----------------------|---------------------|----------------------|
| 2016 | \$ 2,620,500 | \$ 1,315,028 | \$ 3,935,528 |
| 2017 | 2,725,619 | 1,209,909 | 3,935,528 |
| 2018 | 2,813,357 | 1,102,816 | 3,916,173 |
| 2019 | 2,855,500 | 993,948 | 3,849,448 |
| 2020 | 2,860,500 | 881,635 | 3,742,135 |
| 2021-2025 | 10,157,000 | 2,796,824 | 12,953,824 |
| 2026-2030 | 5,115,000 | 1,323,000 | 6,438,000 |
| 2031-2034 | <u>4,054,998</u> | <u>334,194</u> | <u>4,389,192</u> |
| | <u>\$ 33,202,474</u> | <u>\$ 9,957,354</u> | <u>\$ 43,159,828</u> |

Governmental Activities:

General obligation bonds consist of:

| | |
|--|----------------------|
| \$8,285,000 2012 Refunding Bonds payable in annual installments of \$50,000 to \$1,015,000 through May 15, 2034; interest from 2.0% to 3.125% | \$ 7,790,000 |
| \$24,505,000 2008 Refunding Bonds, payable in annual installments of \$1,155,000 to \$1,790,000 through May 1, 2023; interest from 5.00% to 5.00% | 13,765,000 |
| \$9,995,000 2007 Refunding School Building and Site Bonds payable in annual installments of \$40,000 to \$1,050,000 through May 1, 2032; interest from 4.00% to 4.125% | 9,910,000 |
| \$1,615,000 Energy Conservation Bonds, payable in annual installments of \$135,000 to \$190,000 through May 1, 2021; interest from 2.00% to 3.25% | <u>1,045,000</u> |
| Total bonds payable | <u>\$ 32,510,000</u> |

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 7 - LONG-TERM DEBT – (Continued)

Notes payable consist of:

| | |
|---|------------|
| \$262,857 Installment loan payable to bank, annual payments of \$52,500, plus interest at 1.39%, final payment due November 1, 2017 | \$ 157,855 |
|---|------------|

| | |
|--|---------|
| \$554,276 Installment loan payable to bank, annual payments of \$55,500, plus interest at 2.49%, final payment due July 30, 2023 | 499,500 |
|--|---------|

| | |
|--|---------------|
| \$87,619 Installment loan payable to bank, annual payments of \$17,500, plus interest at 1.18%, final payment due November 1, 2016 | <u>35,119</u> |
|--|---------------|

| | |
|---------------------|-------------------|
| Total notes payable | <u>\$ 692,474</u> |
|---------------------|-------------------|

Other governmental activity long-term obligations include:

| | |
|---------------------------------|-------------------|
| Employee - compensated absences | <u>\$ 131,862</u> |
|---------------------------------|-------------------|

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description - The Michigan Public School Employees' Retirement System (MPERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-20636585---,00.html>.

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

A DB member or Pension Plus plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former members' 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 or certain requirements.

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

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

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a Defined Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will retroactive to their date of hire.

Regular Retirement - The retirement benefit for DB and Pension Plus members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

Non-Duty and Duty Disability Benefit - A member who becomes totally and permanently disabled as a result of duty or non-duty related cause may be eligible for a disability pension, subject age, service and other requirements.

Survivor Benefit - A non-duty survivor pension is available subject to certain requirements of the plan.

Funding Policy

Defined Benefit plan - The School District participates on a contributory basis, as described above under "Benefits Provided." The School District is 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.

Defined Contribution Plan - Employer contributions to the Plan are dependent on the plan elected by the participant.

Employee Contributions - Basic plan members are not required to make contributions. Member Investment Plan members contribute at rates ranging from 0 to 7% of gross wages.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

Employer Contributions - 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 the 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 will be amortized over a 23 year period for the 2013 fiscal year.

Employer contributions to the system for covered payroll of the plan were as follows:

Fiscal Year 2013-2014 Employer Contribution Rate Active Members and Qualified Participants - Effective July 1 - September 30, 2014

| | Basic MIP with Premium Subsidy | Pension Plus with Premium Subsidy | Pension Plus PHF* | Pension Plus to DC with PHF* | Basic MIP DB to DC with DB Health | Basic MIP DB to DC with PHF | Basic MIP with PHF |
|--|---|--|----------------------|---------------------------------------|---|--------------------------------------|-----------------------|
| Pension contributions | 18.34% | 18.11% | 18.11% | 15.44% | 15.44% | 15.44% | 18.34% |
| Health contributions | 6.45% | 6.45% | 5.52% | 5.52% | 6.45% | 5.52% | 5.52% |
| Defined contribution plan employer contributions: | | | | | | | |
| DC employer contributions | 0.00% | 1.00% | 1.00% | 3.00% | 4.00% | 4.00% | 0.00% |
| Personal Healthcare fund | 0.00% | 0.00% | 2.00% | 2.00% | 0.00% | 2.00% | 2.00% |

* First worked September 4, 2012 or later.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

Fiscal Year 2014-2015 Employer Contribution Rate
Active Members and Qualified Participants - Effective October 1, 2014 - June 30, 2015

| | Basic MIP with Premium Subsidy | Pension Plus with Premium Subsidy | Pension Plus PHF* | Pension Plus to DC with PHF* | Basic MIP DB to DC with DB Health | Basic MIP DB to DC with PHF | Basic MIP with PHF |
|--|---|--|----------------------|---------------------------------------|---|--------------------------------------|-----------------------|
| Pension contributions | 23.07% | 21.99% | 21.99% | 18.76% | 18.76% | 18.76% | 23.07% |
| Health contributions | 2.71% | 2.71% | 2.20% | 2.20% | 2.71% | 2.20% | 2.20% |
| Defined contribution plan employer contributions: | | | | | | | |
| DC employer contributions | 0.00% | 1.00% | 1.00% | 3.00% | 4.00% | 4.00% | 0.00% |
| Person Healthcare fund | 0.00% | 0.00% | 2.00% | 2.00% | 0.00% | 2.00% | 2.00% |

* First worked September 4, 2012 or later.

The School District's contributions to the MPSERS Defined Benefit Plan for the year ended June 30, 2015 was \$2,756,660, which is equal to the required contribution for the year. The covered payroll for the year ended June 30, 2015 was \$11,888,580.

Post-Employment Benefits - Under MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. The School District's required contributions for post-employment health care benefits to the MPSERS Plan discussed above for the year ended June 30, 2015 were \$332,040.

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

Pension Liabilities - At June 30, 2015, the School District reported a liability of \$30,896,320 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At September 30, 2014, the School District's proportion was 0.14027%.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - For the year ended June 30, 2015, the School District recognized pension expense of \$3,026,891. At June 30, 2015, 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 |
|---|--------------------------------------|-------------------------------------|
| Changes of assumptions | \$ 1,140,008 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | - | 3,415,601 |
| Changes in proportion and differences between Reporting Unit contributions and proportionate share of contributions | - | 2,533 |
| Reporting Unit contributions subsequent to the measurement date | <u>1,745,865</u> | <u>-</u> |
| Total | <u>\$ 2,885,873</u> | <u>\$ 3,418,134</u> |

From the above table, \$1,745,865 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

| <u>Year Ended June 30,</u> | <u>Amount</u> |
|----------------------------|---------------|
| 2016 | \$ (558,122) |
| 2017 | (558,122) |
| 2018 | (558,122) |
| 2019 | (603,760) |

10-Year Trend Information - Defined Benefit Plan

| | |
|---|------------------|
| <u>Schedule of School District's Proportionate Share of Net Pension Liability</u> | <u>9/30/2014</u> |
| School District's proportion of collective net pension liability | 0.14027% |
| School District's proportionate share of collective net pension liability | \$ 30,896,320 |
| School District's covered-employee payroll | \$ 11,896,700 |
| School District's proportionate share of net pension liability as a percentage of covered-employee payroll | 259.705% |
| Plan fiduciary net position as a percentage of total pension liability | <u>66.20%</u> |

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

| Schedule of School District's Contributions | |
|---|------------------|
| | 6/30/2015 |
| Contractually required employer contributions | \$ 2,756,660 |
| School District contributions recognized by the Plan | <u>2,756,660</u> |
| Contributions difference | - |
| Contributions difference as a percentage of contractually required employer contributions | - % |
| School District's covered-employee payroll | \$ 11,888,580 |
| Contributions as a percentage of covered-employee payroll | 23.19% |

Actuarial Assumptions

Valuation Assumptions - The rate of investment return was 8.0% a year, compounded annually net of investment and administrative expenses for the Non-Hybrid groups and 7.0% a year, compounded annually net of investment and administrative expenses for the Hybrid group (Pension Plus plan).

The assumed real return is the rate of return in excess of wage inflation. Considering other assumptions used in the valuation, the 8.0% nominal rate translates to a net real return of 4.5% a year for the Non-Hybrid groups. Considering other assumptions used in the valuation, the 7.0% nominal rate translates to a net real return of 3.5% a year for the Hybrid group.

The rate increase used for individual members is 3.5%. This assumption is used to project a member's current pay to the pay upon which System benefits will be based. The current assumption was first used for the September 30, 2004 valuation of the System.

Actuarial Cost Method - Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using and Individual Entry-Age Actuarial Cost Method having the following characteristics:

- the annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement;
- each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Actuarial gains (losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Financing of Unfunded Actuarial Accrued Liabilities - Unfunded actuarial accrued liabilities (full funding credit if assets exceed liabilities) were amortized by level (principal and interest combined) percent-of-payroll contributions *over* a reasonable period of future years.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

Amortization of UAAL Resulting from the Early Retirement Incentive (ERi) Program of 2010 - It has been reported that 1.36% of payroll will be contributed beginning in fiscal year 2013 for a 10-year period to amortize the unfunded actuarial accrued liability ("UAAL") associated with the ERi program of 2010. In order to avoid duplication of the employer contributions, the present value of future ERi amortization payments is subtracted from the UAAL to determine the remaining UAAL contribution.

Actuarial Value of System Assets - The actuarial value of assets recognizes assumed investment income fully each year. Differences between actual and assumed investment income are phased in *over* a closed five year period. During periods when investment performance exceeds the assumed rate, actuarial value of assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, actuarial value of assets will tend to be greater than market value. The actuarial value of assets was reset to market value as of September 30, 2006, with five-year smoothing restarted at that time. The actuarial value of assets is developed separately for the Non-Hybrid and Hybrid portions of the System. The total actuarial value of assets is the sum of these two components.

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

Experience Study - The annual actuarial valuation report of the System used for these statements is dated September 30, 2013. An assumption experience study is performed every five years. The actuarial assumptions used in the September 30, 2013 valuation were based on the results of an actuarial experience study for the period October 1, 2007 to September 30, 2012. As a result of this actuarial experience study, the actuarial assumptions were adjusted to more closely reflect actual experience.

Long-Term Expected Rate of Return on Investments - The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (Continued)

| <u>Investment Category</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return*</u> |
|---|------------------------------|--|
| Domestic Equity Pools | 28.0% | 4.8% |
| Private Equity Pools | 18.0 | 8.5 |
| International Equity Pools | 16.0 | 6.1 |
| Fixed Income Pools | 10.5 | 1.5 |
| Real Estate and Infrastructure Pools | 10.0 | 5.3 |
| Real Return, Opportunistic and Absolute Pools | 15.5 | 6.3 |
| Short-Term Investment Pools | <u>2.0</u> | (0.2) |
| | <u>100.0%</u> | |

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

Discount Rate - The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Projected benefit payments are required to be discounted to their actuarial present values using a single discount rate that reflects (1) a long-term expected rate of return on pension plan investments (to the extent that the plan's fiduciary net position is projected to be sufficient to pay benefits) and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the plan's projected fiduciary net position is not sufficient to pay benefits).

- The expected rate of return on pension plan investments is 8.0%.
- The municipal bond rate is 3.480% (based on the weekly rate closest to but not later than the measurement date of the 20-Year Bond Buyer Index as published by the Federal Reserve).
- The resulting single discount rate is 8.0%.
- The Plan Fiduciary Net Position is projected to be sufficient to make Projected Benefit Payments until 2114.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 8 - DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS (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%, 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 (7.0%) or 1 percentage point higher (9.0%) than the current rate:

| | 1% Lower <u>(7.0%)</u> | Discount Rate <u>(8.0%)</u> | 1% Higher <u>(9.0%)</u> |
|---|---------------------------|-----------------------------------|----------------------------|
| School District's proportionate share of net pension liability | \$ 40,734,108 | \$ 30,896,320 | \$ 22,607,839 |

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2013 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

THREE RIVERS COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 - RISK MANAGEMENT

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

NOTE 10 - ACCOUNTING CHANGES

In June 2012, the Governmental Accounting Standards Board issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity and creating additional transparency.

GASB 68 requires employers to report net pension benefits as a liability in the statement of net position. GASB 68 requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. GASB 68 also requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability.

The School District implemented GASB 68 during the year by retroactive restatement of June 30, 2014 net position, as follows:

| | |
|---|-------------------------------|
| Net position at June 30, 2014, as originally stated | \$ 15,643,809 |
| Record net pension liability at June 30, 2014 | <u>(31,158,350)</u> |
| Net position at June 30, 2014, as restated | <u><u>\$ (15,514,541)</u></u> |

REQUIRED SUPPLEMENTAL INFORMATION

THREE RIVERS COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND YEAR ENDED JUNE 30, 2015

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Over (Under) Final Budget</u> |
|----------------------------|----------------------------|-------------------------|---------------------|--------------------------------------|
| Revenues: | | | | |
| Local sources | \$ 4,178,827 | \$ 4,466,978 | \$ 4,388,694 | \$ (78,284) |
| State sources | 18,122,890 | 18,300,014 | 18,289,386 | (10,628) |
| Federal sources | 910,843 | 1,346,666 | 1,027,019 | (319,647) |
| Interdistrict | <u>472,708</u> | <u>515,224</u> | <u>411,235</u> | <u>(103,989)</u> |
| Total revenues | 23,685,268 | 24,628,882 | 24,116,334 | (512,548) |
| Expenditures: | | | | |
| Instruction | 15,002,411 | 15,255,507 | 14,909,774 | (345,733) |
| Supporting services | 8,178,156 | 8,351,723 | 8,355,137 | 3,414 |
| Athletics | 514,499 | 524,609 | 481,187 | (43,422) |
| Community services | 42,233 | 59,352 | 25,364 | (33,988) |
| Debt service | 409,110 | 409,735 | 409,859 | 124 |
| Capital Outlay | <u>235,764</u> | <u>387,085</u> | <u>258,945</u> | <u>(128,140)</u> |
| Total expenditures | <u>24,382,173</u> | <u>24,988,011</u> | <u>24,440,266</u> | <u>(547,745)</u> |
| Net change in fund balance | (696,905) | (359,129) | (323,932) | 35,197 |
| Fund balance – July 1 | <u>4,674,851</u> | <u>4,674,851</u> | <u>4,674,851</u> | <u>-</u> |
| Fund balance – June 30 | <u>\$ 3,977,946</u> | <u>\$ 4,315,722</u> | <u>\$ 4,350,919</u> | <u>\$ 35,197</u> |

OTHER SUPPLEMENTAL INFORMATION

THREE RIVERS COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

| | <u>Special Revenue Funds</u> | | |
|---|------------------------------|-----------------------------|-------------------|
| | <u>Food Services</u> | <u>Expendable Trust</u> | <u>Total</u> |
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 25,831 | \$ 79,471 | \$ 105,302 |
| Accounts receivable | 9,410 | - | 9,410 |
| Due from other funds | 382,900 | - | 382,900 |
| Inventory | 20,772 | - | 20,772 |
| Prepaid expenditures | <u>1,776</u> | <u>-</u> | <u>1,776</u> |
| Total assets | <u>\$ 440,689</u> | <u>\$ 79,471</u> | <u>\$ 520,160</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 3,679 | \$ - | \$ 3,679 |
| Due to other funds | <u>15,606</u> | <u>-</u> | <u>15,606</u> |
| Total liabilities | 19,285 | - | 19,285 |
| Fund balances: | | | |
| Nonspendable: | | | |
| Prepaid expenditures | 1,776 | - | 1,776 |
| Inventory | 20,772 | - | 20,772 |
| Restricted: | | | |
| Scholarships | - | 79,471 | 79,471 |
| Food Service | <u>398,856</u> | <u>-</u> | <u>398,856</u> |
| Total fund balances | <u>421,404</u> | <u>79,471</u> | <u>500,875</u> |
| Total liabilities and fund balances | <u>\$ 440,689</u> | <u>\$ 79,471</u> | <u>\$ 520,160</u> |

THREE RIVERS COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2015**

| | <u>Special Revenue Funds</u> | | |
|-----------------------------|------------------------------|-----------------------------|-------------------|
| | <u>Food Services</u> | <u>Expendable Trust</u> | <u>Total</u> |
| Revenues: | | | |
| Local sources | \$ 300,747 | \$ 9,992 | \$ 310,739 |
| State sources | 42,409 | - | 42,409 |
| Federal sources | <u>998,869</u> | <u>-</u> | <u>998,869</u> |
| Total revenues | 1,342,025 | 9,992 | 1,352,017 |
| Expenditures: | | | |
| Food services | 1,320,174 | - | 1,320,174 |
| Scholarships | <u>-</u> | <u>13,070</u> | <u>13,070</u> |
| Total expenditures | <u>1,320,174</u> | <u>13,070</u> | <u>1,333,244</u> |
| Net change in fund balances | 21,851 | (3,078) | 18,773 |
| Fund balances – July 1 | <u>399,553</u> | <u>82,549</u> | <u>482,102</u> |
| Fund balances – June 30 | <u>\$ 421,404</u> | <u>\$ 79,471</u> | <u>\$ 500,875</u> |

THREE RIVERS COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

**FOOD SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2015**

| | <u>Budget</u> | <u>Actual</u> | Over (Under) <u>Budget</u> |
|--|-------------------|-------------------|-------------------------------|
| Revenues: | | | |
| Local sources | \$ 272,114 | \$ 300,747 | \$ 28,633 |
| State sources | 40,880 | 42,409 | 1,529 |
| Federal sources | <u>995,423</u> | <u>998,869</u> | <u>3,446</u> |
| Total revenues | 1,308,417 | 1,342,025 | 33,608 |
| Expenditures: | | | |
| Salaries | 343,421 | 343,420 | (1) |
| Employee benefits | 156,783 | 158,135 | 1,352 |
| Purchased services | 84,670 | 71,308 | (13,362) |
| Supplies, materials and other | 769,373 | 747,311 | (22,062) |
| Capital outlay | <u>7,500</u> | <u>-</u> | <u>(7,500)</u> |
| Total expenditures | <u>1,361,747</u> | <u>1,320,174</u> | <u>(41,573)</u> |
| Excess (deficiency) of revenues over expenditures | (53,330) | 21,851 | 75,181 |
| Fund balance – July 1 | <u>399,553</u> | <u>399,553</u> | <u>-</u> |
| Fund balance – June 30 | <u>\$ 346,223</u> | <u>\$ 421,404</u> | <u>\$ 75,181</u> |

THREE RIVERS COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

**STUDENT ACTIVITIES AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2015**

| | <u>Balances</u> <u>June 30, 2014</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balances</u> <u>June 30, 2015</u> |
|---------------------------|---|-------------------|-------------------|---|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$ <u>145,092</u> | \$ <u>375,101</u> | \$ <u>344,465</u> | \$ <u>175,728</u> |
| <u>LIABILITIES</u> | | | | |
| Due to student groups | \$ <u>145,092</u> | \$ <u>375,101</u> | \$ <u>344,465</u> | \$ <u>175,728</u> |

THREE RIVERS COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION

STATEMENT OF BONDED INDEBTEDNESS

YEAR ENDED JUNE 30, 2015

2012 REFUNDING SCHOOL BUILDING AND SITE BONDS \$ 8,285,000

Balance payable as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|---------------------|---------------------|---------------------|
| 2016 | 2.000 | \$ 184,232 | \$ 585,000 | \$ 769,232 |
| 2017 | 2.000 | 172,532 | 700,000 | 872,532 |
| 2018 | 2.000 | 158,532 | 810,000 | 968,532 |
| 2019 | 2.000 | 142,332 | 830,000 | 972,332 |
| 2020 | 2.125 | 125,731 | 830,000 | 955,731 |
| 2021 | 2.250 | 109,131 | 815,000 | 924,131 |
| 2022 | 2.250 | 91,813 | 805,000 | 896,813 |
| 2023 | 3.000 | 73,700 | - | 73,700 |
| 2024 | 3.000 | 73,700 | - | 73,700 |
| 2025 | 3.000 | 73,700 | - | 73,700 |
| 2026 | 3.000 | 73,700 | - | 73,700 |
| 2027 | 3.000 | 73,700 | - | 73,700 |
| 2028 | 3.000 | 73,700 | - | 73,700 |
| 2029 | 3.000 | 73,700 | - | 73,700 |
| 2030 | 3.000 | 73,700 | - | 73,700 |
| 2031 | 3.000 | 73,700 | - | 73,700 |
| 2032 | 3.000 | 73,700 | 400,000 | 473,700 |
| 2033 | 3.000 | 61,700 | 1,015,000 | 1,076,700 |
| 2034 | 3.125 | <u>31,250</u> | <u>1,000,000</u> | <u>1,031,250</u> |
| Total | | <u>\$ 1,814,253</u> | <u>\$ 7,790,000</u> | <u>\$ 9,604,253</u> |

Interest on the bond of the above issue is payable semi-annually on November 1 and May 1. Principal is payable on May 1.

THREE RIVERS COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2015

2007 REFUNDING SCHOOL BUILDING AND SITE BONDS \$ 9,995,000

Balance payable as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|---------------------|---------------------|----------------------|
| 2016 | 4.00 | \$ 399,460 | \$ - | \$ 399,460 |
| 2017 | 4.00 | 399,460 | - | 399,460 |
| 2018 | 4.00 | 399,460 | - | 399,460 |
| 2019 | 4.00 | 399,460 | 50,000 | 449,460 |
| 2020 | 4.00 | 397,460 | 50,000 | 447,460 |
| 2021 | 4.00 | 395,460 | 50,000 | 445,460 |
| 2022 | 4.00 | 393,460 | 55,000 | 448,460 |
| 2023 | 4.00 | 391,260 | 855,000 | 1,246,260 |
| 2024 | 4.00 | 357,060 | 1,050,000 | 1,407,060 |
| 2025 | 4.00 | 315,060 | 1,045,000 | 1,360,060 |
| 2026 | 4.00 | 273,260 | 1,035,000 | 1,308,260 |
| 2027 | 4.00 | 231,860 | 1,030,000 | 1,261,860 |
| 2028 | 4.00 | 190,660 | 1,025,000 | 1,215,660 |
| 2029 | 4.00 | 149,660 | 1,015,000 | 1,164,660 |
| 2030 | 4.10 | 109,060 | 1,010,000 | 1,119,060 |
| 2031 | 4.125 | 67,650 | 1,005,000 | 1,072,650 |
| 2032 | 4.125 | <u>26,194</u> | <u>635,000</u> | <u>661,194</u> |
| Total | | <u>\$ 4,895,944</u> | <u>\$ 9,910,000</u> | <u>\$ 14,805,944</u> |

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable on May 1.

THREE RIVERS COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2015

2008 REFUNDING SCHOOL BUILDING AND SITE BONDS \$ 24,505,000

Balance payable as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|---------------------|----------------------|----------------------|
| 2016 | 5.00 | \$ 688,250 | \$ 1,750,000 | \$ 2,438,250 |
| 2017 | 5.00 | 600,750 | 1,735,000 | 2,335,750 |
| 2018 | 5.00 | 514,000 | 1,725,000 | 2,239,000 |
| 2019 | 5.00 | 427,750 | 1,745,000 | 2,172,750 |
| 2020 | 5.00 | 340,500 | 1,740,000 | 2,080,500 |
| 2021 | 5.00 | 253,500 | 1,710,000 | 1,963,500 |
| 2022 | 5.00 | 168,000 | 1,685,000 | 1,853,000 |
| 2023 | 5.00 | <u>83,750</u> | <u>1,675,000</u> | <u>1,758,750</u> |
| Total | | <u>\$ 3,076,500</u> | <u>\$ 13,765,000</u> | <u>\$ 16,841,500</u> |

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable on May 1.

2010 ENERGY CONSERVATION BONDS \$ 1,615,000

Balance payable as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|-------------------|---------------------|---------------------|
| 2016 | 2.25 | \$ 29,200 | \$ 160,000 | \$ 189,200 |
| 2017 | 2.50 | 25,600 | 165,000 | 190,600 |
| 2018 | 2.75 | 21,475 | 170,000 | 191,475 |
| 2019 | 2.90 | 16,800 | 175,000 | 191,800 |
| 2020 | 3.00 | 11,725 | 185,000 | 196,725 |
| 2021 | 3.25 | <u>6,175</u> | <u>190,000</u> | <u>196,175</u> |
| Total | | <u>\$ 110,975</u> | <u>\$ 1,045,000</u> | <u>\$ 1,155,975</u> |

Interest on the bonds of the above issue is payable semi-annually on November 1 and May 1. Principal is payable on May 1.

THREE RIVERS COMMUNITY SCHOOLS
OTHER SUPPLEMENTAL INFORMATION
STATEMENT OF BONDED INDEBTEDNESS
YEAR ENDED JUNE 30, 2015

2012 INSTALLMENT PURCHASE PLAN \$ 87,619

Balance payable as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|-----------------|------------------|------------------|
| 2016 | 1.18 | \$ 311 | \$ 17,500 | \$ 17,811 |
| 2017 | 1.18 | <u>104</u> | <u>17,619</u> | <u>17,723</u> |
| Total | | <u>\$ 415</u> | <u>\$ 35,119</u> | <u>\$ 35,534</u> |

2013 INSTALLMENT PURCHASE PLAN \$ 262,857

Balance payable as follows:

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|-----------------|-------------------|-------------------|
| 2016 | 1.39 | \$ 1,829 | \$ 52,500 | \$ 54,329 |
| 2017 | 1.39 | 1,100 | 52,500 | 53,600 |
| 2018 | 1.39 | <u>367</u> | <u>52,857</u> | <u>53,224</u> |
| Total | | <u>\$ 5,855</u> | <u>\$ 210,357</u> | <u>\$ 216,212</u> |

2014 INSTALLMENT PURCHASE PLAN \$ 554,276

Balance payable as follows

| <u>Year</u> | <u>Rate</u> | <u>Interest</u> | <u>Principal</u> | <u>Total</u> |
|-------------|-------------|------------------|-------------------|-------------------|
| 2016 | 2.49 | \$ 11,747 | \$ 55,500 | \$ 67,247 |
| 2017 | 2.49 | 10,365 | 55,500 | 65,865 |
| 2018 | 2.49 | 8,983 | 55,500 | 64,483 |
| 2019 | 2.49 | 7,601 | 55,500 | 63,101 |
| 2020 | 2.49 | 6,219 | 55,500 | 61,719 |
| 2021 | 2.49 | 4,837 | 55,500 | 60,337 |
| 2022 | 2.49 | 3,455 | 55,500 | 58,955 |
| 2023 | 2.49 | 2,072 | 55,500 | 57,572 |
| 2024 | 2.49 | <u>690</u> | <u>55,500</u> | <u>56,190</u> |
| Total | | <u>\$ 55,969</u> | <u>\$ 499,500</u> | <u>\$ 555,469</u> |

THREE RIVERS COMMUNITY SCHOOLS

**OTHER SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2015**

| <u>Federal Grantor/Pass-Through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Program or Award Amount</u> |
|--|------------------------------------|--|--|
| <u>U.S. Department of Education</u> | | | |
| Passed Through State Department of Education: | | | |
| Title I - Educationally Deprived | 84.010 | 1515301415 1415301314 | \$ 740,111 844,405 |
| Improving Teacher Quality | 84.367 | 1505201415 1405201314 | 276,285 233,881 |
| Title VI Part B | 84.358 | 1506601415 1406601314 | 60,823 48,009 |
| Passed Through Intermediate School District: | | | |
| Adult Ed - State Admin. Title III Part A | 84.002A 84.031A | | |
| TOTAL DEPARTMENT OF EDUCATION | | | |
| <u>U.S. Department of Health and Human Services</u> | | | |
| Passed Through Intermediate School District: | | | |
| Medicaid outreach | 93.778 | | 1,613 |

(continued on next page)

| <u>Accrued (Deferred) Revenue July 1, 2014</u> | <u>(Memo only) Prior Year Expenditures</u> | <u>Expenditures</u> | <u>Receipts</u> | <u>Accrued (Deferred) Revenue June 30, 2015</u> |
|--|--|---------------------|-----------------|---|
| \$ - | | \$ 562,045 | \$ 527,166 | \$ 34,879 |
| <u>245,821</u> | 602,289 | <u>142,184</u> | <u>388,005</u> | <u>-</u> |
| 245,821 | | * 704,229 | 915,171 | 34,879 |
| - | | 173,132 | 149,093 | 24,039 |
| <u>24,129</u> | 91,795 | <u>47,832</u> | <u>71,961</u> | <u>-</u> |
| 24,129 | | 220,964 | 221,054 | 24,039 |
| - | | 15,775 | 43,493 | (27,718) |
| <u>6,082</u> | 11,083 | <u>26,149</u> | <u>32,231</u> | <u>-</u> |
| <u>6,082</u> | | <u>41,924</u> | <u>75,724</u> | <u>(27,718)</u> |
| 276,032 | | 967,117 | 1,211,949 | 31,200 |
| 67,788 | 67,788 | 57,007 | 124,795 | - |
| <u>-</u> | | <u>1,282</u> | <u>-</u> | <u>1,282</u> |
| 343,820 | | 1,025,406 | 1,336,744 | 32,482 |
| - | | 1,613 | 1,613 | - |

THREE RIVERS COMMUNITY SCHOOLS

OTHER SUPPLEMENTAL INFORMATION SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2015

| <u>Federal Grantor/Pass-Through Grantor/ Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Grantor's Number</u> | <u>Program or Award Amount</u> |
|--|------------------------------------|--|--|
| <u>U.S. Department of Agriculture</u> | | | |
| Nutrition Cluster | | | |
| Passed Through State Department of Education | | | |
| Summer Food Service Program | 10.559 | 13-14 14-15 | 24,324 3,233 |
| National School Lunch Program | 10.555 | 13-14 14-15 | 629,611 559,195 |
| National School Lunch Special Milk Program | 10.556 | 13-14 14-15 | 115 128 |
| National School Lunch Breakfast | 10.553 | 13-14 14-15 | 255,197 230,567 |
| Direct Programs - non-cash assistance | | | |
| Entitlement Commodities | 10.555 | 14-15 | 75,173 |
| Bonus Commodities | 10.555 | 14-15 | - |

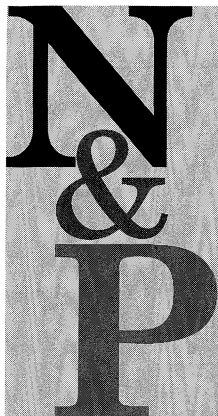
TOTAL DEPARTMENT OF AGRICULTURE

TOTAL FEDERAL FINANCIAL ASSISTANCE

Notes:

- 1.* Designates Major Program
2. Dollar threshold used to distinguish between Type A and Type B programs - \$300,000.
3. Expenditures in this schedule are in agreement with amounts reported in the financial statements.
4. The amounts reported on the R7120 reconcile with this schedule.
5. This schedule has been prepared under the modified accrual basis of accounting.

| Accrued (Deferred) Revenue <u>July 1, 2014</u> | (Memo only) Prior Year <u>Expenditures</u> | <u>Expenditures</u> | <u>Receipts</u> | Accrued (Deferred) Revenue <u>June 30, 2015</u> |
|---|--|---------------------|---------------------|--|
| 1,663 | 1,663 | 22,661 | 24,324 | - |
| <u>-</u> | | <u>3,233</u> | <u>-</u> | <u>3,233</u> |
| 1,663 | | 25,894 | 24,324 | 3,233 |
| - | 553,711 | 75,900 | 75,900 | - |
| <u>-</u> | | <u>559,195</u> | <u>559,195</u> | <u>-</u> |
| - | | 635,095 | 635,095 | - |
| - | 112 | 3 | 3 | - |
| <u>-</u> | | <u>128</u> | <u>128</u> | <u>-</u> |
| - | | 131 | 131 | - |
| - | 223,188 | 32,009 | 32,009 | - |
| <u>-</u> | | <u>230,567</u> | <u>230,567</u> | <u>-</u> |
| - | | 262,576 | 262,576 | - |
| - | | 75,173 | 75,173 | - |
| <u>-</u> | | <u>-</u> | <u>-</u> | <u>-</u> |
| - | | 75,173 | 75,173 | - |
| <u>1,663</u> | | <u>998,869</u> | <u>997,299</u> | <u>3,233</u> |
| <u>\$ 345,483</u> | | <u>\$ 2,025,888</u> | <u>\$ 2,335,656</u> | <u>\$ 35,715</u> |



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

To the Board of Education
Three Rivers Community Schools

Norman & Paulsen, P.C.
Certified Public Accountants

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We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Three Rivers Community Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Three Rivers Community Schools' basic financial statements and have issued our report thereon dated October 30, 2015.

Internal Control Over Financial Reporting

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

Bruce S. A. Gosling, CPA, CVA
Michael R. Wilson, CPA
Ricky L. Strawser, CPA

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency, 2015-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Three Rivers Community 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*.

Three Rivers Community Schools' Response to Findings

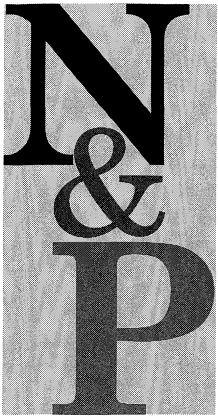
Three Rivers Community Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Three Rivers Community Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the 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.

October 30, 2015

Norman S. Paulson, P.C.



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133

To the Board of Education
Three Rivers Community Schools, Michigan

Norman & Paulsen, P.C.
Certified Public Accountants

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Report on Compliance for Each Major Federal Program

We have audited Three Rivers Community Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Three Rivers Community Schools' major federal programs for the year ended June 30, 2015. Three Rivers Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Three Rivers Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Three Rivers Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Three Rivers Community Schools' compliance.

Bruce S. A. Gosling, CPA, CVA
Michael R. Wilson, CPA
Ricky L. Strawser, CPA

Opinion on Each Major Federal Program

In our opinion, Three Rivers Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-002. Our opinion on each major program is not modified with respect to these matters.

Three Rivers Community Schools' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Three Rivers Community Schools' response was not subjected to the auditing procedures applied in the audit of noncompliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Three Rivers Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Three Rivers Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Three Rivers Community Schools' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance to be material weaknesses. However, material weaknesses may exist that have not been identified.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-002 to be a significant deficiency.

Three Rivers Community Schools' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Three Rivers Community Schools' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

October 30, 2015

Norman E. Paulson, P.C.

THREE RIVERS COMMUNITY SCHOOLS

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2015**

1. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal Control over Financial Reporting:

Material weakness(es) identified: ☐ Yes ☒ No

Significant deficiencies identified: ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

Material weakness (es) identified: ☐ Yes ☒ No

Significant deficiencies identified: ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major programs:

U.S. Department of Education:

84.010 – Title I - Educationally Deprived

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

THREE RIVERS COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued YEAR ENDED JUNE 30, 2015

2. Findings relating to the financial statements which are required to be reported in accordance with GAGAS:

Finding 2015-001 Considered a significant deficiency

Condition: All accounts payable invoices are not being recorded as a liability/expenditure and processed for payment in a timely manner.

Criteria: In order to maintain adequate internal control, and proper reporting, invoices from vendors should be entered into the accounting system and followed up for timely payment.

Cause of Condition: When the accounts payable clerk receives an invoice for processing they forward the invoice to the appropriate department head to be matched with the corresponding purchase order and approved for payment. The department head is to return the invoice to the payables clerk for payment processing. The accounts payable clerk does not maintain a record of the invoices that are awaiting department approval.

Potential Effect of Condition: The system of maintaining control over the payable invoices can be interrupted by the department heads. Payables and expenditures may not be recorded in a timely manner and financial information may not be current and accurate.

Recommendation: The accounts payable clerk should maintain control over all incoming invoices and follow up on the status.

Client Response: Control over invoices will be maintained by the accounts payable clerk and invoices will be processed timely.

THREE RIVERS COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued YEAR ENDED JUNE 30, 2015

3. Federal Award Findings and Question Costs

Finding 2015-002 Noncompliance/significant deficiency

Federal Program: CFDA No. 84.358 - Title VI Part B

Specific Requirement: Cash management

Condition: Prior to year end, cash was advanced in excess of federal expenditures.

Criteria: MDE guidelines require a district to request funds on a reimbursement basis.

Cause: During the year, there was turn over in the financial supervisor position. The funds request was based on total expenditures without taking into consideration funds requested earlier in the year.

Effect: Without reconciling federal grant revenues and expenditures on a regular basis, funds may be advanced in excess of the School's federal expenditures.

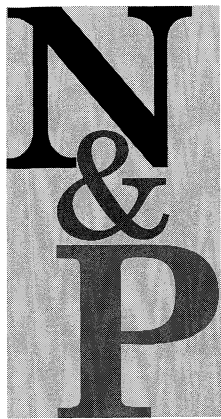
Questioned Costs: As of June 30, 2015 the School was advance drawn by \$27,718. The School has notified the oversight agency and has already reduced subsequent draw requests by the amount that was overdrawn.

Recommendation: The School should implement a monthly reconciliation process for all grant programs to ensure that advances made for federal funds do not exceed federal expenditures.

Client Response: The school agrees with the recommendation and has already implemented the reconciliation process.

4. Status of Prior Year Comments

NONE



Norman & Paulsen, P.C.

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AUDIT-RELATED COMMUNICATIONS

To the Board of Education
Three Rivers Community Schools

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Three Rivers Community Schools (the "School District") for the year ended June 30, 2015, and have issued our report thereon dated October 30, 2015. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated June 8, 2015, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the School District. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the School District's financial statements has also been conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Under *Government Auditing Standards*, we have made some assessments of the School District's compliance with certain provisions of laws, regulations, contracts, and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have communicated those conditions in a separate letter dated October 30, 2015 regarding our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements.

We are also obligated to communicate certain matters related to our audit to those responsibilities for the governance of the School District, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, *Government Auditing Standards* require disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosure regarding these acts to applicable government agencies. No such disclosures were required.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on June 22, 2015.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Three Rivers Community Schools are described in Note 1 to the financial statements. The School District adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions*, for the year ended June 30, 2015. The application of existing policies was not changed during 2015. We noted no transactions entered into by Three Rivers Community Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statement in a different period than when the transaction occurred.

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

Accumulated compensated absences liability
Depreciation
Net Pension Liability

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures may be particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

No Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

No Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 30, 2015.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

As required by OMB Circular A-133, we have also completed an audit of the federal programs administered by the School District. The results of that audit are provided to the Board of Education in our report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 dated October 30, 2015.

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

We are pleased to serve as the School District's auditors. If there are any questions about the audited financial statements or the contents of this letter, we would welcome the opportunity to discuss them at your convenience.

Sincerely,

Norman & Paulsen, P.C.

October 30, 2015