

Pentwater Public Schools

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

Year ended June 30, 2015



Pentwater Public Schools

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# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

October 20, 2015

Board of Education  
Pentwater Public Schools  
Pentwater, Michigan

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

### Management's Responsibility for the Financial Statements

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

### Auditors' 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.

Board of Education  
Pentwater Public Schools  
October 20, 2015  
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**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 Pentwater Public Schools as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter – Change in Accounting Principle**

As described in Note K to the financial statements, Pentwater Public Schools implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, and pension information on pages 3 through 9 and 38 through 41 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2015, on our consideration of Pentwater Public Schools’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pentwater Public Schools’ internal control over financial reporting and compliance.



Hart, Michigan

### OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Pentwater Public School's basic financial statements. The Pentwater Public School's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the Pentwater Public School's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the Pentwater Public School's assets, deferred inflows and outflows, and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of Pentwater Public Schools is improving or deteriorating. The prior year Statement of Net Position was restated for the affects of GASB Statement 68 *Accounting and Financial Reporting for Pensions* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The footnotes to the financial statements contain the details.

The Statement of Activities presents information showing how the district's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The prior year Statement of Activities was not restated for the affects of GASB Statement 68 as the data is not available.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pentwater Public Schools (PPS) uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of PPS can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the PPS's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which shows budget to actual results for the general fund.

# Pentwater Public Schools

## Management's Discussion and Analysis

### FINANCIAL STATEMENTS

**The Statement of Net Position** – As shown in the table below, net position decreased by 2.5%, or \$52,085.

	As restated	
	<u>June 30, 2014</u>	<u>June 30, 2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,105,220	\$ 965,108
Investments	10,530	-
Due from other governmental units	74,894	63,255
Inventories	3,952	2,684
Total current assets	<u>1,194,596</u>	<u>1,031,047</u>
<b>NONCURRENT ASSETS</b>		
Capital assets, net of depreciation	<u>4,021,542</u>	<u>3,981,120</u>
Total assets	<u>5,216,138</u>	<u>5,012,167</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
	<u>396,927</u>	<u>595,814</u>
Total assets and Deferred outflows of resources	<u>5,613,065</u>	<u>5,607,981</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 314,455	\$ 341,881
Bonds and other obligations, due within one year	210,705	236,561
Total current liabilities	<u>525,160</u>	<u>578,442</u>
<b>NONCURRENT LIABILITIES</b>		
Bonds and other obligations, less amounts due within one year	3,257,155	3,081,427
Net pension liability	3,852,190	3,620,351
Total liabilities	<u>7,634,505</u>	<u>7,280,220</u>
<b>DEFERRED INFLOWS</b>		
Total liabilities and deferred inflows	<u>-</u>	<u>401,286</u>
<b>NET POSITION</b>		
Net investment in capital assets	\$ 553,682	\$ 663,132
Restricted for		
Capital projects	59,560	-
Debt service	27,760	36,778
Permanent funds	700	700
Unrestricted	<u>(2,663,142)</u>	<u>(2,774,135)</u>
Total net position	<u>\$ (2,021,440)</u>	<u>\$ (2,073,525)</u>

# Pentwater Public Schools

## Management's Discussion and Analysis

**The Statement of Activities – Program Revenue** Operating Grants increased due primarily to additional funds from Whole School Technology Grant funds through Genesee Area ISD. Because of prior year non-homestead to homestead taxable value adjustments, property taxes in General Fund saw a decrease.

While revenues increased by \$172,021 or 5%, expenditures also increased by \$186,026, or 5.6%. This was due mainly to an increase in salaries and benefits, and interest on long term debt. With the implementation of GASB 68, the district is also required to record a net pension liability with figures supplied by the Office of Retirement Services (ORS). This resulted in an decrease of \$52,085 in net position.

	2014 Governmental Activities	2015 Governmental Activities
Functions/Programs		
Program Revenue		
Charges for Services	\$ 51,762	\$ 53,043
Operating Grants	402,079	521,218
General Revenues		
Property Taxes-General Fund	2,485,133	2,439,112
Property Taxes-Debt Services	227,694	272,984
Grants and Contributions(not restricted to specific programs)	12,452	44,825
Unrestricted Investment Earnings	7,846	2,499
Miscellaneous	<u>101,742</u>	<u>127,048</u>
<b>TOTAL REVENUES</b>	<b>3,288,708</b>	<b>3,460,729</b>
Primary Government Expenses		
Instruction	1,700,594	1,822,832
Support Services	996,942	1,060,762
Community services	2,101	-
Food services	142,390	130,597
Athletics	91,420	98,675
Interest on Long-term debt	102,442	87,501
Unallocated Depreciation	<u>290,899</u>	<u>312,447</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES EXP</b>	<b><u>3,326,788</u></b>	<b><u>3,512,814</u></b>
Change in net position	(38,080)	(52,085)
Net Position – beginning, as restated	<u>1,652,281</u>	<u>(2,021,440)</u>
Net Position - ending	<u><u>\$ 1,614,201</u></u>	<u><u>\$ (2,073,525)</u></u>

**Balance Sheet** – This report shows the worth of the District’s individual funds without inclusion of capital assets and long term debt. The balance sheet divides funds into two categories – General Fund, and Other governmental funds. The Fund Balances are split out into 4 categories; Non-spendable, Restricted, Assigned and Unassigned.

# Pentwater Public Schools

## Management's Discussion and Analysis

Food Service inventories in the amount of \$2,684 are included in the non spendable category. Restricted fund balances are \$50,036 for Debt Service, \$3,086 for Food Service and \$700 for Permanent (Scholarship) funds.

The Assigned Fund Balance is \$239,768 for subsequent year's appropriations. Unassigned fund balance is \$406,150 for the General Fund or 13% of total revenues.

### Statement of Revenues, Expenditures and Changes in Fund Balances

The start of the academic year requires a budget for both the General and special revenue funds. The budgets are amended during the year. The reason for the variances in the budget from original to final adopted and from final adopted to audited actual results are a good review of the district's challenges and solutions for the year.

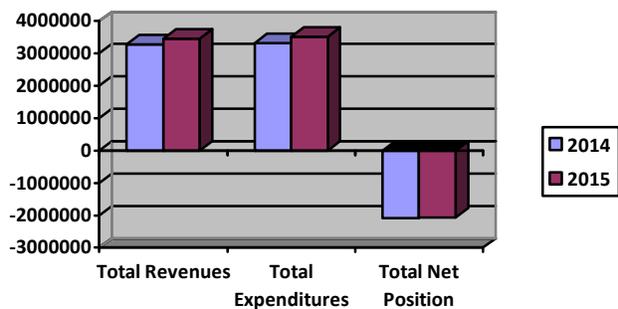
Enrollment figures for the start of the year continued to be below a level that would allow the District to collect any significant state aid.

Although total revenues were increased \$225,010, expenditures were also up \$361,724, due in part to increases in salaries and benefits and a special grant to purchase chrome books, resulting in a General Fund fund balance decrease of \$136,512.

### CONDENSED COMPARATIVE DATA

The results of this year's operations for the school district as a whole are reported in the Statement of Activities which also shows the changes in net position for fiscal year 2014-2015. This chart summarizes revenues, expenses and net position over the past two years.

	2014	2015
Total Revenue	<u>\$3,288,708</u>	<u>\$3,460,729</u>
Gov Activity Exp	<u>3,326,788</u>	<u>3,512,814</u>
June 30 Net Position, as restated	<u>\$(2,078,212)</u>	<u>\$(2,073,525)</u>



# Pentwater Public Schools

## Management's Discussion and Analysis

### Capital Assets

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
<b>Capital Assets, not being depreciated</b>				
Land	\$ 212,191	\$ -	\$ -	\$ 212,191
<b>Capital Assets, being depreciated</b>				
Buildings and improvements	6,695,735	54,332	6,175	6,743,892
Furniture and equipment	526,655	142,434	8,136	660,953
Vehicles	309,517	79,887	47,666	341,738
Total Capital Assets, being depreciated	7,531,907	276,653	61,977	\$7,746,583
<b>Less Accumulated Depreciation:</b>				
Buildings and improvements	3,129,301	206,107	2,501	3,332,907
Furniture and equipment	367,162	78,109	8,136	437,135
Vehicles	226,093	28,231	46,712	207,612
Total accumulated depreciation	3,722,556	312,447	57,349	3,977,654
Total Capital Assets being depreciated, net	3,809,351	(35,794)	4,628	3,768,929
Capital Assets, net	\$4,021,542	(35,794)	4,628	\$3,981,120

At June 30, 2015, the District had \$3,981,120 invested in a broad range of capital assets, including land, buildings, furniture and equipment, and vehicles. This is a decrease in capital assets of \$40,422 from last year.

### Long Term Debt

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2015:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015	Due within one year
<b>Governmental Activities:</b>					
Bonds	\$ 3,360,000	\$ -	\$ 190,000	\$ 3,170,000	\$ 200,000
Premium	36,952	-	2,309	34,643	-
Other obligations	70,908	79,887	37,450	113,345	36,561
	<u>\$ 3,467,860</u>	<u>\$ 79,887</u>	<u>\$ 229,759</u>	<u>\$ 3,317,988</u>	<u>\$ 236,561</u>

The School District entered into a capital lease agreement for a new school bus in October 2014.

### **FINANCIAL ANALYSIS OF DISTRICT**

While the 2015 general fund balance of \$645,918 is a decrease from the previous year by \$136,512, it is still a healthy 20% of General Fund expenditures. This decrease in the District's fund balance portrays the difference between the revenues and the expenditures. Revenues increased from the prior year mainly because of the Whole School Technology Grant, carryover of Title I & II funds, and proceeds from the sale of a long term note for a bus purchase, but there were also corresponding expenditures associated with those grants. Expenditures increased due mainly to salary and benefit costs, the purchase of one to one technology associated with the Whole School Technology Grant, and the purchase of a new bus.

The capital position decreased primarily due to depreciation.

### **FUND ANALYSIS**

The lunch program is funded by user fees. Lunch program revenues have been enhanced by catering for Pentwater Service Club and increased participation in the breakfast and lunch programs. The food service fund balance decreased from the prior year, but only required minimal support from the general fund.

Debt Retirement Fund was funded by a 1.20 mill levy. This debt millage was approved by the voters in December 2003 and, during these subsequent eleven years, the district has levied millage nine times and only to the level needed to make necessary principal and interest payments for the fiscal year.

The scholarship fund continues to hold funds for the Blades Ward Foundation pursuant to the donors' request. The remaining Pentwater Public Schools scholarship funds are being administered by the Muskegon-Oceana Community Foundation.

The Capital Project Fund was depleted this year with the purchase of a security system for the building, and also for the replacement of the aging playground structure.

### **BUDGET VARIANCES IN GENERAL FUND**

While the amendments made during the school year are made with the most accurate information available, there are always some developments that mean the final audited actual information will differ from the final adopted budget. The actual revenues were up due to technology equipment purchased for the district on behalf of Genesee Area ISD using Whole School Technology grant funds, with a corresponding expense recorded. The most significant difference in expenditures was due to a decrease in salaries and benefits, specifically retirement and insurances, along with a decrease in utility costs.

### **CAPITAL POSITION AND LONG-TERM DEBT**

The capital improvements made as a result of our 2004 bond passage have continued to enhance the educational and community facility. The debt on that bond issuance will continue until the year 2029 and will be paid off with levies on the public.

### **OTHER POTENTIALLY SIGNIFICANT MATTERS**

- The implementation of GASB 68 has reduced the Net Position of the School District significantly.
- Uncertainty over recently passed retirement legislation
- Decrease in taxable valuations and charge backs due to homestead reclassifications.
- We continue to be encouraged by stabilized enrollment and larger numbers in our kindergarten class
- Contracts with pre-school and other business services have brought in revenues and/or enrollment to the district
- Cooperative agreements are pursued with other entities when appropriate
- Reduced costs through a cooperative business services contract with the West Shore Educational Service District.
- The District contracts counseling services with an independent provider
- The District negotiated a 3 year Master Agreement with the EA

Pentwater Public Schools, like most schools in the state of Michigan, has faced financial challenges since the passage of Proposal A and a decline in enrollment starting in the 1990's. Fortunately the District has dealt with these challenges judiciously, allowing the district to remain fiscally sound and educationally relevant. Many of the measures that larger schools have been considering in the past few years were instituted here earlier.

Contracting of custodial services and employee co-pay for insurance premiums started in the 1980's. Since that time, administrative moves to contain costs include:

- Contracting with other schools/agencies/contractors to provide business and other services
- Contracting at minimal cost with outside providers and preschool services on-site
- Staff reduction through attrition
- Reduction of costs through consolidation of administrative positions

We continue to address administrative decisions as conservatively as possible while still meeting the needs of our students.

### **Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Superintendent at the Pentwater Public Schools Administrative Office, Pentwater, Michigan 49449.

Pentwater Public Schools  
**STATEMENT OF NET POSITION**  
June 30, 2015

	<b>Governmental activities</b>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 965,108
Due from other governmental units	63,255
Inventories	2,684
Total current assets	1,031,047
Noncurrent assets	
Capital assets, net	
Nondepreciable	212,191
Depreciable	3,768,929
Total noncurrent assets	3,981,120
Total assets	5,012,167
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charges on refunding	168,079
Related to pensions	427,735
Total assets and deferred outflows of resources	5,607,981
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued liabilities	340,038
Due to other governmental units	1,843
Bonds and other obligations, due within one year	236,561
Total current liabilities	578,442
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	3,081,427
Net pension liability	3,620,351
Total noncurrent liabilities	6,701,778
Total liabilities	7,280,220
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Related to pensions	401,286
Total liabilities and deferred inflows of resources	7,681,506
<b>NET POSITION</b>	
Net investment in capital assets	663,132
Restricted	
Debt service	36,778
Permanent funds	700
Unrestricted	(2,774,135)
Total net position	\$ (2,073,525)

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2015

<i>Functions/Programs</i>	<b>Expenses</b>	<b>Program Revenue</b>		<b>Net (Expense) Revenue and Changes in Net Position</b>
		<b>Charges for services</b>	<b>Operating grants and contributions</b>	<b>Governmental activities</b>
Governmental activities				
Instruction	\$ 1,822,832	\$ -	\$ 213,563	\$ (1,609,269)
Support services	1,060,762	2,560	223,001	(835,201)
Food services	130,597	42,324	84,654	(3,619)
Athletics	98,675	8,159	-	(90,516)
Interest on long-term debt	87,501	-	-	(87,501)
Unallocated depreciation	312,447	-	-	(312,447)
Total governmental activities	<b>\$ 3,512,814</b>	<b>\$ 53,043</b>	<b>\$ 521,218</b>	(2,938,553)
General revenues				
Property taxes				2,712,096
Grants and contributions not restricted to specific programs				44,825
Investment earnings				2,499
Miscellaneous				127,048
Total general revenues				2,886,468
Change in net position				(52,085)
Net position at beginning of year, as restated				(2,021,440)
Net position at end of year				<b>\$ (2,073,525)</b>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**BALANCE SHEET**  
 Governmental Funds  
 June 30, 2015

	<b>General Fund</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 889,779	\$ 75,329	\$ 965,108
Due from other governmental units	61,807	1,448	63,255
Inventories	-	2,684	2,684
Total assets	<b>\$ 951,586</b>	<b>\$ 79,461</b>	<b>\$ 1,031,047</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 19,703	\$ 22,955	\$ 42,658
Accrued liabilities	284,122	-	284,122
Due to other governmental units	1,843	-	1,843
Total liabilities	305,668	22,955	328,623
<b>FUND BALANCES</b>			
Nonspendable			
Inventories	-	2,684	2,684
Restricted			
Debt service	-	50,036	50,036
Food service	-	3,086	3,086
Permanent funds	-	700	700
Assigned			
Assigned to subsequent year's budget appropriation	239,768	-	239,768
Unassigned	406,150	-	406,150
Total fund balances	645,918	56,506	702,424
Total liabilities and fund balances	<b>\$ 951,586</b>	<b>\$ 79,461</b>	<b>\$ 1,031,047</b>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION**  
 June 30, 2015

Total fund balances—governmental funds	\$	702,424
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	\$ 7,958,774	
Accumulated depreciation	<u>(3,977,654)</u>	3,981,120
Deferred charges on refunding are not capitalized and amortized in the governmental funds.		
Deferred charges on refunding	196,776	
Accumulated amortization	<u>(28,697)</u>	168,079
Deferred inflows and outflows of resources related to pensions are not reported in the governmental funds.		
Deferred outflows of resources - related to pensions		427,735
Deferred inflows of resources - related to pensions		(401,286)
Accrued interest in governmental activities is not reported in the governmental funds.		
		(13,258)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		
		<u>(6,938,339)</u>
Net position of governmental activities	<b>\$</b>	<b><u>(2,073,525)</u></b>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
 Governmental Funds  
 For the year ended June 30, 2015

	<u>General Fund</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
<b>REVENUES</b>			
Local sources			
Property taxes	\$2,439,112	\$ 272,984	\$ 2,712,096
Investment earnings	2,119	380	2,499
Fees and charges	8,159	42,324	50,483
Other	126,982	66	127,048
Total local sources	2,576,372	315,754	2,892,126
State sources	356,254	8,596	364,850
Federal sources	123,919	77,218	201,137
Total revenues	3,056,545	401,568	3,458,113
<b>EXPENDITURES</b>			
Current			
Instruction	1,845,811	-	1,845,811
Supporting services	1,333,926	-	1,333,926
Food services	-	132,244	132,244
Debt service			
Principal repayment	37,450	190,000	227,450
Interest and other charges	2,150	75,107	77,257
Capital projects	-	59,696	59,696
Total expenditures	3,219,337	457,047	3,676,384
Excess (deficiency) of revenues over (under) expenditures	(162,792)	(55,479)	(218,271)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other governmental units and other transactions	2,616	-	2,616
Transfers in	-	1,270	1,270
Transfers out	(1,270)	-	(1,270)
Loan proceeds	79,887	-	79,887
Other transactions	(54,953)	-	(54,953)
Total other financing sources (uses)	26,280	1,270	27,550
Net change in fund balances	(136,512)	(54,209)	(190,721)
Fund balances at beginning of year	782,430	110,715	893,145
Fund balances at end of year	<b>\$ 645,918</b>	<b>\$ 56,506</b>	<b>\$ 702,424</b>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2015

Net change in fund balances—total governmental funds	\$	(190,721)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.		
Depreciation expense	\$ (312,447)	
Capital outlay	<u>276,653</u>	(35,794)
Governmental funds report outlays for deferred charges on refunding as expenditures; in the Statement of Activities these costs are amortized over the bond period.		
		(12,299)
Governmental funds report the entire proceeds from the sale of capital assets but the Statement of Activities reports only the gain or loss on the sale of capital assets.		
		(4,628)
Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Position.		
		(79,887)
Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position.		
		229,759
Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		
		(254)
Some pension related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
		<u>41,739</u>
Change in net position of governmental activities	<u>\$</u>	<u>(52,085)</u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
Fiduciary Funds  
June 30, 2015

	<u>Agency funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	<u>\$ 73,258</u>
<b>LIABILITIES</b>	
Deposits held for others	<u>\$ 73,258</u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Pentwater Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**Reporting Entity**

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities.

Generally accepted accounting principles require that if the School District is considered to be financially accountable for other organizations, those organizations should be included as component units in the School District's financial statements. Since no organizations met this criterion, none are included in the financial statements.

**Basis of Presentation—Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the School District. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

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

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

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

The School District reports the following major governmental funds:

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

Additionally, the School District reports the following fund types:

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

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Basis of Presentation—Government-wide and Fund Financial Statements—Continued**

The debt service funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The capital projects funds account for the financial resources to be used for the acquisition of fixed assets or construction of major capital projects.

The permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

The agency fund is custodial in nature and used to account for assets held by the School District as an agent for another organization or individual.

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

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

**Measurement Focus and Basis of Accounting**

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Measurement Focus and Basis of Accounting—Continued**

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the current fiscal year, the foundation allowance was based on pupil membership counts taken in October and February.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-PRE property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

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

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

The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting its assets and liabilities.

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***Cash and Investments***

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

Investments for the School District are reported at fair value (generally based on quoted market prices). Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Cash and Investments—Continued***

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

***Inventories and Prepaid Items***

All inventories are valued at cost using the first-in/first-out method. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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

***Capital Assets***

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,000 as composite groups for financial reporting purposes.

As the School District constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment, of the School District are depreciated using the straight-line method over the following estimated useful lives, which includes amortization of capital leases:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	20-50
Vehicles and equipment	8
Furniture and equipment	5-20

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***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. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year in which they are incurred.

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

***Defined Benefit Plan***

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

***Deferred Outflows/Inflows of Resources***

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/expenditures) until then.

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.

***Net Position Flow Assumption***

Sometimes the government 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 of net position to report as restricted and unrestricted in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

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

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued**

***Fund Balance Flow Assumptions***

Sometimes the School District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted fund balance to have been depleted before using any 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 government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as committed. The Board of Education has by resolution authorized the Superintendent to assign fund balance. 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.

**Revenues and Expenditures/Expenses**

***Program Revenues***

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

***Property Taxes***

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue fund. All annual appropriations lapse at year end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts within major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2015.

**Excess of Expenditures Over Appropriations**

For the year ended June 30, 2015, expenditures in the General Fund exceeded appropriations in central services by \$71,055. The overexpenditures were funded by more than anticipated revenue amounts.

**School Bond Construction Compliance**

The 2004 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in the 2004 Capital Projects Fund from the inception of the fund through June 30, 2015.

	<b><u>2004 Capital Projects Fund</u></b>
Revenue and bond proceeds	\$4,274,454
Expenditures and transfers to debt service	4,274,454

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE C—DEPOSITS AND INVESTMENTS**

**Interest rate risk**

In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in interest rates by using the following methods: segmented time distribution, specific identification, weighted average maturity, duration and simulation model.

**Credit risk**

State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

**Concentration of credit risk**

The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2015, \$614,419 of the School District's bank balance of \$1,057,856 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments**

The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk**

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

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance June 30, 2015</b>
<b>Capital assets, not being depreciated:</b>				
Land	\$ 212,191	\$ -	\$ -	\$ 212,191
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	6,695,735	54,332	6,175	6,743,892
Furniture and equipment	526,655	142,434	8,136	660,953
Vehicles and equipment	309,517	79,887	47,666	341,738
Total capital assets, being depreciated	7,531,907	276,653	61,977	7,746,583
<b>Less accumulated depreciation:</b>				
Buildings and improvements	3,129,301	206,107	2,501	3,332,907
Furniture and equipment	367,162	78,109	8,136	437,135
Vehicles and equipment	226,093	28,231	46,712	207,612
Total accumulated depreciation	3,722,556	312,447	57,349	3,977,654
Total capital assets, being depreciated, net	3,809,351	(35,794)	4,628	3,768,929
Capital assets, net	<b>\$ 4,021,542</b>	<b>\$ (35,794)</b>	<b>\$ 4,628</b>	<b>\$ 3,981,120</b>

**Depreciation**

Depreciation expense has been charged as unallocated depreciation.

**NOTE E—INTERFUND TRANSFERS**

The General Fund transferred \$1,270 to the Food Service Fund to finance operations.

**NOTE F—SHORT-TERM DEBT**

The School District issues tax anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2015 follows:

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2015</b>
Tax anticipation note				
2014/2015 .545% paid March 2015	\$ -	\$ 325,000	\$ 325,000	\$ -

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2015

**NOTE G—LONG-TERM OBLIGATIONS**

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2015:

	<b>Balance July 1, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2015</b>	<b>Due within one year</b>
<b>Governmental activities</b>					
Bonds	\$ 3,360,000	\$ -	\$ 190,000	\$ 3,170,000	\$ 200,000
Premium	36,952	-	2,309	34,643	-
Other obligations	70,908	79,887	37,450	113,345	36,561
	<b>\$ 3,467,860</b>	<b>\$ 79,887</b>	<b>\$ 229,759</b>	<b>\$ 3,317,988</b>	<b>\$ 236,561</b>

	<b>Interest Rate</b>	<b>Date of Maturity</b>	<b>Balance</b>
<b>Governmental activities:</b>			
2013 Refunding Bonds	2-2.75%	May 2029	\$ 3,170,000
Plus issuance premium			34,643
Capital lease payable - 2014 school bus	2.37%	April 2017	32,357
Capital lease payable - 2015 school bus	2.38%	October 2018	63,142
Capital lease payable - copier	4.84%	August 2018	17,846
			<b>\$ 3,317,988</b>

The annual requirements of principal and interest to amortize the bonded debt and capital lease obligations outstanding as of June 30, 2015 follow:

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 236,561	\$ 74,140	\$ 310,701
2017	242,572	69,130	311,702
2018	231,856	63,982	295,838
2019	227,356	59,205	286,561
2020	215,000	54,602	269,602
2021-2025	1,140,000	205,346	1,345,346
2026-2029	990,000	66,148	1,056,148
	<b>\$ 3,283,345</b>	<b>\$ 592,553</b>	<b>\$ 3,875,898</b>

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE H—EMPLOYEE BENEFITS**

***Employee Retirement System***

**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 (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

**Benefits Provided**

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

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

***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 who became a member 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 service 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.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE H—EMPLOYEE BENEFITS—Continued**

***Pension Reform 2012—Continued***

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a 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 be retroactive to their date of hire.

Employees in the Pension Plus and DC plans are immediately vested in their own contributions and earnings on those contributions. The employee becomes vested in the employer match contribution at the following rates: 50% after two years of service, 75% after three years of service, and 100% after four years of service. Non-vested contributions are forfeited upon termination of employment. Forfeitures during a plan year are credited to a forfeitures account. Forfeitures are first applied to restore any forfeited amounts that are required to be restored. The remaining amounts in the forfeitures account may be maintained in reserve, used to cover a portion of the plan's administrative expenses or offset future employer contributions, as determined by the plan administrator.

***Regular Retirement***

The retirement benefit for DB and Pension Plus plan 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. For a Member Investment Plan member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

***Post-Retirement Adjustments***

A retiree who became a Member Investment Plan member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual postretirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2015

**NOTE H—EMPLOYEE BENEFITS—Continued**

**Contributions**

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

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

The schedule below summarizes pension contribution rates in effect for the System’s fiscal year ended September 30, 2014.

**Pension Contribution Rates**

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

The School District’s pension contributions for the year ended June 30, 2015 were equal to the required contribution total. Pension contributions were approximately \$502,000, including the Section 147 contributions.

For the year ended June 30, 2015, the School District and employee defined contribution plan contributions were approximately \$5,600 and \$5,400, respectively.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2015

**NOTE H—EMPLOYEE BENEFITS—Continued**

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

At June 30, 2015, the School District reported a liability of \$3,620,351 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 date of September 30, 2013, and rolled-forward using generally accepted actuarial procedures. The School District’s proportional share of the net pension liability was based on its statutorily required contributions in relation to all participating school districts statutorily required contributions for the measurement period. At September 30, 2014, the School District’s proportion was 0.01644 percent.

For the year ended June 30, 2015, the School District recognized pension expense of \$293,259. At June 30, 2015, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 133,583	\$ -
Net difference between projected and actual earnings on pension plan investments	-	400,231
Changes in proportion and differences between School District contributions and proportionate share of contributions	-	1,055
School District contributions subsequent to the measurement date	294,152	-
<b>Total</b>	<u>\$ 427,735</u>	<u>\$ 401,286</u>

The School District contributions subsequent to the measurement date of \$294,152, reported as deferred outflows of resources related to pensions above, will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ (65,596)
2017	(65,596)
2018	(65,596)
2019	(70,915)

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE H—EMPLOYEE BENEFITS—Continued**

**Actuarial assumptions**

*Valuation Assumptions*

Investment rate of return – 8.0% a year for the Non-Hybrid groups and 7.0% a year for the Hybrid group (Pension Plus plan), both rates are compounded annually net of investment and administrative expenses.

Salary increases – 3.5%

Inflation – 2.5%

Cost-of-living adjustments – 3.0% annual non-compounded for MIP members

*Mortality Assumptions*

The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB. 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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2015

**NOTE H—EMPLOYEE BENEFITS—Continued**

**Actuarial assumptions—Continued**

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

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

\*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 percent (7 percent for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**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 percent (7 percent for Pension Plus Plan), as well as what the School District’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	<u>1% Lower (7%)</u>	<u>Discount Rate (8%)</u>	<u>1% Higher (9%)</u>
School District’s proportionate share of the net pension liability	\$ 4,773,117	\$ 3,620,351	\$ 2,649,128

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE H—EMPLOYEE BENEFITS—Continued**

**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 2014 Comprehensive Annual Financial Report, available here: <http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html>.

***Other Post-employment Benefits***

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80 percent beginning January 1, 2013; 90 percent for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3 percent of their compensation to offset employer contributions for health care benefits of current retirees.

**Retiree Healthcare Reform of 2012**

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

**Employer Contributions**

The School District's postemployment healthcare contributions to MPSERS for the year ended June 30, 2015 were approximately \$39,000.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2015

**NOTE I—COMMITMENTS AND CONTINGENCIES**

**Grant Programs**

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

**Capitalized Leases**

Included in vehicles and equipment are the following assets held under capital leases as of June 30, 2015:

Vehicles and equipment	\$ 186,866
Less accumulated amortization	(40,180)
	<b>\$ 146,686</b>

Future minimum lease payments for assets under capital leases for 2016 through 2019 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2016	\$ 39,599
2017	39,600
2018	22,836
2019	17,759
	119,794
Total minimum lease payments	119,794
Less amount representing interest	(6,449)
	113,345
Present value of net minimum lease payments	113,345
Less current maturities	(36,561)
	\$ 76,784
Long-term obligation	\$ 76,784

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
 June 30, 2015

**NOTE J—OTHER INFORMATION**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2015 or any of the prior three years.

**NOTE K—CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2015, the School District adopted the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 68—*Accounting and Financial Reporting for Pensions* and GASB Statement No. 71—*Pension Transition for Contributions Made Subsequent to the Measurement Date*

GASB Statement No. 68 requires governments that participate in cost-sharing defined benefit pension plans to report their proportionate share of the plan's net pension liability in their statement of net position.

GASB Statement No. 71 addressed the issue of contributions made to the cost-sharing defined benefit plans after the measurement date for the year in which GASB Statement No. 68 is implemented.

The restatement of the beginning of the year net position is as follows:

	<b>Governmental activities</b>
Beginning net position	\$ 1,614,201
Deferred outflows of resources - related to pensions	216,549
Net pension liability	(3,852,190)
Beginning net position, as restated	<b>\$ (2,021,440)</b>

The effect on the change in net position of the prior year is undeterminable.

Pentwater Public Schools  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2015

**NOTE L—UPCOMING ACCOUNTING PRONOUNCEMENT**

GASB Statement 75—*Accounting and Financial Reporting for Postemployment Benefits other than Pensions* was issued by the GASB in June 2015 and will be effective for the School District’s 2018 fiscal year. The statement requires governments that participate in postemployment benefits other than pensions (OPEB) to report in their Statement of Net Position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Cost-sharing employers will be required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The net OPEB liability recorded in the Statement of Net Position on July 1, 2017 will be very significant.

**REQUIRED SUPPLEMENTARY INFORMATION**

Pentwater Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
 General Fund  
 For the year ended June 30, 2015

	<u>Budgeted amounts</u>		<u>Actual</u>	<u>Variance with final budget- positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Local sources	\$ 2,494,868	\$ 2,571,310	\$ 2,576,372	\$ 5,062
State sources	145,479	281,252	356,254	75,002
Federal sources	74,615	129,230	123,919	(5,311)
Incoming transfers and other transactions	61,535	81,503	82,503	1,000
Total revenues	2,776,497	3,063,295	3,139,048	75,753
<b>EXPENDITURES</b>				
Instruction				
Basic programs	1,590,011	1,619,340	1,591,781	27,559
Added needs	251,916	265,778	254,030	11,748
Support services				
Pupil	71,208	83,896	82,414	1,482
Instructional staff	133,329	152,713	146,173	6,540
General administration	201,178	198,279	193,743	4,536
School administration	128,477	125,767	121,932	3,835
Business	37,487	37,147	36,928	219
Operations and maintenance	298,051	258,403	251,017	7,386
Pupil transportation services	110,097	185,141	182,295	2,846
Central	109,033	149,694	220,749	(71,055)
Athletics	97,125	102,651	98,675	3,976
Community services	-	1,000	-	1,000
Outgoing transfers and other transactions	62,372	108,300	95,823	12,477
Total expenditures	3,090,284	3,288,109	3,275,560	12,549
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (313,787)</u>	<u>\$ (224,814)</u>	(136,512)	<u>\$ 88,302</u>
Fund balance at beginning of year			<u>782,430</u>	
Fund balance at end of year			<u>\$ 645,918</u>	

Pentwater Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of the School District's Proportionate Share of the Net Pension Liability**  
Michigan Public School Employees Retirement System  
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
School District's proportion of the net pension liability (%)	0.01644%	-	-	-	-	-	-	-	-	-
School District's proportionate share of the net pension liability	\$ 3,620,351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's covered-employee payroll	\$ 1,463,243	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	247.42%	-	-	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	66.20%	-	-	-	-	-	-	-	-	-

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Pentwater Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of the School District's Contributions**  
Michigan Public School Employees Retirement System  
Last 10 Fiscal Years (Amounts were determined as of 6/30 of each fiscal year)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contributions	\$ 357,700	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the statutorily required contributions	357,700	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District's covered-employee payroll	\$ 1,532,625	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	23.34%	-	-	-	-	-	-	-	-	-

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Pentwater Public Schools  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**  
For the year ended June 30, 2015

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

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

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' 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***

October 20, 2015

Board of Education  
Pentwater Public Schools  
Pentwater, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *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 Pentwater Public Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Pentwater Public Schools' basic financial statements, and have issued our report thereon dated October 20, 2015.

### **Internal Control Over Financial Reporting**

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

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

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

Board of Education  
October 20, 2015  
Page 2

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in black ink that reads "Brickley De Long, P.C." The signature is written in a cursive style with a large, prominent 'B' and 'D'.

Hart, Michigan