

Clio Area Schools

Financial Statements

June 30, 2016

Table of Contents

| <u>Section</u> | <u>Page</u> | |
|----------------|--|--------|
| 1 | Members of the Board of Education and Administration | 1 – 1 |
| 2 | Independent Auditors' Report | 2 – 1 |
| 3 | Management's Discussion and Analysis | 3 – 1 |
| 4 | Basic Financial Statements | |
| | District-wide Financial Statements | |
| | Statement of Net Position | 4 – 1 |
| | Statement of Activities | 4 – 3 |
| | Fund Financial Statements | |
| | Governmental Funds | |
| | Balance Sheet | 4 – 4 |
| | Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position | 4 – 6 |
| | Statement of Revenues, Expenditures and Changes in Fund Balances | 4 – 7 |
| | Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 4 – 9 |
| | Fiduciary Funds | |
| | Statement of Assets and Liabilities | 4 – 10 |
| | Notes to the Financial Statements | 4 – 11 |
| 5 | Required Supplementary Information | |
| | Budgetary Comparison Schedule – General Fund | 5 – 1 |
| | Schedule of the School District's Proportionate Share of the Net Pension Liability | 5 – 3 |
| | Schedule of the School District's Contributions | 5 – 4 |

Section

Page

6

Other Supplementary Information

Nonmajor Governmental Funds

Combining Balance Sheet

6 – 1

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

6 – 3

Clio Area Schools
Members of the Board of Education and Administration
June 30, 2016

Members of the Board of Education

| | |
|--------------------|----------------|
| Mary Ann Dipzinski | President |
| Denise Frappier | Vice President |
| Lydia Heine | Secretary |
| Steve Nordstrom | Treasurer |
| Robert Gaffney | Trustee |
| Henry Hatter | Trustee |
| Tim Ranville | Trustee |

Administration

| | |
|------------------------|--|
| Fletcher Spears III | Superintendent |
| Stephen Keskes, Ed. S. | Asst. Superintendent for Curriculum and Instruction |
| Jon Pechette | Executive Director of Finance |

Independent Auditors' Report

To the Board of Education
Clio Area Schools
Clio, Michigan

Report on the Financial Statements

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

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB Statement No. 72, *Fair Value Measurement and Application*, No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, No. 79, *Certain External Investment Pools and Pool Participants*, and No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of school district's proportionate share of net pension liability, and schedule of school district's contributions, 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 Clio Area Schools' basic financial statements. Other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2016, on our consideration of Clio Area 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 Clio Area Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Flint, Michigan
September 21, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS



Clio Area Schools

We Are Family



Management's Discussion and Analysis For the Year Ended June 30, 2016

The Clio Area School District has chosen to implement the provisions of Governmental Accounting Standards Board *Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, (GASB 34) with the enclosed financial statements. Our discussion and analysis of Clio Area Schools' financial performance, a GASB 34 requirement, provides an overview of the School District's financial activities for the fiscal year ended June 30, 2016.

GASB 34 and generally accepted accounting principles (GAAP) require the reporting of two types of financial statements: fund financial statements and district-wide financial statements.

Fund Financial Statements

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds – not the School District as a whole. The fund-level financial statements are reported on a modified accrual basis. That is, only those assets that are "measurable" and "currently available" are reported, and liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. The School District has two kinds of funds:

Governmental Funds: All of the School District's basic services are provided in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations from the fund level statements to the district-wide statements explain the relationship (or differences) between them. The School District's governmental funds include the General Fund, Cafeteria Special Revenue Fund, and Capital Projects Fund.

Fletcher Spears III
Superintendent

3 - 1

Jon Pechette, CPA
Executive Director of Finance

Stephen Keskes
Assistant Superintendent for Curriculum and
Instruction

- *Agency Funds:* The School District is the custodian for assets that belong to others in the student activities agency fund. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The School District excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

District-wide Financial Statements

The District-wide Statement of Net Position and Statement of Activities are reported using the full accrual basis of accounting. With this method, all of the School District's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and current year revenues and expenditures are reported, regardless of when cash is received or paid. These statements provide information about the activities of the School District as a whole, and present a long-term view of the School District's finances. For example, the Statement of Activities details how the School District's services were financed in the short-term and the amount that remains for future spending. The Statement of Net Position aggregates the School District's restricted and unrestricted assets as well as short and long-term obligations recorded in all funds.

Financial Position and Results of Operations

The School District's net position – the difference between assets plus deferred inflows and liabilities plus deferred outflows, as reported in the Statement of Net Position, is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net position, as reported in the Statement of Activities, is one indicator of whether its financial health is improving or deteriorating, respectively. The relationship between revenues and expenses indicates the School District's operating results. To assess the School District's overall health, it is important to consider additional non-financial factors such as the quality of educational services provided, the condition of school buildings and facilities, the safety of the schools, and other non-financial factors.

Summary of Net Position

The School District's net position totaled \$ (25,902,562) at June 30, 2016. Of this amount, \$ (36,944,335) was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the School District's ability to use this net position for day-to-day operations. The following is a summary of the School District's net position at June 30, 2016:

| | <u>June 30, 2016</u> |
|---|-----------------------------|
| Assets | |
| Current assets | \$ 9,491,179 |
| Capital assets, net of depreciation | <u>10,595,757</u> |
| Total assets | <u>20,086,936</u> |
| Deferred outflows of resources | |
| Deferred amount of pension expense related to net pension liability | <u>4,429,010</u> |
| Total deferred outflows of resources | 4,429,010 |
| | |
| Total assets and deferred outflows of resources | <u>\$ 24,515,946</u> |
| | |
| Liabilities | |
| Current liabilities | \$ 5,911,352 |
| Long-term liabilities | <u>42,080,964</u> |
| Total liabilities | 47,992,316 |
| | |
| Deferred inflows of resources | |
| Deferred amount on net pension liability | <u>2,426,192</u> |
| | |
| Total liabilities and deferred inflows of resources | 50,418,508 |
| | |
| Net Position | |
| Net investment in capital assets | 10,415,757 |
| Restricted for capital projects | 135,574 |
| Restricted for food service | 490,442 |
| Unrestricted | <u>(36,944,335)</u> |
| Total net position | <u>(25,902,562)</u> |
| | |
| Total liabilities and net position | <u>\$ 24,515,946</u> |

Analysis of Financial Position

During fiscal year ended June 30, 2016, the School District's net position decreased by \$ 521,776. Decrease in net position for the year was primarily attributable to reporting of district share of State of Michigan unfunded pension liability. A few of the significant factors affecting net position during the year are discussed below:

A. Governmental Fund Operations

In the School District's governmental funds, expenditures exceeded revenues by \$ 437,151 for the fiscal year ended June 30, 2016. See the section entitled Major Governmental Funds Budgeting and Operating Highlights below for further discussion of governmental fund operations.

B. Depreciation Expense

The provisions of GASB 34 require the School District to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net position. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principles, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2016, the depreciation expense was \$ 859,124.

C. Capital Acquisitions

Additions to capital outlay for the year ended June 30, 2016, totaled \$ 1,801,148. Capital outlay was offset by current year depreciation expense of \$ 859,124, creating a net position increase from capital outlays of \$ 942,024.

D. Other Changes

Net change between current year and prior year deferred outflow of resources related to contributions made subsequent to the measurement date totaling \$ (922,061) are shown on the district-wide statements that were not expended on the fund statements as they were not due and payable in the current period.

Results of Operations

The results of this year's operations for the School District as a whole are reported in the Statement of Activities. A summary of the district-wide results of operations for the year ended June 30, 2016 is as follows:

Revenue

| | |
|---|--------------------------|
| General revenue: | |
| Property taxes, levied for general purposes | \$ 2,347,446 |
| Property taxes, levied for capital projects | 930,574 |
| State of Michigan aid, unrestricted | 20,592,982 |
| Interest and investment earnings | 5 |
| Gain on Sale of Capital Assets | 5,671 |
| Other general revenue | <u>273,466</u> |
| Total general revenue | <u>24,150,144</u> |
| Program revenue: | |
| Charges for services | 965,952 |
| Operating grants and contributions | <u>6,192,905</u> |
| Total revenue | <u>31,309,001</u> |

Expenses

| | |
|---|--------------------------|
| Instruction | 18,964,918 |
| Supporting services | 11,146,391 |
| Food services | 1,317,530 |
| Community service | 398,324 |
| Interest and fiscal charges on long-term debt | <u>3,614</u> |
| Total expenses | <u>31,830,777</u> |

Change in net position (521,776)

Net position – July 1, 2015 (25,380,786)

Net position – June 30, 2016 \$ (25,902,562)

Governmental Funds Financial Highlights

The General Fund is reported separately as a major fund in the fund financial statements. Funds reported as “Nonmajor Governmental Funds” in the fund financial statements include the Cafeteria Fund and Capital Project Fund. The annual fund financial statements provide the following insights about the results of this year’s operations:

A. General Fund

The General Fund experienced an increase in fund equity of \$ 39,273, or 1.3%, during the year ended June 30, 2016. Ending fund equity in the General Fund was \$ 2,953,811 on June 30, 2016, which equates to 10.1% of expenditures for the year. This level was up from \$ 2,914,538 on June 30, 2015.

B. Nonmajor Governmental Funds

Nonmajor governmental funds experienced a decrease in fund equity of \$ 476,424 during the year. The Cafeteria Special Revenue Fund balance decreased from the prior year. Expenditures exceeded revenues by \$ 27,698, resulting in ending fund equity of \$490,442, or 37.5% of expenditures for the year. Capital Projects funds experienced a decrease in fund equity of \$ 448,726, resulting in ending fund equity of \$ 135,574.

Major Governmental Funds Budgeting and Operating Highlights

The School District’s budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, based on facts and assumptions known at the time of the initial budget preparation. It is expected that there will be changes between the initial budget and subsequent budgets, as many factors are not known at the time of adoption of the initial budget. Some of these factors include enrollment figures and resultant staffing requirements, staffing changes that take place during the year, state school aid adjustments, grant allocations, and other unforeseen items. As a matter of practice, the School District amends its budget two times during the fiscal year to adjust for these changes. The School District prepares budgets for the General Fund, Cafeteria Special Revenue Fund, and Capital Projects Fund.

A. General Fund

In the General Fund, actual revenue was \$ 29.09 million. This is above the original budget estimate of \$ 28.96 million and below the final budgeted amount of \$ 29.22 million, a variance of \$126,981 or .4%. The actual expenditures of the General Fund were \$ 29.31 million. This is above the original budget estimate of \$ 29.19 million and below the final budgeted amount of \$ 29.66 million, a variance of \$ 349,441, or 1.18%.

The variances between the actual revenues and the original and final amended budgets in the General Fund are due primarily to the following:

- Increased revenue from fees and services.
- Increase in expected revenue from local property taxes.
- Decrease in revenue from state grant sources.
- Decrease in revenue from federal sources.
- Decrease in revenue from inter district sources.

The variances between the actual General Fund expenditures and the original and final expenditure budgets include the following:

- Employee salary and benefit adjustments.
- Adjustments for federal and state grant expenditures.
- Decreased fuel expenses.
- Lower than expected utilities costs.

The General fund revenues exceeded expenditures by \$ 39,273 for the year ended June 30, 2016, which resulted in a 1.3% increase in fund equity. The ending fund equity in the General Fund was \$ 2,953,811 at June 30, 2016, which equates to 10.1% of expenditures for the year. This level was up from \$ 2,914,538 June 30, 2015.

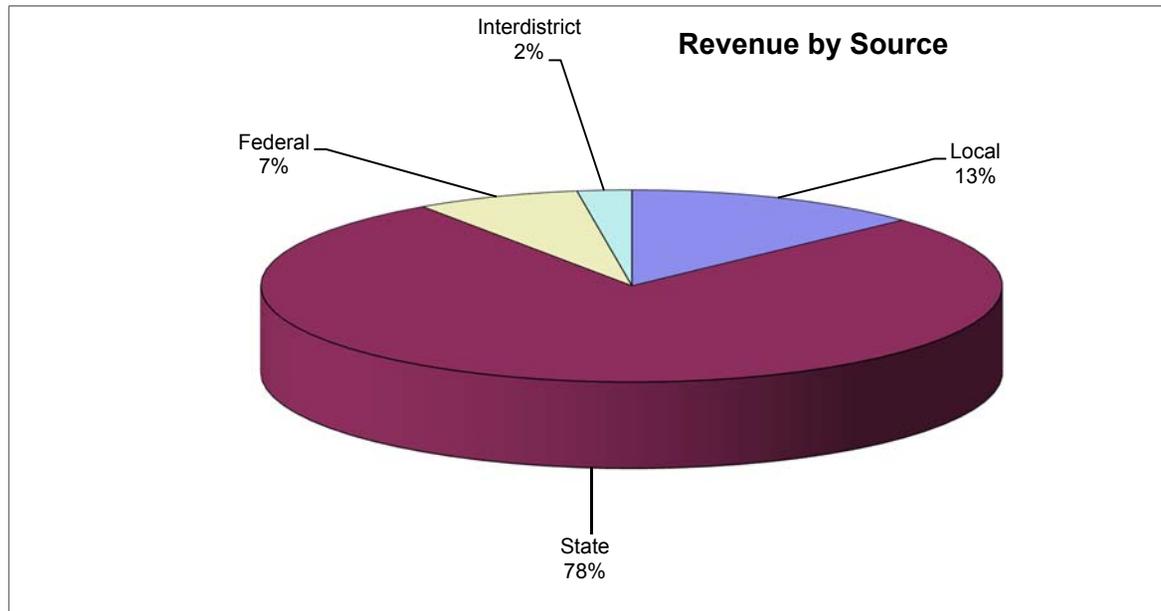
B. Capital Projects Funds

The Capital Projects Funds receive revenues from property taxes and investment income. Expenditures take the form of capital improvement projects for major repairs and improvements to the School District's facilities. The School District's Capital Projects Funds is comprised of the Sinking Fund that was passed in 2001 and reauthorized May 4, 2010.

During the year, the Capital Projects funds realized \$930,574 in revenues and \$ 1,379,300 in expenditures, resulting in a net decrease in fund equity of \$ 448,726, resulting in an ending fund equity of \$ 135,574 at June 30, 2016.

Governmental Fund Revenues

Revenues for all governmental funds totaled \$ 31.3 million for 2015/2016. The following graph illustrates the School District's revenues by source as a percentage of total revenue:



A. Unrestricted State Aid

The School District is predominantly funded by State Aid. Unrestricted state aid is determined by the following three variables: (1) State of Michigan student foundation allowance; (2) student enrollment for the year, blended at 90 percent of the current year's fall student count and 10 percent of the previous year's winter student count; and (3) the School District's non-homestead property tax levy.

Annually, the State of Michigan establishes the per student foundation allowance. For the year ended June 30, 2016, the foundation allowance for Clio Area Schools was established at \$ 7,391, an increase of \$265 per student from the 2014/2015 foundation allowance.

Student enrollment for state aid for the 2015/2016 year was 3,169, a decrease of 27 full time equated students from 2014/2015.

The following schedule summarizes the School District's blended student enrollment in full-time equivalencies and per student Foundation Allowance for the current year and the previous nine years:

| <u>Year</u> | <u>Student Enrollment</u> | <u>Change from Prior Year</u> | <u>Foundation Allowance</u> | <u>Change from Prior Year</u> |
|-------------|---------------------------|-------------------------------|-----------------------------|-------------------------------|
| 2015/2016 | 3,169 | (27) | \$7,391 | \$265 |
| 2014/2015 | 3,196 | (90) | \$7,126 | \$100 |
| 2013/2014 | 3,286 | (206) | 7,026 | 60 |
| 2012/2013 | 3,492 | (153) | 6,966 | 120 |
| 2011/2012 | 3,645 | (18) | 6,846 | (470) |
| 2010/2011 | 3,663 | 216*** | 7,316** | -0- |
| 2009/2010 | 3,447 | 8 | 7,316* | -0- |
| 2008/2009 | 3,439 | (60) | 7,316 | 112 |
| 2007/2008 | 3,499 | (83) | 7,204 | 119 |
| 2006/2007 | 3,582 | 46 | 7,085 | 210 |
| 2005/2006 | 3,536 | (27) | 6,875 | 175 |
| 2004/2005 | 3,563 | (27) | 6,700 | -0- |
| 2003/2004 | 3,590 | 21 | 6,700 | -0- |

*The district realized a \$154 proration in 2009/2010

**The district realized a \$170 proration in 2010/2011

***The district started a Global Academy in the spring of 2010 that significantly increased student enrollment

B. Property Taxes

The School District is authorized to levy up to 18 mills of property taxes on all non-homestead property located within the School District for General Fund operations. The levy is assessed on the Taxable Value of the property. The increase in taxable value is limited to the lesser of the inflation rate or 5%. When a property is sold, the Taxable Valuation of the sold property is readjusted to the State Equalized Value, which is approximately 50% of market value. The School District levied 18.0000 mills for operations during the 2015/2016 and property tax revenue was \$ 2.35 million.

The School District's sinking funds are used for the repairs and replacement of buildings and sites. In 2010, the School District's voters reauthorized a 2.0 mill ten-year levy. The School District levied 2.0000 mills for the sinking fund during the 2015/2016 year and property tax revenue was \$.9 million.

Governmental Fund Expenditures

The following chart illustrates that the General Fund comprises 91.7% of all expenditures within the governmental funds of the School District. As of June 30, 2016, expenditures and other financing uses totaled \$ 31.97 million for all School District programs. The ending fund equity for all funds was \$4.02 million.

| | Expenditures & Other Uses (In millions) | Percent of Total |
|--------------------------|---|---------------------|
| General Fund | \$ 29.31 | 91.7% |
| Other Governmental Funds | <u>2.66</u> | <u>8.3%</u> |
| Total | <u>\$ 31.97</u> | 100.0% |

Capital Asset and Debt Administration

A. Capital Assets

At June 30, 2016, the School District had \$ 26.59 million invested in land and buildings, furniture and equipment, buses and other vehicles, and construction in progress. Of this amount, \$ 15.99 million has been depreciated, which resulted in a net book value of \$ 10.60 million. The majority of the buildings were constructed in the 1950's and 1960's. The School District is committed to timely repairs and maintenance of its facilities. Computer purchases fall below the School District's capitalization threshold of \$ 5,000 and are expensed accordingly.

Capital Assets at June 30, 2016

| | Amount (In millions) |
|-------------------------------|-------------------------|
| Land, buildings and additions | \$ 22.28 |
| Equipment and furniture | 2.35 |
| Buses and other vehicles | <u>1.96</u> |
| Total | \$ 26.59 |
| Less accumulated depreciation | <u>(15.99)</u> |
| Net capital assets | <u>\$ 10.60</u> |

B. Long-Term Debt

At June 30, 2016, the School District had no outstanding bonded debt.

For more detailed information regarding capital assets and debt administration, please review the Notes to Financial Statements located in the financial section of this report.

Conditions that will Significantly Affect Financial Position and Results of Operations in Future Years

On May 4, 2010, the voters of the School District reauthorized a 2.0 mills sinking fund millage for a period of ten years. The total revenue to be generated will be approximately \$ 9.2 million dollars, down from an initial projection of \$10.2 million dollars. The reduction in anticipated revenue is a result of the loss of tax base due to depressed property values. The funds generated from this levy are necessary to keep facilities in good repair and to enable the district to use more general fund monies for operations. The district also passed a restoration of the 19.5067 non-homestead millage rate on November 5, 2013 which permits the district to levy the full allowable millage of 18 mills along with providing protection from future Headlee millage rate reductions. The State of Michigan continues to experience reduced birth rates, which has had a negative impact on student enrollment in Genesee County. Increases in retirement rates, moderate increases in per pupil funding, and increases in health care will also have an impact on the district's financial stability.

Adoption of New Accounting Standards

The District adopted several new accounting principles with GASB Statements No. 72, 76, 79, and 82. GASB 82 amends GASB Statements No. 67, 68, and 73 and mainly affects the District's reporting of its proportionate share of the net pension liability and related deferred inflows and outflows of resources related to that amount. The other statements are likely not of significant interest to the users of the accompanying financial statements. Please refer to the related notes to the financial statements for further detail.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the School District's finances. If you have questions about this report or need additional information, contact Jon Pechette, CPA, Executive Director of Finance, Clio Area Schools, 430 N. Mill Street, Clio, Michigan, 48420 or by telephone at 810-591-0500.

BASIC FINANCIAL STATEMENTS

Clio Area Schools
Statement of Net Position
June 30, 2016

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets | |
| Cash | \$ 4,267,733 |
| Accounts receivable | 607,155 |
| Due from other governmental units | 4,485,140 |
| Due from agency fund activities | 264 |
| Inventory | 26,079 |
| Investments | 3,095 |
| Prepaid items | 101,713 |
| Capital assets not being depreciated | 318,244 |
| Capital assets - net of accumulated depreciation | <u>10,277,513</u> |
| Total assets | <u>20,086,936</u> |
| Deferred outflows of resources | |
| Deferred amount on net pension liability | <u>4,429,010</u> |
| Total assets and deferred outflows of resources | <u>24,515,946</u> |

See Accompanying Notes to the Financial Statements

Clio Area Schools
Statement of Net Position
June 30, 2016

| | Governmental Activities |
|--|----------------------------|
| Liabilities | |
| Accounts payable | \$ 806,561 |
| State aid anticipation note payable | 2,600,000 |
| Due to other governmental units | 376,080 |
| Due to agency fund activities | 13,846 |
| Accrued salaries payable | 2,060,077 |
| Unearned revenue | 54,788 |
| Noncurrent liabilities | |
| Net pension liability | 41,769,788 |
| Debt due within one year | 45,000 |
| Debt due in more than one year | 266,176 |
| Total liabilities | 47,992,316 |
| Deferred inflows of resources | |
| Deferred amount on net pension liability | 2,426,192 |
| Net Position | |
| Net investment in capital assets | 10,415,757 |
| Restricted for | |
| Food service | 490,442 |
| Capital projects | 135,574 |
| Unrestricted | (36,944,335) |
| Total net position | \$ (25,902,562) |

See Accompanying Notes to the Financial Statements

Clio Area Schools
Statement of Activities
For the Year Ended June 30, 2016

| | Program Revenues | | | Net (Expense) |
|---|-------------------------|--|---|-----------------|
| Expenses | Charges for Services | Operating Grants and Contributions | Revenue and Changes in Net Position | |
| Functions/Programs | | | | |
| Governmental activities | | | | |
| Instruction | \$ 18,964,918 | \$ 3,075 | \$ 4,893,133 | \$ (14,068,710) |
| Supporting services | 11,146,391 | 521,059 | 356,004 | (10,269,328) |
| Food services | 1,317,530 | 350,326 | 931,492 | (35,712) |
| Community services | 398,324 | 91,492 | 12,276 | (294,556) |
| Interest and fiscal charges on long-term debt | 3,614 | - | - | (3,614) |
| Total governmental activities | \$ 31,830,777 | \$ 965,952 | \$ 6,192,905 | (24,671,920) |
| General revenues | | | | |
| Property taxes, levied for general purposes | | | | 2,347,446 |
| Property taxes, levied for sinking fund | | | | 930,574 |
| State aid - unrestricted | | | | 20,592,982 |
| Interest and investment earnings | | | | 5 |
| Gain on sale of capital assets | | | | 5,671 |
| Other | | | | 273,466 |
| Total general revenues | | | | 24,150,144 |
| Change in net position | | | | (521,776) |
| Net position - beginning | | | | (25,380,786) |
| Net position - ending | | | | \$ (25,902,562) |

See Accompanying Notes to the Financial Statements

**Clio Area Schools
Governmental Funds
Balance Sheet
June 30, 2016**

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|-----------------------------------|-------------------------|--|---|
| Assets | | | |
| Cash | \$ 3,360,154 | \$ 907,579 | \$ 4,267,733 |
| Accounts receivable | 602,142 | 5,013 | 607,155 |
| Due from other funds | 25,000 | 18,220 | 43,220 |
| Due from other governmental units | 4,440,284 | 44,856 | 4,485,140 |
| Due from agency fund activities | - | 264 | 264 |
| Inventory | 8,875 | 17,204 | 26,079 |
| Investments | 3,095 | - | 3,095 |
| Prepaid items | 101,713 | - | 101,713 |
| | <u>101,713</u> | <u>-</u> | <u>101,713</u> |
| Total assets | <u>\$ 8,541,263</u> | <u>\$ 993,136</u> | <u>\$ 9,534,399</u> |

See Accompanying Notes to the Financial Statements

**Clio Area Schools
Governmental Funds
Balance Sheet
June 30, 2016**

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|---|
| Liabilities | | | |
| Liabilities | | | |
| Accounts payable | \$ 508,914 | \$ 297,647 | \$ 806,561 |
| State aid anticipation note payable | 2,600,000 | - | 2,600,000 |
| Due to other funds | 7,144 | 36,076 | 43,220 |
| Due to other governmental units | 354,021 | 22,059 | 376,080 |
| Due to agency fund activities | 13,846 | - | 13,846 |
| Accrued salaries payable | 2,060,077 | - | 2,060,077 |
| Unearned revenue | 43,450 | 11,338 | 54,788 |
| | <u>5,587,452</u> | <u>367,120</u> | <u>5,954,572</u> |
| Total liabilities | | | |
| Fund Balance | | | |
| Non-spendable | | | |
| Inventory | 8,875 | 17,204 | 26,079 |
| Prepaid items | 101,713 | - | 101,713 |
| Restricted for food service | - | 473,238 | 473,238 |
| Restricted for capital projects | - | 135,574 | 135,574 |
| Assigned for 2016-17 excess budgeted expenditures over revenues | 213,772 | - | 213,772 |
| Unassigned | 2,629,451 | - | 2,629,451 |
| | <u>2,953,811</u> | <u>626,016</u> | <u>3,579,827</u> |
| Total fund balance | | | |
| Total liabilities and fund balance | <u>\$ 8,541,263</u> | <u>\$ 993,136</u> | <u>\$ 9,534,399</u> |

See Accompanying Notes to the Financial Statements

Clio Area Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

| | |
|---|-------------------------------|
| Total fund balances for governmental funds | \$ 3,579,827 |
| Total net position for governmental activities in the statement of net position is different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | |
| Capital assets not being depreciated | 318,244 |
| Capital assets - net of accumulated depreciation | 10,277,513 |
| Deferred outflows (inflows) of resources | |
| Deferred inflows of resources resulting from the difference between projected and actual earnings on pension plan investments used to calculate the net pension liability | (2,426,192) |
| Deferred outflows of resources resulting from the net pension liability | 4,429,010 |
| Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. | |
| Net pension liability | (41,769,788) |
| Compensated absences | (131,176) |
| Other loans payable and liabilities | <u>(180,000)</u> |
| Net position of governmental activities | <u>\$ (25,902,562)</u> |

Clio Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|---|
| Revenues | | | |
| Local sources | \$ 2,786,764 | \$ 1,280,900 | \$ 4,067,664 |
| State sources | 24,240,003 | 19,930 | 24,259,933 |
| Federal sources | 1,321,514 | 911,562 | 2,233,076 |
| Interdistrict sources | <u>742,657</u> | <u>-</u> | <u>742,657</u> |
| Total revenues | <u>29,090,938</u> | <u>2,212,392</u> | <u>31,303,330</u> |
| Expenditures | | | |
| Current | | | |
| Education | | | |
| Instruction | 18,024,354 | - | 18,024,354 |
| Supporting services | 10,501,996 | 5,016 | 10,507,012 |
| Food services | - | 1,284,516 | 1,284,516 |
| Community services | 388,344 | - | 388,344 |
| Capital outlay | 344,028 | 1,374,284 | 1,718,312 |
| Debt service | | | |
| Principal | 45,000 | - | 45,000 |
| Interest and other expenditures | <u>3,614</u> | <u>-</u> | <u>3,614</u> |
| Total expenditures | <u>29,307,336</u> | <u>2,663,816</u> | <u>31,971,152</u> |
| Excess (deficiency) of revenues over expenditures | (216,398) | (451,424) | (667,822) |

See Accompanying Notes to the Financial Statements

Clio Area Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

| | <u>General Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|-------------------------|--|---|
| Other Financing Sources | | | |
| Proceeds from notes and loans | \$ 225,000 | \$ - | \$ 225,000 |
| Proceeds from sale of capital assets | 5,671 | - | 5,671 |
| Transfers in | 25,000 | - | 25,000 |
| Transfers out | - | (25,000) | (25,000) |
| | <u>255,671</u> | <u>(25,000)</u> | <u>230,671</u> |
| Total other financing sources | | | |
| Net change in fund balance | 39,273 | (476,424) | (437,151) |
| Fund balance - beginning | <u>2,914,538</u> | <u>1,102,440</u> | <u>4,016,978</u> |
| Fund balance - ending | <u>\$ 2,953,811</u> | <u>\$ 626,016</u> | <u>\$ 3,579,827</u> |

See Accompanying Notes to the Financial Statements

Clio Area Schools
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2016

| | |
|---|---------------------|
| Net change in fund balances - total governmental funds | \$ (437,151) |
| Total change in net position reported for governmental activities in the statement of activities is different because | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Depreciation expense | (859,124) |
| Capital outlay | 1,801,148 |
| Expenses are recorded when incurred in the statement of activities. | |
| Compensated absences | 5,931 |
| The statement of net position reports the net pension liability and deferred outflows of resources and deferred inflows related to the net pension liability and pension expense. However, the amount recorded on the governmental funds equals actual pension contributions | |
| Net change in net pension liability | (2,651,738) |
| Net change in the deferred inflow of resources related to the net pension liability | 2,721,219 |
| Net change between the current year and prior year deferred outflow of resources related to contributions made subsequent to the measurement date | (922,061) |
| Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as financing sources or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities. | |
| Debt issued | (225,000) |
| Repayments of long-term debt | 45,000 |
| Change in net position of governmental activities | \$ (521,776) |

See Accompanying Notes to the Financial Statements

Clio Area Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2016

| | <u>Agency Fund</u> |
|-----------------------------|------------------------------|
| Assets | |
| Cash | \$ 270,417 |
| Accounts receivable | 2,770 |
| Due from governmental funds | <u>13,846</u> |
| Total assets | <u><u>\$ 287,033</u></u> |
| Liabilities | |
| Due to governmental funds | \$ 264 |
| Due to student activities | <u>286,769</u> |
| Total liabilities | <u><u>\$ 287,033</u></u> |

See Accompanying Notes to the Financial Statements

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Clio Area Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

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 District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

The statement of activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by

general government revenues (property taxes and certain intergovernmental revenues). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District allocates indirect costs, including depreciation expense, the change in compensated absences payable, and expenses associated with changes in the net pension liability for presentation the statement of activities. In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

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

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

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:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District’s Special Revenue Fund includes the Food Service Fund. Operating deficits generated by these activities are generally covered by a transfer from the General Fund.

Sinking Fund – The Sinking Fund is used to record the sinking fund property tax levy and other revenue and the disbursement of invoices specifically for acquiring new school sites, construction, additions or major replacements to school buildings.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

This fund is used to record the transactions of student groups for school and school-related purposes.

Assets, Liabilities, and Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2015, the rates are as follows per \$1,000 of assessed value.

| | |
|-----------------------------------|-------------|
| General Fund | |
| Non-principal residence exemption | 18.00000 |
| Commercial personal property | 6.00000 |
| Sinking Fund | 2.00000 |

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District’s boundaries. Approximately 99% of the School District’s tax roll lies within Genesee County.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before September 14 or February 14. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the Counties of Genesee and Saginaw and remitted to the School District by June 30.

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

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. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$ 5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

| | |
|--------------------------|------------|
| Buildings and additions | 5-50 years |
| Equipment and furniture | 3-20 years |
| Buses and other vehicles | 5-10 years |

Deferred Outflows of Resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. For district-wide financial statements, the School District reports deferred outflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from plan investments and what is actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. The School District also reported deferred outflows of resources for pension contributions made after the measurement date. This amount will reduce the net pension liability in the following year.

Compensated Absences – Sick days are earned by employees at varying rates, which may accumulate from year to year, and are as follows:

Teachers and Bus Drivers, 10 days per year; Administrators, Secretaries, and Custodians, 12 days per year.

There are some variations from group to group; normally employees who work only when school is in session receive 10 days per year and employees who work the entire year receive 12 days per year.

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

Deferred Inflows of Resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds, this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. For district-wide financial statements, the School District reports deferred inflows of resources as a result of pension earnings. This amount is the result of a difference between what the plan expected to earn from the plan investments and what the plan actually earned. This amount will be amortized over the next four years and included in pension expense. Changes in assumptions relating to the net pension liability are deferred and amortized over the expected remaining service lives of the employees and retirees in the plan. Deferred inflows of resources also includes revenue received relating to the amounts included in the deferred outflows for payments related

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

to MPERS Unfunded Actuarial Accrued Liabilities (UAAL) Stabilization defined benefit pension statutorily required contributions.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the Board of Education.

Assigned – amounts intended to be used for specific purposes, as determined by the Board of Education. The Board of Education has the authority to assign funds. Residual amounts in governmental funds other than the General Fund are automatically assigned by their nature.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the School District's policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the School District's policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of Estimates

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

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

The Governmental Accounting Standards Board ("The GASB") has issued Statement No. 72 *Fair Value Measurement and Application*. Statement 72 provides guidance for accounting and financial reporting issues related to fair value measurement. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The guidance establishes a three level hierarchy of inputs for valuation of fair value.

GASB No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Statement 76 is effective for the year ending June 30, 2016.

GASB No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria that, if met, permit external investment pools to elect to measure all of their investments at amortized cost for financial reporting purposes. Also, it establishes additional disclosure requirements for qualifying external investment pools that make that election and for governments that participate in such external investment pools. Statement 79 is effective for the year ending June 30, 2016.

GASB No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. Statement 82 is effective for the year ending June 30, 2016.

Upcoming Accounting and Reporting Changes

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will

improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Note 2 - Stewardship, Compliance, And Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts within functions in any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year.

Excess of Expenditures over Appropriations

During the year, the School District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

| <u>Function</u> | <u>Final Budget</u> | <u>Amount of Expenditures</u> | <u>Budget Variances</u> |
|-----------------------------|---------------------|-------------------------------|-------------------------|
| General Fund | | | |
| Pupil | \$ 1,386,002 | \$ 1,392,039 | \$ 6,037 |
| Instructional staff | 923,904 | 942,032 | 18,128 |
| School administration | 1,943,942 | 1,986,618 | 42,676 |
| Athletics | 504,366 | 529,893 | 25,527 |
| Interest and fiscal charges | 3,598 | 3,614 | 16 |

Compliance – Sinking Funds

The Sinking Fund records capital project activities funded with the Sinking Fund millage. For these activities, the School District has complied, in all material respects, with the applicable provisions of § 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 2004-4.

District-Wide Deficits

The School District has an unrestricted net position deficit for District-Wide activities in the amount of \$ 36,944,335 as of June 30, 2016. There are no governmental funds with a deficit.

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

Note 3 - Deposits and Investments

The School District's deposits were reported in the basic financial statements in the following categories:

| | Governmental Activities | Fiduciary Funds | Total Primary Government |
|------|----------------------------|--------------------|--------------------------------|
| Cash | \$ 4,267,733 | \$ 270,417 | \$ 4,538,150 |

Interest rate risk – The School District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The School District has no policy that would limit the amount that may be invested with any one issuer.

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. The School District does not have a deposit policy for custodial credit risk. As of year end, \$ 4,558,348 of the School District's bank balance of \$ 4,808,348 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Capital Assets

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|--------------|------------|-------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 90,000 | \$ - | \$ - | \$ 90,000 |
| Construction-in-progress | 694,002 | 228,244 | 694,002 | 228,244 |
| Total capital assets not being depreciated | 784,002 | 228,244 | 694,002 | 318,244 |
| Capital assets being depreciated | | | | |
| Buildings and additions | 19,961,249 | 2,003,476 | - | 21,964,725 |
| Equipment and furniture | 2,332,296 | 19,323 | - | 2,351,619 |
| Buses and other vehicles | 2,039,095 | 244,107 | 327,189 | 1,956,013 |
| Total capital assets being depreciated | 24,332,640 | 2,266,906 | 327,189 | 26,272,357 |
| Less accumulated depreciation for | | | | |
| Buildings and additions | 12,024,703 | 718,930 | - | 12,743,633 |
| Equipment and furniture | 1,509,178 | 100,456 | - | 1,609,634 |
| Buses and other vehicles | 1,929,028 | 39,738 | 327,189 | 1,641,577 |
| Total accumulated depreciation | 15,462,909 | 859,124 | 327,189 | 15,994,844 |
| Net capital assets being depreciated | 8,869,731 | 1,407,782 | - | 10,277,513 |
| Net capital assets | \$ 9,653,733 | \$ 1,636,026 | \$ 694,002 | \$ 10,595,757 |

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

Depreciation for the fiscal year ended June 30, 2016 amounted to \$ 859,124. The School District allocated depreciation to the various governmental activities as follows:

| | |
|-----------------------------------|-----------------------|
| Instruction | \$ 512,682 |
| Support services | 298,860 |
| Food services | 36,537 |
| Community services | <u>11,045</u> |
| Total governmental activities | <u>\$ 859,124</u> |

Construction Contracts

As of year end, the School District had the following construction commitments in progress that are not currently payable as of year end, but expected to be completed within the next fiscal year:

| Project | <u>Total Contract</u> | <u>Remaining Construction Commitment at Year End</u> |
|-----------------------|-----------------------|--|
| HS Office Renovations | \$ 164,150 | \$ 125,099 |
| MS Office Renovations | 162,511 | 121,233 |
| HS Fire Alarm | 150,373 | 150,373 |
| Lacure Boiler | <u>214,800</u> | <u>204,900</u> |
| | <u>\$ 691,834</u> | <u>\$ 601,605</u> |

Note 5 – Interfund Receivables, Payables, and Transfers

Individual interfund receivable and payable balances at year end were:

| <u>Due From Fund</u> | <u>Due to Fund</u> | <u>Amount</u> |
|----------------------|--------------------|------------------|
| General Fund | Nonmajor Funds | \$ 7,144 |
| Nonmajor Funds | General Fund | 25,000 |
| Nonmajor Funds | Nonmajor Funds | <u>11,076</u> |
| | | <u>\$ 43,220</u> |

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made. Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Transfers of \$ 25,000 were made from the food service fund to the General Fund for indirect cost recovery.

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

Note 6 – Unearned Revenue

Governmental funds report unearned revenue 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 are as follows:

| | <u>Unearned</u> |
|---|------------------|
| Prepaid student lunch balances | \$ 11,338 |
| Grant and categorical aid payments received prior to meeting all eligibility requirements | 43,450 |
| Total | \$ 54,788 |

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 and certain risk liabilities.

Long-term obligation activity is summarized as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amount Due Within One Year</u> |
|------------------------------|--------------------------|-------------------|-------------------|-----------------------|-----------------------------------|
| Notes Payable | \$ - | \$ 225,000 | \$ 45,000 | \$ 180,000 | \$ 45,000 |
| Accrued compensated absences | 137,107 | - | 5,931 | 131,176 | - |
| Total | \$ 137,107 | \$ 225,000 | \$ 50,931 | \$ 311,176 | \$ 45,000 |

For governmental activities, compensated absences and notes payable are primarily liquidated by the General Fund.

Notes Payable

The School District financed the acquisition of school buses with a note payable during the 2015-16 fiscal year. Proceeds from the borrowing were \$ 225,000. Future payment obligations are as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|------------------|-----------------|--------------|
| Year Ending June 30, | | | |
| 2017 | \$ 45,000 | \$ 4,410 | \$ 49,410 |
| 2018 | 45,000 | 3,308 | 48,308 |
| 2019 | 45,000 | 2,205 | 47,205 |
| 2020 | 45,000 | 1,103 | 46,103 |
| 2013 | \$ 180,000 | \$ 11,026 | \$ 191,026 |

Compensated Absences

Accrued compensated absences at year end, consist of accrued personal time benefits and accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Note 8 – State Aid Anticipation Note

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th.

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

Short-term debt activity for the year was as follows:

| | <u>Beginning Balance</u> | <u>Proceeds</u> | <u>Repayments</u> | <u>Ending Balance</u> |
|-----------------------------|------------------------------|-----------------|-------------------|---------------------------|
| State aid anticipation note | \$ 2,500,000 | \$ 2,600,000 | \$ 2,500,000 | \$ 2,600,000 |

Risk Management

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

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. Unemployment compensation for the year was \$ 16,994. No provision has been made for possible future claims.

Note 9 - Pension Plans And Post Employment Benefits

Organization

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. The board consists of twelve members – eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

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

The System's financial statements are available at www.michigan.gov/mpers-cafr.

Benefits Provided

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

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

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.

Contributions and Funding Status

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the plan's 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates

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

Required contributions to the pension plan from the School District were \$ 3,299,048 for the year ending September 30, 2015.

Net Pension Liability

At June 30, 2016, the School District reported a liability of \$ 41,769,788 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The School District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all employers' statutorily required contributions for the measurement period. At September 30, 2015, the School District's proportionate share percent was .171 percent, which was a decrease of .0066 percent since the prior measurement date.

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

For the year ended June 30, 2016, the School District recognized total pension expense of \$ 3,236,923. The School District's actual contributions for the years ended June 30, 2016, 2015, and 2014 and were \$ 2,686,171, \$ 3,217,031, and \$ 2,701,882, respectively.

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual experience | \$ - | \$ (138,354) |
| Changes in assumptions | 1,028,461 | - |
| Net difference between projected and actual earnings on pension plan investments | 213,201 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 104,199 | (1,226,699) |
| Employer contributions subsequent to the measurement date | 3,083,149 | (1,061,139) |
| | \$ 4,429,010 | \$ (2,426,192) |

\$ 3,083,149 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. \$ 1,061,139 reported as deferred inflows of resources relating to pensions resulting from employer contributions subsequent to the measurement date are 147c revenues received that will be recognized in the year ended June 30, 2017, when the related payments reduce the net pension liability. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Plan Year Ending September 30 | Amount: |
|-------------------------------|--------------|
| 2016 | \$ (176,308) |
| 2017 | (176,308) |
| 2018 | (237,721) |
| 2019 | 571,145 |
| Total | \$ (19,192) |

Actuarial Assumptions

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

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

- Valuation Date: September 30, 2014
- Actuarial Cost Method: Entry Age, Normal
- Wage inflation rate: 3.5%
- Investment Rate of returns:
 - MIP and Basic Plans (Non-Hybrid): 8.0%
 - Pension Plus Plan (Hybrid): 7.0%
- Projected Salary Increases: 3.5-12.3%, including wage inflation at 3.5%
- Cost-of-Living Pension Adjustments: 3% Annual Non-Compounded for MIP Members
- Healthcare Cost Trend Rate: 8.5% Year 1 graded to 3.5% Year 12
- Mortality: RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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

Long-Term Expected Return on Plan Assets

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

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

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

Discount Rate

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

difference between actuarially-determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the School District's Proportionate Share 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 a discount rate of 8.0% (7.0% for the 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 or 1-percentage-point higher:

| 1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0% | Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0% | 1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0% |
|--|--|--|
| <u>\$ 53,851,964</u> | <u>\$ 41,769,788</u> | <u>\$ 31,584,019</u> |

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

Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS CAFR. See the 2015 MPERS CAFR (www.michigan.gov/mpers-cafr).

Payables to the Pension Plan

There were no significant payables to the pension plan that are not ordinary accruals to the district.

Post-Employment Benefits

In addition to the pension benefits described above, state law requires the School District to provide post-employment healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPERS).

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes up to 2% of their salary, and receives up to a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

For the periods July 1, 2015 through September 30, 2015, and October 1, 2016 through June 30, 2016, the employer contribution rate ranged from 2.20% to 2.71% and 6.40% to 6.83%, respectively.

The School District's actual contributions match the required contributions for the years ended June 30, 2016, 2015, and 2014 and were approximately \$ 850,000, \$ 434,000, and \$ 1,060,000, respectively.

Clio Area Schools
Notes to the Financial Statements
June 30, 2016

Unfunded Accrued Liability

During the year ending June 30, 2016, the School District had contributions in the amount of \$ 1,633,778 to the MPSERS. This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 10.53% for the year ending June 30, 2016.

Note 10 - Contingent Liabilities

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial. A separate report on federal compliance has been issued for the year June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Clio Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

| | Budgeted Amounts | | Actual | Over (Under) Budget |
|--|-------------------|-------------------|-------------------|---------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local sources | \$ 2,636,588 | \$ 2,718,628 | \$ 2,786,764 | \$ 68,136 |
| State sources | 24,069,959 | 24,287,564 | 24,240,003 | (47,561) |
| Federal sources | 1,444,586 | 1,465,057 | 1,321,514 | (143,543) |
| Interdistrict sources | 812,810 | 746,670 | 742,657 | (4,013) |
| Total revenues | 28,963,943 | 29,217,919 | 29,090,938 | (126,981) |
| Expenditures | | | | |
| Instruction | | | | |
| Basic programs | 14,344,221 | 14,556,665 | 14,464,270 | (92,395) |
| Added needs | 3,358,259 | 3,637,145 | 3,573,941 | (63,204) |
| Supporting services | | | | |
| Pupil | 1,413,317 | 1,386,002 | 1,392,039 | 6,037 |
| Instructional staff | 985,215 | 923,904 | 942,032 | 18,128 |
| General administration | 441,673 | 660,465 | 654,716 | (5,749) |
| School administration | 1,989,496 | 1,943,942 | 1,986,618 | 42,676 |
| Business | 532,974 | 521,662 | 495,023 | (26,639) |
| Operations and maintenance | 2,650,219 | 2,456,361 | 2,335,651 | (120,710) |
| Pupil transportation services | 2,031,536 | 2,043,914 | 1,996,738 | (47,176) |
| Central | 562,608 | 551,128 | 499,457 | (51,671) |
| Athletic activities | 446,141 | 504,366 | 529,893 | 25,527 |
| Community services | 435,406 | 422,625 | 388,344 | (34,281) |
| Debt service | | | | |
| Principal | - | 45,000 | 45,000 | - |
| Interest and fiscal charges | - | 3,598 | 3,614 | 16 |
| Total expenditures | 29,191,065 | 29,656,777 | 29,307,336 | (349,441) |
| Excess (deficiency) of revenues over expenditures | (227,122) | (438,858) | (216,398) | 222,460 |

Clio Area Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Over (Under) Budget</u> |
|---------------------------------------|-------------------------|---------------------|---------------------|------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Other Financing Sources (Uses) | | | | |
| Proceeds from notes and loans | \$ - | \$ 225,000 | \$ 225,000 | \$ - |
| Proceeds from sale of capital assets | - | 5,671 | 5,671 | - |
| Transfers in | - | - | 25,000 | 25,000 |
| Transfers out | - | (12,161) | - | (12,161) |
| | <u>-</u> | <u>218,510</u> | <u>255,671</u> | <u>12,839</u> |
| Total other financing sources (uses) | - | 218,510 | 255,671 | 12,839 |
| Net change in fund balance | (227,122) | (220,348) | 39,273 | 259,621 |
| Fund balance - beginning | <u>2,914,538</u> | <u>2,914,538</u> | <u>2,914,538</u> | <u>-</u> |
| Fund balance - ending | <u>\$ 2,687,416</u> | <u>\$ 2,694,190</u> | <u>\$ 2,953,811</u> | <u>\$ 259,621</u> |

Clio Area Schools
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years (Measurement Date September 30th)

| | | June 30, | | | | | | | | | |
|----|--|---------------|---------------|------|------|------|------|------|------|------|------|
| | | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| A. | School district's proportion of the net pension liability (%) | 0.17% | 0.18% | | | | | | | | |
| B. | School district's proportionate share of the net pension liability | \$ 41,769,788 | \$ 39,118,050 | | | | | | | | |
| C. | School district's covered-employee payroll | \$ 14,273,917 | \$ 15,270,293 | | | | | | | | |
| D. | School district's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 292.63% | 256.17% | | | | | | | | |
| E. | Plan fiduciary net position as a percentage of total pension liability | 63.17% | 66.20% | | | | | | | | |

Clio Area Schools
Required Supplementary Information
Schedule of the School District's Contributions
Michigan Public School Employees Retirement Plan
Last 10 Fiscal Years

| | | For the Years Ended June 30, | | | | | | | | | |
|----|---|------------------------------|---------------------|------|------|------|------|------|------|------|------|
| | | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| A. | Statutorily required contributions for the measurement period | \$ 2,686,171 | \$ 3,217,031 | | | | | | | | |
| B. | Contributions in relation to statutorily required contributions | <u>\$ 2,686,171</u> | <u>\$ 3,217,031</u> | | | | | | | | |
| C. | Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | | | | | | | | |
| D. | School district's covered-employee payroll | \$ 13,884,740 | \$ 14,537,616 | | | | | | | | |
| E. | Contributions as a percentage of covered-employee payroll | 19.35% | 22.13% | | | | | | | | |

Notes:

Benefit changes - There were no changes of benefit terms in 2015-16.

Changes in assumptions - There were no changes of benefit assumptions in 2015-16.

OTHER SUPPLEMENTARY INFORMATION

Clio Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

| | Special Revenue Fund | Capital Projects Fund | Total Nonmajor Governmental Funds |
|-----------------------------------|----------------------------|-----------------------------|--|
| | <u>Food Service</u> | <u>Sinking Fund</u> | <u>Funds</u> |
| Assets | | | |
| Cash | \$ 651,552 | \$ 256,027 | \$ 907,579 |
| Accounts receivable | 5,013 | - | 5,013 |
| Due from other funds | 7,144 | 11,076 | 18,220 |
| Due from agency fund activities | 264 | - | 264 |
| Due from other governmental units | 44,856 | - | 44,856 |
| Inventory | <u>17,204</u> | <u>-</u> | <u>17,204</u> |
| Total assets | <u>\$ 726,033</u> | <u>\$ 267,103</u> | <u>\$ 993,136</u> |

Clio Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2016

| | Special Revenue Fund | Capital Projects Fund | Total Nonmajor Governmental Funds |
|-------------------------------------|----------------------------|-----------------------------|--|
| | <u>Food Service</u> | <u>Sinking Fund</u> | <u>Funds</u> |
| Liabilities and Fund Balance | | | |
| Liabilities | | | |
| Accounts payable | \$ 188,118 | \$ 109,529 | \$ 297,647 |
| Due to other funds | 36,076 | - | 36,076 |
| Due to other governmental units | 59 | 22,000 | 22,059 |
| Unearned revenue | <u>11,338</u> | <u>-</u> | <u>11,338</u> |
| Total liabilities | <u>235,591</u> | <u>131,529</u> | <u>367,120</u> |
| Fund Balance | | | |
| Non-spendable | | | |
| Inventory | 17,204 | - | 17,204 |
| Restricted for | | | |
| Food service | 473,238 | - | 473,238 |
| Capital projects | <u>-</u> | <u>135,574</u> | <u>135,574</u> |
| Total fund balance | <u>490,442</u> | <u>135,574</u> | <u>626,016</u> |
| Total liabilities and fund balance | <u>\$ 726,033</u> | <u>\$ 267,103</u> | <u>\$ 993,136</u> |

Clio Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2016

| | Special Revenue Fund | Capital Projects Fund | Total Nonmajor Governmental Funds |
|--|----------------------------|-----------------------------|--|
| | Food Service | Sinking Fund | |
| Revenues | | | |
| Local sources | \$ 350,326 | \$ 930,574 | \$ 1,280,900 |
| State sources | 19,930 | - | 19,930 |
| Federal sources | 911,562 | - | 911,562 |
| Total revenues | 1,281,818 | 930,574 | 2,212,392 |
| Expenditures | | | |
| Current | | | |
| Education | | | |
| Supporting services | - | 5,016 | 5,016 |
| Food services | 1,284,516 | - | 1,284,516 |
| Capital outlay | - | 1,374,284 | 1,374,284 |
| Total expenditures | 1,284,516 | 1,379,300 | 2,663,816 |
| Deficiency of revenues over expenditures | (2,698) | (448,726) | (451,424) |

Clio Area Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2016

| | <u>Special Revenue Fund</u> | <u>Capital Projects Fund</u> | <u>Total Nonmajor Governmental Funds</u> |
|-----------------------------|-------------------------------------|--------------------------------------|--|
| | <u>Food Service</u> | <u>Sinking Fund</u> | |
| Other Financing Uses | | | |
| Transfers out | <u>(25,000)</u> | <u>-</u> | <u>(25,000)</u> |
| Net change in fund balance | (27,698) | (448,726) | (476,424) |
| Fund balance - beginning | <u>518,140</u> | <u>584,300</u> | <u>1,102,440</u> |
| Fund balance - ending | <u>\$ 490,442</u> | <u>\$ 135,574</u> | <u>\$ 626,016</u> |

Clio Area Schools

Single Audit Report

June 30, 2016

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Single Audit Report | |
| 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 | 1 |
| Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures Of Federal Awards Required by the Uniform Guidance | 3 |
| Schedule of Expenditures of Federal Awards | 6 |
| Notes to the Schedule of Expenditures of Federal Awards | 8 |
| Schedule of Findings and Questioned Costs | 10 |
| Summary Schedule of Prior Audit Findings | 12 |

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*

Independent Auditors' Report

Management and the Board of Directors
Clio Area Schools
Clio, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clio Area Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Clio Area Schools' basic financial statements, and have issued our report thereon dated September 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Clio Area 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 Clio Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Clio Area 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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clio Area 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.

Yeo & Yeo, P.C.

Flint, Michigan
September 21, 2016

Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Management and the Board of Directors
Clio Area Schools
Clio, Michigan

Report on Compliance for Each Major Federal Program

We have audited Clio Area Schools' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Clio Area Schools' major federal programs for the year ended June 30, 2016. Clio Area Schools' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Clio Area 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Clio Area 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 Clio Area Schools' compliance.

Opinion on Each Major Federal Program

In our opinion, Clio Area 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, 2016.

Report on Internal Control over Compliance

Management of Clio Area 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 Clio Area 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 the Uniform Guidance, 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 Clio Area Schools' internal control over compliance.

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 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. *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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, teach major fund, and the aggregate remaining fund information of Clio Area Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Clio Area Schools' basic financial statements. We issued our report thereon dated September 21, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. 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 audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Yeo & Yeo, P.C.

Flint, Michigan
September 21, 2016

Clio Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

| Federal Grantor Pass Through Grantor Program Title Grant Number | Federal CFDA Number | Award Grant Entitlement Program Amount | Inventory/ Accrued (Unearned) Revenue at July 1, 2015 | Prior Year Expenditures | Current Year Expenditures | Current Year Cash Payments/ In Kind Received | Adjustments | Inventory/ Accrued (Unearned) Revenue at June 30, 2016 |
|--|---------------------------|--|--|----------------------------|------------------------------|--|-------------|---|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | | | |
| Child Nutrition Cluster | | | | | | | | |
| Passed through Michigan Department of Education | | | | | | | | |
| Non-Cash Assistance | | | | | | | | |
| Entitlement Commodities | 10.555 | \$ 65,176 | \$ - | \$ - | \$ 65,176 | \$ 65,176 | \$ - | \$ - |
| Cash Assistance | | | | | | | | |
| School Breakfast Program | 10.553 | | | | | | | |
| 151970 | | 230,435 | - | 209,196 | 21,239 | 21,239 | - | - |
| 161970 | | 207,222 | - | - | 207,222 | 194,919 | - | 12,303 |
| National School Lunch Program | 10.555 | | | | | | | |
| 151960 | | 585,751 | - | 529,388 | 56,363 | 56,363 | - | - |
| 161960 | | 546,175 | - | - | 546,175 | 518,157 | - | 28,018 |
| Summer Food Service Program for Children | 10.559 | | | | | | | |
| 150900 | | 14,185 | - | - | 14,185 | 14,185 | - | - |
| 151900 | | 1,202 | - | - | 1,202 | 989 | - | 213 |
| Total Cash Assistance | | 1,584,970 | - | 738,584 | 846,386 | 805,852 | - | 40,534 |
| Total Child Nutrition Cluster | | 1,650,146 | - | 738,584 | 911,562 | 871,028 | - | 40,534 |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | 1,650,146 | - | 738,584 | 911,562 | 871,028 | - | 40,534 |
| U.S. DEPARTMENT OF EDUCATION | | | | | | | | |
| Special Education Cluster | | | | | | | | |
| Passed through the Genesee Intermediate School District | | | | | | | | |
| IDEA Flowthrough | 84.027 | | | | | | | |
| 160450-1516 | | 586,529 | - | - | 586,529 | 340,908 | - | 245,621 |
| IDEA Preschool Incentive | 84.173 | | | | | | | |
| 160460-1516 | | 19,088 | - | - | 19,088 | 12,158 | - | 6,930 |
| Total Special Education Cluster | | 605,617 | - | - | 605,617 | 353,066 | - | 252,551 |

Clio Area Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

| Federal Grantor Pass Through Grantor Program Title Grant Number | Federal CFDA Number | Award Grant Entitlement Program Amount | Inventory/ Accrued (Unearned) Revenue/ at July 1, 2015 | Prior Year Expenditures | Current Year Expenditures | Current Year Cash Payments/ In Kind Received | Adjustments | Inventory/ Accrued (Unearned) Revenue at June 30, 2016 |
|--|---------------------------|--|---|----------------------------|------------------------------|--|-----------------|---|
| Passed through the Michigan Department of Education | | | | | | | | |
| Title I - Educationally Deprived | | | | | | | | |
| 151530-1415 | 84.010 | 624,972 | 179,043 | 579,043 | - | 179,043 | - | - |
| 161530-1516 | | 552,226 | - | - | 540,970 | 370,000 | - | 170,970 |
| Total Title I | | 1,177,198 | 179,043 | 579,043 | 540,970 | 549,043 | - | 170,970 |
| Passed through Genesee Intermediate School District | | | | | | | | |
| Vocational Education - Secondary | | | | | | | | |
| Regional Allocation (Perkins) | | | | | | | | |
| 2014-15 | 84.048 | 25,954 | 7,182 | 18,772 | - | 7,182 | - | - |
| 2015-16 | | 14,200 | - | - | 12,612 | 12,612 | - | - |
| Total Vocational Education | | 40,154 | 7,182 | 18,772 | 12,612 | 19,794 | - | - |
| Passed through the Michigan Department of Education | | | | | | | | |
| Title IIA - Teacher/Principal Training & Recruiting | | | | | | | | |
| 120520-1112 | 84.367 | 154,545 | (32,814) | 51,868 | - | - | - | (32,814) |
| 140520-1415 | | 269,374 | 73,305 | 223,305 | - | 71,075 | (2,230) (1) | - |
| 160520-1516 | | 178,959 | - | - | 127,298 | 70,000 | - | 57,298 |
| Total Title IIA | | 602,878 | 40,491 | 275,173 | 127,298 | 141,075 | (2,230) | 24,484 |
| Passed through Genesee Intermediate School District | | | | | | | | |
| Investing in Innovation Fund (i3) | | | | | | | | |
| 2015 | 84.411B | 44,889 | 44,889 | 44,889 | - | 49,581 | 4,692 (2) | - |
| 2016 | | 47,000 | - | - | 30,325 | 12,088 | - | 18,237 |
| Total Investing in Innovation Fund | | 91,889 | 44,889 | 44,889 | 30,325 | 61,669 | 4,692 | 18,237 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | 2,517,736 | 271,605 | 917,877 | 1,316,822 | 1,124,647 | 2,462 | 466,242 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | | | | | |
| Passed through Genesee County | | | | | | | | |
| Medicaid | | | | | | | | |
| Medicaid Outreach 14-15 | 93.778 | - | 3,224 | - | - | 3,224 | - | - |
| TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES | | - | 3,224 | - | - | 3,224 | - | - |
| TOTAL FEDERAL AWARDS | | <u>\$ 4,167,882</u> | <u>\$ 274,829</u> | <u>\$ 1,656,461</u> | <u>\$ 2,228,384</u> | <u>\$ 1,998,899</u> | <u>\$ 2,462</u> | <u>\$ 506,776</u> |

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Clio Area Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2016

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal award activity of Clio Area Schools under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Clio Area Schools, it is not intended to and does not present the financial position or changes in fund balances of Clio Area Schools.

Note 2 - Summary of Significant Accounting Policies

Expenditures

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in the Uniform Guidance, or OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments* where certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

Clio Area Schools has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 - Reconciliation to the Financial Statements

Federal revenues reported on the financial statements reconcile to the expenditures reported on the SEFA as follows:

| | |
|---|---------------------|
| Revenue from federal sources – per basic financial statements, all funds | \$ 2,233,076 |
| Amounts expended in the prior year that were not previously allowed, but subsequently allowed and disbursements in the current year | <u>(4,692)</u> |
| Federal expenditures per the SEFA | <u>\$ 2,228,384</u> |

Clio Area Schools
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2016

Note 4 - Other Reconciliations

Management has reported the expenditures in the SEFA equal to those amounts reported in the annual or final cost reports that have been submitted for that particular grant year.

The federal amounts reported on the CMS Grant Auditor Report (GAR) are in agreement with the SEFA except for the following:

| <u>CFDA</u> | <u>Grant</u> | <u>Amount</u> |
|-------------|--------------|---------------|
| 10.553 | 161970 | \$ 12,303 |
| 10.555 | 161960 | \$ 28,018 |
| 10.555 | 161980 | \$ 213 |

These grants were paid by June 30, 2016 per the GAR but not received by the District until after year end.

The amounts reported on the Recipient Entitlement Balance Report (PAL Report) agree with the SEFA for USDA donated food commodities.

Note 5 - Funds Transferred to Subrecipients

The Schools District did not transfer any federal funds to subrecipients during the fiscal year.

Note 6 - Adjustments on the SEFA

The adjustment column on the SEFA includes:

- (1) Costs disallowed by grantors in the current year for prior year expenditures.
- (2) Costs expended in the prior year that were disallowed; however, were subsequently reimbursed to the District in the current year.

Clio Area Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes _____ X _____ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes _____ X _____ None reported
- Noncompliance material to financial statements noted? _____ Yes _____ X _____ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes _____ X _____ No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes _____ X _____ None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with §200.516(a)? _____ Yes _____ X _____ No

Clio Area Schools
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Identification of major programs:

CFDA Numbers
84.027/84.173
84.010

Name of Federal Program
Special Education Cluster
Title I, Part A

Dollar threshold used to distinguish
between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee:

_____ Yes

_____ X _____ No

Section II - Financial Statement Findings

No matters were noted.

Section III - Federal Award Findings and Questioned Costs

No matters were noted.

Clio Area Schools
Summary Schedule of Prior Audit Findings
June 30, 2016

Finding 2015-001, 2014-002

Finding Type: Material Weakness

Specific Requirement: A good system of internal controls provides for proper segregation of accounting functions, regular monitoring, and a review system to reduce the risk of misstating the financial statements.

Condition: The School District's accounting records required several adjustments during the audit in order to be fairly presented.

Cause/Effect: It appears the School District did not adequately reconcile and review the accounting records before the audit took place. As a result, several adjustments were made during the audit.

Recommendation to prevent future occurrences: The School District should ensure that the financial records are complete and accurate prior to the audit. This includes accruing all accounts receivable, reconciling federal revenue and expenditure accounts, reconciling property tax revenue, etc. A thorough review should be performed to ensure the accounting records are in order.

Status: There were no significant audit adjustments required for the 2015-16 fiscal year.



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September 21, 2016

Management and the Board of Education
Clio Area Schools
Clio, Michigan

We have completed our audit of the financial statements of the governmental activities, each major fund, and aggregate remaining fund information of Clio Area Schools as of and for the year ended June 30, 2016, and have issued our report dated September 21, 2016. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The first appendix to this letter sets forth those communications as follows:

I. Auditors' Communication of Significant Matters with Those Charged with Governance

In addition, we have identified additional matters that are not required to be communicated but we believe are valuable for management:

II. Matters for Management's Consideration

We discussed these matters with various personnel in the School District during the audit and have already met with management on. We would also be pleased to meet at an upcoming, regular scheduled board meeting to discuss these matters.

These communications are intended solely for the information and use of management, the Board of Education, and others within the School District, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Flint, Michigan

Appendix I

Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 10, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 of the financial statements. The School District has adopted Government Accounting Standards Statement (GASB) No. 72, 76, 79, and 82, *Fair Value Measurement and Application*, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, *Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73, respectively*. GASB No. 72, 76, and 79 are effective July 1, 2015, and GASB 82 is effective for years beginning July 1, 2016, however, early implementation is encouraged. Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. Statement 76 identifies the hierarchy of generally accepted accounting principles. Statement 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Statement 82 amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. We noted no transactions entered into by the School District during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- The useful lives of its capital assets. Useful lives are estimated based on the expected length of time during which the asset is able to deliver a given level of service.
- The net pension liability, and related deferred outflows of resources and deferred inflows of resources. The estimate is based on an actuarial report.

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

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Accounting Standards

The Governmental Accounting Standards Board has released the following Statements:

Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* addresses the other postemployment benefits plans (OPEB) – defined benefit and defined contribution – administered through trusts. This Statement will improve the financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts. This information will enhance the transparency by providing information about measures of net OPEB liabilities and explanations of how and why those liabilities changed from year to year. Statement No. 74 is effective for the fiscal year ending June 30, 2017.

Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined OPEB plans, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee services. It also requires additional note disclosures and required supplementary information. Statement No. 75 is effective for the fiscal year ending June 30, 2018.

GASB Statement No. 77, *Tax Abatement Disclosures* requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement are effective for the fiscal year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Statement No. 81 is effective for the fiscal year ending June 30, 2018.

The School District is evaluating the impact the above pronouncements will have on its financial reporting.

Regulatory and Other Updates

Audit and FID Submission Deadline

Beginning in the previous year, the deadline to submit the Financial Information Database (FID) and the school district financial audits will be November 1st. This will continue to be the deadline for future fiscal years.

Uniform Grant Guidance (Super Circular)

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements. The Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. Districts implemented the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after

that date. EDGAR is the source for guidance that school districts will follow. Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR) <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR <http://1.usa.gov/1pOUq2p>
- MDE http://www.michigan.gov/mde/0,4615,7-140-5236_76204---,00.html

Fiscal Year (FY) 2017 School Aid

- The Omnibus Education Bill (Senate Bill 801) for FY 2017 has been passed by the legislature. It has been presented to the Governor for signature. There is always the possibility of vetoes. Following are some highlights of the bill:
- The per pupil Foundation Grants for FY 2017 will increase by a range of \$60 to \$120 using the “2X formula.” The increase will be added to the FY 2016 foundation grant resulting in the lowest foundation for FY 2017 being \$7,511 and the maximum state guaranteed foundation being \$8,229.
- A new Section 20m would provide hold harmless districts with the difference in per pupil funding between \$60 and the increase in their foundation which is limited to the rate of inflation (.1% in this case).
- The Pupil Membership Blend will remain at 90% of the current school year October count and 10% of the prior school year February count.
- The Section 31a At-Risk funding is maintained at \$389,685,500.
- The per pupil funding under Sections 20f(2) and 20f(4) will be equal to the per pupil funding under those Sections in 2015-16.
- ISD General Operation funding under Section 81 will remain at \$67.1 million.
- An additional \$90 million is appropriated in Section 147c to reflect the actuarially estimated costs of the required state share of the MPSERS Unfunded Accrued Liability (UAL) and maintain the UAL cap at 20.96%.

Other School Aid “Boilerplate” Changes

- Section 18 has been amended to require that the FID data and audited financial statements must be consistent or school aid must be withheld.
- Sections 6(4) and 25e have been amended to restrict districts from counting a prorated FTE for pupils who transfer from a district/academy that counted the pupil on the October pupil count day to another district/academy prior to the February count day. Beginning in 2016-17 only strict discipline academies will be allowed to count a prorated FTE in these cases.
- Section 51a(15) has been amended to state that there will be a 10% state school aid penalty for a district or ISD that does not comply with the language in Section 51a(14) that requires the pupil’s resident district and/or ISD to provide special education services and cover special education added costs for pupils educated in a Public School Academy who reside outside of the ISD in which the academy is located.
- The Section 101 Instructional Day requirement will go from a minimum of 175 days to a minimum of 180 days beginning with the 2016-17 school year.

Early Warning

Pursuant to Public Act 109 of 2015, each school district and public school academy that has a general fund balance less than 5% of total unrestricted general revenue for either of the 2013-2014 or 2014-2015 school fiscal years is required to submit budget assumptions to the Center for Educational Performance and Information (CEPI).

Uniform Budgeting and Accounting Act (UBAA)

The UB&AA establishes budget and accounting requirements for local governments and school districts, including public school academies. It also establishes oversight requirements for MDE as well as the Michigan Attorney General. Material violations of the UB&AA, including but not limited to general fund deficits, should be

reported as financial statement findings in the audit report. UB&AA states that if it becomes apparent during the year that the probable revenues will be less than the budgeted revenues, the fiscal officer shall present recommendations to the legislative body which, if fiscal adopted, would prevent expenditures from exceeding available revenues for the fiscal year. UBAA states that an officer of the district shall not incur expenditures against an appropriation account in excess of the amount appropriated by the board. Noncompliance includes, but is not limited to, over-expending the budget authorized by the board. MDE is analyzing the general fund only, and at the total revenues, expenditures and financing sources (uses) levels, rather than at the line item level. MDE has stated a 0% tolerance for UBAA noncompliance.

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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments. 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.

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 auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

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

Other Audit Findings or Issues

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

The School District adopted a new accounting standard, and our report will include the following emphasis of matter paragraph:

Adoption of New Accounting Standard

As described in Note 1 to the financial statements, during the year ended June 30, 2016, the School District adopted GASB No. 72, 76, 79, and 82, *Fair Value Measurement and Application, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, Certain External Investment Pools and Pool Participants*, and *Pension Issues-an amendment of GASB Statement's No. 67, No. 68, and No. 73, respectively*. Our opinions are not modified with respect to this matter.

Other Reports

Other information that is required to be reported to you is included in the: 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*; Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance; and the Schedule of Findings and Questioned Costs. Please read all information included in those reports to ensure you are aware of relevant information.

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis, schedule of the school district's proportionate share of the net pension liability, schedule of the school district's contributions, and budgetary comparison information, we 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Report on Other Supplementary Information

With respect to the other supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II Matters for Management's Consideration

In planning and performing our audit of the financial statements of Clio Area Schools as of and for the year ended June 30, 2016, we considered Clio Area Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

However, during our audit we became aware of several matters for management's consideration that are opportunities for strengthening internal controls and ensuring compliance with various requirements. This letter does not affect our report dated September 21, 2016, on the financial statements of Clio Area Schools. Our comments and recommendations regarding those matters are:

Parental Involvement

For purposes of the Title I Federal Grants, the School District is required to reserve at least one percent of their allocation on parental involvement activities. While the School District did budget to use the one percent, they were not able to spend the funds and have not consistently met this requirement in the past. We recommend the School District explore alternative means of spending this allocation in order to comply with the requirement. This is a repeat recommendation from the prior year.

Grant Budgets

When auditing the Title I Federal Grants, we noted that although the budget per the accounting records matched the grantor-approved budget in total, various details such as budgets per function and/or object did not match individually. It is important to ensure all components of the grantor-approved budget match the budget in the accounting system to ensure that overspending for a particular area does not occur. We recommend the district input the budget in the accounting software exactly as it appears on the grantor-approved budget and ensures it is updated for any amendments. This is a repeat recommendation from the prior year.

Maintenance of Effort

Although the School District is able to use the 'pass' status of the local intermediate school district to satisfy maintenance of effort requirements of the grants under the special education cluster, the School District is still responsible for maintaining effort at the district level. The School District itself did not receive a pass rating for the most recently completed reporting period. We recommend that the School District evaluates spending for the special education grants to ensure they are in compliance with this requirement in the future.