

# **Gull Lake Community Schools**

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## **Financial Report with Supplemental Information June 30, 2016**

# Gull Lake Community Schools

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## Independent Auditor's Report

To the Board of Education  
Gull Lake Community Schools

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District'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 opinion.

To the Board of Education  
Gull Lake Community Schools

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective net position of the governmental activities, the major fund, and the aggregate remaining fund information of Gull Lake Community Schools as of June 30, 2016 and the respective changes in its net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the major fund budgetary comparison schedules, the schedule of the School District's pension contributions, the schedule of the School District's proportionate share of net pension liability, and the notes to required supplemental information, as disclosed 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, which 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 supplemental 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 Gull Lake Community Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

To the Board of Education  
Gull Lake Community Schools

The other supplemental 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 supplemental 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 October 12, 2016 on our consideration of Gull Lake Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Gull Lake Community Schools' internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 12, 2016

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 Auditor's Report

To Management and the Board of Education  
Gull Lake Community Schools

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gull Lake Community Schools (the "School District") 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, and have issued our report thereon dated October 12, 2016 which contained an unmodified opinion.

**Internal Control Over Financial Reporting**

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

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

To Management and the Board of Education  
Gull Lake Community Schools

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Gull Lake Community Schools' financial statements are free of 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 School District'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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

October 12, 2016

# **Gull Lake Community Schools**

## **Management's Discussion and Analysis**

This section of Gull Lake Community Schools' (the "School District") annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2016. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

### **Using this Annual Report**

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

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

#### **Basic Financial Statements**

District-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)  
Budgetary Information for General Fund

Other Supplemental Information



# **Gull Lake Community Schools**

## **Management's Discussion and Analysis (Continued)**

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

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

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

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

# **Gull Lake Community Schools**

## **Management's Discussion and Analysis (Continued)**

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

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Hot Lunch Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

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

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

# Gull Lake Community Schools

## Management's Discussion and Analysis (Continued)

### The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2016 and 2015:

Table 1

	Governmental Activities	
	June 30	
	2016	2015
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 13.5	\$ 7.9
Capital assets	46.2	45.9
Total assets	59.7	53.8
<b>Deferred Outflows of Resources</b>		
Deferred charges on bond refunding	1.1	1.3
Deferred outflows related to pensions	6.4	2.3
Total deferred outflows of resources	7.5	3.6
Total assets and deferred outflows of resources	67.2	57.4
<b>Liabilities</b>		
Current liabilities	8.3	6.5
Long-term liabilities	34.4	33.6
Net pension liability	42.4	36.2
Total liabilities	85.1	76.3
<b>Deferred Inflows of Resources - Deferred inflows related to pensions</b>	1.3	2.6
Total liabilities and deferred inflows of resources	86.4	78.9
<b>Net Position (Deficit)</b>		
Net investment in capital assets	11.1	12.0
Restricted	0.7	0.9
Unrestricted	(31.0)	(34.4)
Total net position (deficit)	\$ (19.2)	\$ (21.5)

The above analysis focuses on the net position (see Table 1). The change in net position of the School District's governmental activities is discussed below (see Table 2). The School District's net position was a deficit of \$19.2 million at June 30, 2016. Net investment in capital assets, totaling \$11.1 million, compares the original cost, less depreciation, of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net position was an unrestricted deficit of \$31.0 million.

# Gull Lake Community Schools

## Management's Discussion and Analysis (Continued)

The \$31.0 million deficit unrestricted net position of governmental activities at June 30, 2016 represents the accumulated results of all past years' operations. The deficit in the School District's net position includes a \$42.4 million liability for Michigan Public School Employees Retirement Plan from the adoption of GASB Statements No. 68 and 71. The unrestricted net position balance, excluding the effects of these pronouncements, enables the School District to meet working capital and cash flow requirements, as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position:

Table 2

	Governmental Activities	
	2016	2015
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 1.2	\$ 1.1
Federal grants and entitlements	3.0	1.9
State categoricals	0.4	0.4
Operating grants	1.5	2.5
General revenue:		
Property taxes	8.0	7.8
State foundation allowance	23.2	21.1
Other	0.3	0.3
Total revenue	37.6	35.1
<b>Functions/Program Expenses</b>		
Instruction	19.8	18.6
Support services	11.0	10.7
Athletics	0.6	0.5
Food services	1.0	1.0
Community services	1.4	1.2
Interest on long-term debt	1.5	1.5
Total functions/program expenses	35.3	33.5
<b>Change in Net Position</b>	2.3	1.6
<b>Net Position (Deficit) - Beginning of year</b>	(21.5)	(23.1)
<b>Net Position (Deficit) - End of year</b>	<u>\$ (19.2)</u>	<u>\$ (21.5)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$35.3 million. Certain activities were partially funded from those who benefited from the programs (\$1.2 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$8.0 million in taxes, \$23.2 million in state foundation allowance, and \$0.3 million with our other revenue (i.e., interest and general entitlements).

# **Gull Lake Community Schools**

## **Management's Discussion and Analysis (Continued)**

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

### **The School District's Funds**

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

As the School District completed this year, the governmental funds reported a combined fund balance of \$8.8 million, which is an increase of \$4.4 million from last year.

The General Fund, the School District's principal operating fund, increased approximately \$0.7 million during the 2015-2016 year. Starting with the 2010-2011 budget year, the School District was required to include the Athletic Fund budget with the General Fund budget. The Athletic Fund revenue and expenditures will now be shown within the General Fund detail. The General Fund balance is available to fund costs related to allowable school operating purposes.

The 2016 Capital Project Fund was established during the 2015-2016 school year for the purposes of building a new Administration Building and Gateway Academy. The 2016 Capital Project Fund reported a fund balance of \$2.9 million.

The Hot Lunch Fund is the School District's special revenue fund, which had a fund balance that slightly increased. This fund continues to be self-supporting; revenue exceeds expenditures.

Combined, the debt service funds show a slight decrease in fund balance for the year. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service funds' fund balances are reserved since they can only be used to pay debt service obligations.

The 2012 Capital Projects Fund fund balance is \$0.2 million, which is the same as the prior year. The fund balance at year end is related to the unspent bond proceeds.

The 2015 Capital Projects Fund was created during the 2015-2016 school year. Fund balance is \$0.5 million. The fund balance at year end is related to the unspent bond proceeds.

The 2014 Sinking Fund fund balance is \$0.4 million. The fund balance at year end is related to unspent tax levy received during the 2015-2016 year.

# **Gull Lake Community Schools**

## **Management's Discussion and Analysis (Continued)**

The Building and Site Fund balance is \$0.4 million. The fund balance increased as the School District transferred funds to support facility improvements. The transfer was primarily due to the timing of the end of the fiscal year and outstanding projects that were unable to be started and/or completed during the 2015-2016 school year.

### **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted in June 2016. This amendment included a local revenue decrease of \$23,000 due to taxable value changes with additional offsetting revenue from the state due to the taxable value changes and other minor adjustments. Budgeted state revenue included an amended increase of \$1.9M in state revenue caused by increased enrollment. Budgeted athletic revenue increased slightly and federal revenue decreased slightly. The net revenue change was an increase of \$2.1M. There were additional revisions made to the 2015-2016 General Fund original budget. Actual General Fund expenditures increased compared to the original budget. Basic Program Instruction expenditures were significantly higher than budgeted due to salaries and benefits, contracted sub costs, and dual enrollment. An additional contributing factor was unanticipated repairs and maintenance throughout the School District. Continuing to have the most significant impact on the budget was the continuation of new initiatives; the Virtual School, Homeschool Partnership, and Early College resulted in both unanticipated revenue and expenditures. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information to these financial statements.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

As of June 30, 2016, the School District had \$46.2 million invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, furniture, and equipment, net of accumulated depreciation. This amount represents a net increase (including additions, disposals, and depreciation) of approximately \$0.3 million, or approximately 0.7 percent, from last year.

# Gull Lake Community Schools

## Management's Discussion and Analysis (Continued)

	2016	2015
Land	\$ 292,240	\$ 104,400
Construction in progress	586,177	-
Buildings and building improvements	53,751,997	53,483,079
Buses and other vehicles	2,803,785	2,837,194
Furniture and equipment	8,334,774	7,625,084
Total capital assets	65,768,973	64,049,757
Less accumulated depreciation	19,550,034	18,194,876
Net capital assets	<u>\$ 46,218,939</u>	<u>\$ 45,854,881</u>

We present more detailed information about our capital assets in the notes to the financial statements.

During the 2015-2016 fiscal year, the School District offered \$1,200,000 in bonds for sale for the Series B 2015 School Building and Site Bond. Proceeds were used for technology upgrades. For the past two years, the \$4.9 million bond funds from the 2012 bond funds continued to be used primarily for technology, which included a rollout of technology devices such as iPads and Macbooks throughout the School District. In 2012-2013, every high school student received an iPad and all students throughout the School District received access to a device through the use of iPad carts. Additional devices and carts were purchased in 2014-2015. Security was also a focus of both the technology and capital project portion of the bond issue. The addition of secure vestibules to all buildings was completed. New boilers to enhance energy efficiency, roofing projects at both the middle school and Richland Elementary, and paving throughout the School District are a few other significant projects that were performed during the previous year.

Significantly impacting the School District was the passage of a sinking fund. The sinking fund millage is 0.65 mills for 9 years. The anticipated revenue per year is approximately \$605,000. Projects funded by the sinking fund during 2015-2016 were energy improvement projects such as roofing; safety/security projects such as door hardware; and the W.K. Kellogg septic system project was started, as well as reconstruction of tennis courts.

Additionally, the School District issued \$3,150,000 in school improvement and bus bonds. The funds will be used for the purpose of constructing, equipping, and furnishing the administration building and alternative education center and for the purchase of school buses.

### Debt

At the end of this year, the School District had approximately \$36.4 million in bonds and capital leases outstanding versus \$34.7 million in the previous year.

# **Gull Lake Community Schools**

## **Management's Discussion and Analysis (Continued)**

These bonds and capital leases consisted of the following:

	2016	2015
General obligation bonds	\$ 36,380,000	\$ 34,660,000
Capital lease obligation	-	71,389
Total	<u>\$ 36,380,000</u>	<u>\$ 34,731,389</u>

The School District's general obligation bond rating is A1. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan; such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$36.4 million is below the statutorily imposed limit.

Other obligations include accrued compensated absences and accrued interest on capital appreciation bonds. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### **Economic Factors and Next Year's Budgets and Rates**

Our elected officials and administration consider many factors when setting the School District's 2016-2017 fiscal year budget. The budget process was started early in fall 2015. All areas of the budget were reviewed. Based on preliminary projections, the finance committee, along with the full board, made a decision to develop a budget that ensured the General Fund ended with a minimum of \$250,000 to add to the fund balance.

One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2016-2017 fiscal year is budgeted at 10 percent of the February 2017 and 90 percent of the October 2016 student counts. The 2016-2017 budget was adopted in June 2016, based on an estimate of students that will be enrolled in October 2016. The decision to be a school of choice district as well as continuing the Virtual School and Homeschool Partnership led to a somewhat conservative projection of a slight increase in enrollment.



# **Gull Lake Community Schools**

## **Management's Discussion and Analysis (Continued)**

Approximately 90 percent of total General Fund revenue is from the foundation allowance (combined state portion and the 18 mill local non-homestead tax portion). Under state law, the School District cannot assess additional property tax revenue for general operations. The current Headlee override expired in December 2013; however, the School District is still able to collect the full 18 mills due to the renewal of the full 18 mills in November 2012, which included an additional amount of .5548. School district funding is heavily dependent on the State's ability to fund local school operations. Once the final student count and related per-pupil funding are validated, state law requires the School District to amend the budget if actual school district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The state periodically holds a revenue-estimating conference to estimate revenue. The next conference is scheduled after the November elections.

Continuing to have a significant impact on the budget was the health insurance legislation which stated that "the public employer shall pay no more than 80 percent of the total annual cost of the medical benefit plans it offers or contributes to for its employees and elected officials" or, for calendar year 2016, "Shall pay no more than single - \$6,142.11; one dependent - \$12,845.04; family - \$16,751.23." The board chose the hard cap option, which resulted in significant savings. At the time of the budget planning, the MPSERS rate was published at 24.94 percent, which also has had a significant effect on the 2016-2017 budget, although the State has included a MPSERS offset in the state aid funding.

Additionally, impacting the 2016-2017 budget was the passage of the KRESA special education millage. This six-year millage will have significant impact on the School District's budget. The special education reimbursement from KRESA was budgeted at approximately an additional \$800,000. The revenue will help to offset the current special education expenditures.

For 2016-2017, the School District has settled all contracts.

# Gull Lake Community Schools

## Statement of Net Position June 30, 2016

	Governmental Activities
<b>Assets</b>	
Cash and investments (Note 3)	\$ 6,244,685
Receivables (Note 4)	4,846,966
Inventories	26,457
Other assets	50,000
Restricted assets (Note 8)	2,300,014
Capital assets - Net (Note 5)	46,218,939
Total assets	59,687,061
<b>Deferred Outflows of Resources</b>	
Deferred charges on bond refunding (Note 7)	1,114,593
Deferred outflows related to pensions (Note 10)	6,341,317
Total deferred outflows of resources	7,455,910
Total assets and deferred outflows of resources	67,142,971
<b>Liabilities</b>	
Accounts payable	785,979
Accrued payroll-related liabilities	3,131,439
State aid anticipation note (Note 11)	419,875
Other accrued liabilities	209,888
Unearned revenue (Note 4)	348,421
Noncurrent liabilities (Note 7):	
Due within one year	3,301,123
Due in more than one year	34,448,822
Net pension liability (Note 10)	42,440,037
Total liabilities	85,085,584
<b>Deferred Inflows of Resources</b> - Deferred inflows related to pension and revenue in support of pension payment (Note 10)	1,299,094
Total liabilities and deferred inflows of resources	86,384,678
<b>Net Position</b>	
Net investment in capital assets	11,065,370
Restricted - Debt service	688,625
Unrestricted	(30,995,702)
Total net position	<u>\$ (19,241,707)</u>

# Gull Lake Community Schools

## Statement of Activities Year Ended June 30, 2016

	Expenses	Program Revenue		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
Functions/Programs				Governmental Activities
Primary government - Governmental activities:				
Instruction	\$ 19,791,749	\$ -	\$ 4,451,719	\$ (15,340,030)
Support services	11,047,166	-	-	(11,047,166)
Athletics	564,799	141,893	-	(422,906)
Food services	1,040,212	561,515	476,101	(2,596)
Community services	1,433,447	538,335	-	(895,112)
Interest on long-term debt	1,468,891	-	-	(1,468,891)
Total primary government	<u>\$ 35,346,264</u>	<u>\$ 1,241,743</u>	<u>\$ 4,927,820</u>	(29,176,701)
General revenue:				
Taxes:				
Property taxes - Levied for general purposes				4,105,148
Property taxes - Levied for debt service				3,874,036
State aid not restricted to specific purposes				23,139,818
Interest and investment earnings				4,090
Gain on the sale of capital assets				5,098
Other				269,513
Total general revenue				<u>31,397,703</u>
Change in Net Position				2,221,002
Net Position - Beginning of year				(21,462,709)
Net Position - End of year				<u>\$ (19,241,707)</u>

# Gull Lake Community Schools

## Governmental Funds Balance Sheet June 30, 2016

	General Fund	2016 Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments (Note 3)	\$ 3,020,825	\$ 3,059,721	\$ 164,139	\$ 6,244,685
Receivables (Note 4)	4,829,048	-	17,918	4,846,966
Due from other funds (Note 6)	-	-	400,000	400,000
Inventories	14,180	-	12,277	26,457
Prepaid costs and other assets	-	-	50,000	50,000
Restricted assets (Note 8)	-	-	2,300,014	2,300,014
Total assets	<u>\$ 7,864,053</u>	<u>\$ 3,059,721</u>	<u>\$ 2,944,348</u>	<u>\$ 13,868,122</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 189,755	\$ 199,124	\$ 397,100	\$ 785,979
Accrued payroll-related liabilities	3,119,933	-	11,506	3,131,439
State aid anticipation note (Note 11)	419,875	-	-	419,875
Due to other funds (Note 6)	400,000	-	-	400,000
Unearned revenue (Note 4)	347,336	-	1,085	348,421
Total liabilities	4,476,899	199,124	409,691	5,085,714
<b>Fund Balances</b>				
Nonspendable:				
Inventories	14,180	-	12,277	26,457
Prepaid costs	-	-	50,000	50,000
Restricted:				
Capital projects	-	2,860,597	1,025,240	3,885,837
Debt service	-	-	898,513	898,513
Food services	-	-	148,627	148,627
Assigned - Capital projects	-	-	400,000	400,000
Unassigned	3,372,974	-	-	3,372,974
Total fund balances	<u>3,387,154</u>	<u>2,860,597</u>	<u>2,534,657</u>	<u>8,782,408</u>
Total liabilities and fund balances	<u>\$ 7,864,053</u>	<u>\$ 3,059,721</u>	<u>\$ 2,944,348</u>	<u>\$ 13,868,122</u>

# Gull Lake Community Schools

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2016

**Fund Balance Reported in Governmental Funds** \$ 8,782,408

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

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

Cost of capital assets	\$ 65,768,973	
Accumulated depreciation	(19,550,034)	46,218,939

Deferred outflows related to pension payments made subsequent to the measurement date		3,254,853
---	--	-----------

Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:

Bonds and capital lease payable including unamortized premiums and discounts	(37,293,402)	
Compensated absences	(356,543)	
Employee retirement incentive	(100,000)	(37,749,945)

Accrued interest payable is not included as a liability in governmental funds		(209,888)
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Deferred charges are not capitalized in the governmental funds		1,114,593
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Deferred outflow related to pensions		3,086,464
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Net pension obligations do not present a claim on current financial resources and are not reported as fund liabilities		(42,440,037)
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Deferred inflows related to pension investment returns and changes in assumptions and revenue in support of pension contributions subsequent the measurement date are not reported in the governmental funds		(1,299,094)
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**Net Position of Governmental Activities** **\$ (19,241,707)**

# Gull Lake Community Schools

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2016

	General Fund	2016 Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>				
Local sources	\$ 4,224,405	\$ -	\$ 5,085,231	\$ 9,309,636
State sources	25,556,221	-	41,934	25,598,155
Federal sources	250,389	-	453,477	703,866
Interdistrict sources	2,923,368	-	-	2,923,368
Total revenue	32,954,383	-	5,580,642	38,535,025
<b>Expenditures</b>				
Current:				
Instruction	19,405,267	-	-	19,405,267
Support services	9,860,494	2,234	148	9,862,876
Athletics	482,236	-	-	482,236
Food services	-	-	1,030,528	1,030,528
Community services	1,436,290	-	-	1,436,290
Interfund reimbursement (Note 6)	(25,000)	-	25,000	-
Debt service:				
Principal	71,389	-	2,630,000	2,701,389
Interest	15,704	-	1,294,380	1,310,084
Capital outlay	602,669	341,728	1,414,911	2,359,308
Total expenditures	31,849,049	343,962	6,394,967	38,587,978
<b>Excess of Revenue Over (Under) Expenditures</b>	1,105,334	(343,962)	(814,325)	(52,953)
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	5,098	-	-	5,098
Transfers in	-	-	400,000	400,000
Transfers out	(400,000)	-	-	(400,000)
Face value of debt issued	-	3,150,000	1,200,000	4,350,000
Premium on debt issued	-	54,559	-	54,559
Total other financing sources	(394,902)	3,204,559	1,600,000	4,409,657
<b>Net Change in Fund Balances</b>	710,432	2,860,597	785,675	4,356,704
<b>Fund Balances - Beginning of year</b>	2,676,722	-	1,748,982	4,425,704
<b>Fund Balances - End of year</b>	<u>\$ 3,387,154</u>	<u>\$ 2,860,597</u>	<u>\$ 2,534,657</u>	<u>\$ 8,782,408</u>

# Gull Lake Community Schools

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2016

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>4,356,704</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	\$	(1,577,000)	
Capitalized capital outlay		1,941,058	364,058

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities	(4,350,000)
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Bond issuance discount/premium reported as expenditures/revenue in the funds and amortized in the statement of activities	116,563
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Repayment of bond and capital lease obligation principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	2,701,389
--	-----------

Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid	21,633
--	--------

Revenue in support of pension contributions made subsequent to measurement date are recorded in the statement of activities, but not reported in the governmental funds until paid	(1,157,751)
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Change in pension expense related to deferred items	279,951
---	---------

Compensated absences and early retirement incentives are recorded when earned in the statement of activities. In the current year, more paid out than earned	55,123
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Deferred charges reported as expenditures in the governmental funds are capitalized in the statement of activities	(166,668)
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<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>2,221,002</b>
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## **Gull Lake Community Schools**

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### **Fiduciary Funds Statement of Fiduciary Assets and Liabilities June 30, 2016**

	<u>Agency Funds</u>
<b>Assets</b> - Cash and investments	<u>\$ 400,884</u>
<b>Liabilities</b> - Due to student groups	<u>\$ 400,884</u>



# **Gull Lake Community Schools**

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## **Notes to Financial Statements June 30, 2016 and 2015**

### **Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Gull Lake Community Schools (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District.

#### **Reporting Entity**

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity and which organizations are legally separate component units of the School District. Based on the application of the criteria, the School District does not contain any component units. In previous years, the Gull Lake Community Schools Foundation was included in the School District's financial statements as a discretely presented component unit. The Foundation no longer meets the criteria to be considered a component unit, and thus is no longer included in the School District's financial statements.

#### **District-wide and Fund Financial Statements**

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

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

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

# **Gull Lake Community Schools**

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## **Notes to Financial Statements June 30, 2016 and 2015**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed fund balance, assigned fund balance, and unassigned fund balance.

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

**Fund 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. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

# **Gull Lake Community Schools**

## **Notes to Financial Statements June 30, 2016 and 2015**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Fiduciary fund statements are also 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 the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

**Capital Project Fund** - The 2016 Capital Projects Fund is used to record bond proceeds, non-bond proceeds, or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and various improvements. The fund operates until the purposes for which it was created are accomplished.

Additionally, the School District reports the following fund types:

**Special Revenue Fund** - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's special revenue fund accounts for the School District's food service activities. Revenue sources for the special revenue fund include sales to customers and dedicated grants from state and federal sources. Any operating deficit generated by these activities is the responsibility of the General Fund.

**Debt Service Funds** - The School District maintains four governmental debt service funds, which account for property tax, state aid, and other revenue legally restricted for payment of long-term debt principal, interest, and other expenditures.

**Capital Project Funds** - The School District maintains four nonmajor governmental capital project funds. The 2012 Capital Projects Fund, the 2015 Capital Projects Fund, and the Building and Site Fund. These funds are used to record bond proceeds, non-bond proceeds, or other revenue and the disbursement of invoices specifically designated for acquiring new school sites, buildings, equipment, and various improvements. These funds operate until the purposes for which they were created are accomplished.

The 2014 Sinking Fund capital projects fund records capital project activities funded with sinking fund millage.

**Agency Fund** - The School District presently maintains an Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trusts for the students.

# **Gull Lake Community Schools**

## **Notes to Financial Statements June 30, 2016 and 2015**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Position or Equity**

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

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

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on December 1. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventory recorded in the General Fund consists of centrally warehoused operating supplies for the School District. The Hot Lunch Fund inventory consists of food and paper goods. Inventories of governmental funds are recorded as expenditures when consumed.

**Restricted Assets** - The unspent bond proceeds and related interest of the Capital Projects Funds require amounts to be set aside for construction. In addition, the unspent property taxes levied in the Debt Service Funds and Sinking Fund are required to be set aside for future bond principal and interest and approved Sinking Fund projects, respectively. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

# **Gull Lake Community Schools**

## **Notes to Financial Statements June 30, 2016 and 2015**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	3 to 10 years

**Compensated Absences and Early Termination Benefits** - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

A liability for early termination benefits is reported in the district-wide statements. The early termination benefits consist of early retirement incentive cash payments provided to five employees over a three-year period. The cost of the obligation is reported in long-term obligations.

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

# **Gull Lake Community Schools**

## **Notes to Financial Statements June 30, 2016 and 2015**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of net position includes a separate section for deferred outflows of resources, which represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has two items that qualify for reporting in this category. The School District has a deferred charge on refunding reported in the district-wide statement of net position. A deferred charge on refunding results from the difference between the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded debt or refunding debt. The other item is the deferred outflow related to the School District's participation in the statewide pension plan, as disclosed in Note 10.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The School District has two types of these items, which arise only under a full accrual basis of accounting, that qualifies for reporting in this category. Deferred inflows at June 30, 2016 include \$1,157,751 for funding received through State Appropriations for contributions to the MPSERS pension plan after measurement date and \$141,343 related to the pension plan described in Note 10. The School District has one type of these items, which arise only under the modified accrual basis of accounting, that qualifies for reporting in this category.

**Fund Balance** - In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable:** Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- **Restricted:** Amounts that are legally restricted by outside parties, constitutional provisions or enabling legislation for use for a specific purpose
- **Committed:** Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.
- **Assigned:** Intent to spend resources on specific purposes expressed by the Board of Education, or by the superintendent or assistant superintendent, who is authorized by resolution and approved by the Board of Education

# **Gull Lake Community Schools**

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## **Notes to Financial Statements June 30, 2016 and 2015**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

- **Unassigned:** Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed or assigned to those purposes.

**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 at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

**Comparative Data/Reclassifications** - Comparative data are not included in the School District's financial statements.

**Pensions** - 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. MPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Related plan investments are reported at fair value.

**Adoption of New Standard** - As of June 30, 2016, the Organization adopted Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, and No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 79 provides guidance for determining whether certain investment pools can continue to be accounted for using amortized cost. The adoption did not have a significant impact on amounts reported in the financial statements.

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund and all Special Revenue Funds, except that capital outlay and debt service costs are budgeted by function and athletics revenue is presented separately from local revenue. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District changed budgeted amounts during the year in response to changes in state funding, pupil counts, and staffing.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as restrictions, commitments, or assignments of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year. There were no significant encumbrances outstanding at June 30, 2016.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The School District incurred expenditures in the General Fund which were in excess of the amounts budgeted as follows:

	Budget	Actual
Business	\$ 670,113	\$ 674,458
Operations and maintenance	2,473,199	2,687,300
Technology, information, and other	602,603	735,203

**Capital Projects Fund Compliance** - The 2012 Capital Projects Fund, 2015 Capital Projects Fund, and 2016 Capital Projects Fund include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351a of the State of Michigan's School Code.

**Sinking Fund Compliance** - For this fund, the School District has complied with the applicable provisions of §1212(1) of the State of Michigan School Code and the State of Michigan Department of Treasury Letter No. 01-95.



# **Gull Lake Community Schools**

## **Notes to Financial Statements June 30, 2016 and 2015**

### **Note 3 - Deposits and Investments**

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 offices 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. The School District's deposits are in accordance with statutory authority.

The School District has designated two banks for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk of bank deposits 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 of bank deposits. At year end, the School District's deposit balance of \$9,021,315 had \$8,521,315 of bank deposits (including certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The School District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment policy does not address custodial credit risk of investments. The School District has no investments subject to custodial credit risk as of June 30, 2016.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy restricts investment maturities to within two years of the date of purchase. In addition, the policy restricts investments in commercial paper, which can only be purchased with a 270-day maturity.

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 3 - Deposits and Investments (Continued)

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

At year end, the investments are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Michigan Liquid Asset Fund - MAX Class	\$ 139,166	N/A	AAAm	S&P
Michigan Liquid Asset Fund - Cash Management	1,391	N/A	AAAm	S&P
Total investments	<u>\$ 140,557</u>			

**Investment Restrictions** - The Michigan Liquid Asset Fund - MAX Class investment may not be redeemed for at least 14 calendar days with the exception of direct investments of funds distributed by the State of Michigan. In addition, redemptions made prior to the 14-day period are subject to a penalty equal to 15 days interest on the amount so redeemed. The Michigan Liquid Asset Fund - CMS investment has no limitations or restrictions on participant withdrawals except for a one-day minimum investment period.

**Concentration of Credit Risk** - The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy does not address ways to minimize concentration of credit risk.

**Foreign Currency Risk** - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

### Note 4 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the School District's individual major funds and the nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor Funds	Total
Receivables:			
Intergovernmental	\$ 4,829,048	\$ 7,206	\$ 4,836,254
Other	<u>-</u>	<u>10,712</u>	<u>10,712</u>
Total receivables	<u>\$ 4,829,048</u>	<u>\$ 17,918</u>	<u>\$ 4,846,966</u>

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 4 - Receivables and Unavailable/Unearned Revenue (Continued)

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

	Governmental Funds Liability - Unearned
Grant and categorical aid payment received prior to meeting all eligibility requirements	\$ 347,336
Food Service unearned revenue	1,085
Total	<u>\$ 348,421</u>

### Note 5 - Capital Assets

Capital asset activity of the School District was as follows:

	Balance July 1, 2015	Additions/ Transfers	Disposals/ Transfers	Balance June 30, 2016
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 104,400	\$ 187,840	\$ -	\$ 292,240
Construction in progress	-	586,177	-	586,177
Subtotal	104,400	774,017	-	878,417
Capital assets being depreciated:				
Buildings and building improvements	53,483,079	268,918	-	53,751,997
Furniture and equipment	7,625,084	709,690	-	8,334,774
Buses and other vehicles	2,837,194	188,433	221,842	2,803,785
Subtotal	63,945,357	1,167,041	221,842	64,890,556
Accumulated depreciation:				
Buildings and building improvements	11,987,986	985,687	-	12,973,673
Furniture and equipment	3,963,649	393,873	-	4,357,522
Buses and other vehicles	2,243,241	197,440	221,842	2,218,839
Subtotal	18,194,876	1,577,000	221,842	19,550,034
Net capital assets being depreciated	45,750,481	(409,959)	-	45,340,522
Net capital assets	<u>\$ 45,854,881</u>	<u>\$ 364,058</u>	<u>\$ -</u>	<u>\$ 46,218,939</u>

## Gull Lake Community Schools

### Notes to Financial Statements June 30, 2016 and 2015

#### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:

Instruction	\$ 602,672
Support services	877,557
Community services	3,924
Food services	10,284
Athletics	82,563
Total governmental activities	<u>\$ 1,577,000</u>

**Construction Commitments** - The School District has active construction projects at year end. At year end, the School District's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Administration and gateway building	\$ 263,622	\$ 1,645,802
Kellogg sewer	96,673	5,088
Tennis courts	288,536	289,364
Bedford exterior reconstruction	34,019	6,398
Total	<u>\$ 682,850</u>	<u>\$ 1,946,652</u>

#### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Building and Site Fund	General Fund	<u>\$ 400,000</u>

  

<u>Transfer In Fund</u>	<u>Transfer Out Fund</u>	<u>Amount</u>
Building and Site Fund	General Fund	<u>\$ 400,000</u>

Operating transfers from the General fund are to provide support for nonbond-funded capital projects.

Interfund transfers were made from the Food Service Fund to the General Fund in the amount of \$25,000 to reimburse the General Fund for indirect costs related to the food service activities.

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 7 - Long-term Obligations

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. Qualified bonds are fully guaranteed by the State of Michigan. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences, termination benefits, and accrued interest on capital appreciation bonds.

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
Bonds	\$ 34,660,000	\$ 4,350,000	\$ 2,630,000	\$ 36,380,000	\$ 3,075,000
Deferred amounts:					
Issuance premiums	1,139,067	54,559	184,894	1,008,732	189,895
Issuance discounts	(109,102)	-	(13,772)	(95,330)	(13,772)
Deferred charges on bond refunding	(1,281,261)	-	(166,668)	(1,114,593)	(166,668)
Total bonds payable	34,408,704	4,404,559	2,634,454	36,178,809	3,084,455
Compensated absences	361,666	-	5,123	356,543	-
Early retirement incentive	150,000	-	50,000	100,000	50,000
Capital lease payable	71,389	-	71,389	-	-
Total governmental activities	<u>\$ 34,991,759</u>	<u>\$ 4,404,559</u>	<u>\$ 2,760,966</u>	<u>\$ 36,635,352</u>	<u>\$ 3,134,455</u>

Annual debt service requirements to maturity for the above bonds obligations are as follows:

<u>Years Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,075,000	\$ 1,285,594	\$ 4,360,594
2018	3,175,000	1,201,669	4,376,669
2019	3,105,000	1,106,869	4,211,869
2020	3,165,000	1,011,619	4,176,619
2021	3,270,000	898,569	4,168,569
2022-2026	12,475,000	3,020,019	15,495,019
2027-2031	8,115,000	840,056	8,955,056
Total	<u>\$ 36,380,000</u>	<u>\$ 9,364,395</u>	<u>\$ 45,744,395</u>

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 7 - Long-term Obligations (Continued)

#### Governmental Activities

General obligation bonds consist of the following:

\$10,000,000 2006 Refunding Bonds, due in annual installments of \$70,000 to \$2,050,000 from 2024 through 2026; interest at 4.00 percent to 4.125 percent	\$ 9,725,000
\$9,200,000 2007 Refunding Bonds, due in annual installments of \$65,000 to \$1,910,000 from 2018 through 2026; interest at 4.00 percent	9,010,000
\$4,600,000 2012 School Building and Site Bonds due in annual installments of \$475,000 to \$500,000 through 2024; interest at 3.00 percent	3,875,000
\$9,375,000 2013 Series B Refunding Bonds, due in annual installments of \$1,000,000 to \$1,500,000 through 2021; interest at 4.00 percent to 5.00 percent	6,645,000
\$5,405,000 2013 Series A Refunding Bonds, due in annual installments of \$545,000 to \$670,000 through 2021; interest at 2.00 percent to 2.50 percent	3,000,000
\$1,200,000 2015 Series B School Building and Site Bonds, due in annual installments of \$160,000 to \$245,000 through 2021; interest at 0.50 percent to 1.00 percent	975,000
\$3,150,000 2016 School Improvement and Bus Bonds, due in annual installments of \$235,000 to \$405,000 through 2026; interest at 2.00 percent	<u>3,150,000</u>
Total bonded debt	<u>\$ 36,380,000</u>

On May 8, 2012, the School District successfully passed a bond proposal, to be repaid with the proceeds from a 0.29 mill tax levy, which equates to \$7,290,000 over a 12-year period. The bond proceeds will be dedicated to instructional technology for student and teacher use in the classroom, as well as facility upgrades in the areas of energy efficiency, safety, and infrastructure. The School District received bond proceeds of \$4,890,000 and \$1,200,000 during the years ended June 30, 2013 and 2016, respectively. The School District anticipates receiving additional bond proceeds in the amount of \$1,200,000 in 2018.

**Prior Bond Defeasances** - In prior years, the School District defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts assets and liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2016, \$10,615,000 of bonds outstanding are considered defeased.

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities
Unspent bond proceeds and related interest	\$ 658,799
Unspent debt service funds	898,730
Unspent sinking fund millage	742,485
Total restricted assets	<u>\$ 2,300,014</u>

### Note 9 - Risk Management

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

### Note 10 - Michigan Public School Employees' Retirement System

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPERS or the "System"), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The System provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System (ORS) at 7150 Harris Drive, P.O. Box 30171, Lansing MI 48909.

**Contributions** - Public Act 300 of 1980, as amended, required the School District to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by state statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 10 - Michigan Public School Employees' Retirement System (Continued)

School District's contributions are determined based on employee elections. There are seven different benefit options included in the plan available to employees based on date of hire. Contribution rates are adjusted annually by the ORS.

The range of rates are as follows:

#### School District

October 1, 2014 - September 30, 2015	18.76% - 23.07%
October 1, 2015 - June 30, 2016	14.56% - 18.95%

Depending on the plan selected, plan member contributions range from 0 percent up to 7.0 percent of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's required and actual contribution to the plan for the year ended June 30, 2016 was \$4,150,629. The School District required and actual contributions include an allocation of \$1,157,751 revenue received from the State of Michigan, and remitted to the system, to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2016.

**Benefits Provided** - Benefit provisions of the defined benefit pension plan are established by state statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan.

Depending on the plan option selected, member retirement benefits are calculated as final average compensation, times years of service, times a pension factor ranging from 1.25 percent to 1.50 percent. The requirements to retire range from attaining the age of 46 to 60 with years of service ranging from 5 to 30 years, depending on when the employee became a member. Early retirement is computed in the same manner as a regular pension, but is permanently reduced 0.50 percent for each full and partial month between the pension effective date and the date the member will attain age 60. There is no mandatory retirement age.

Members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. The disability benefits plus authorized outside earnings are limited to 100 percent of the participant's final average compensation with an increase of 2 percent each year thereafter.

Benefits may transfer to a beneficiary upon death and are determined in the same manner as retirement benefits, but with an actuarial reduction.



# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 10 - Michigan Public School Employees' Retirement System (Continued)

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3 percent. For some members who do not receive an annual increase, they are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions.

**Net Pension Liability, Deferrals, and Pension Expense** - At June 30, 2016, the School District reported a liability of \$42,440,037 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 as of September 30, 2014, which used update procedures to roll forward the estimated liability to September 30, 2015. The School District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015, the School District's proportion was 0.173756 percent.

For the year ended June 30, 2016, the School District recognized pension expense of \$4,077,937, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. 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 Resources
Difference between expected and actual experience	\$ -	\$ 140,574
Changes of assumptions	1,044,964	-
Net difference between projected and actual earnings on pension plan assets	216,622	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	1,824,878	769
The School District's contributions subsequent to the measurement date	3,254,853	-
Total	<u>\$ 6,341,317</u>	<u>\$ 141,343</u>

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 10 - Michigan Public School Employees' Retirement System (Continued)

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

<u>Years Ending June 30</u>	<u>Amount</u>
2017	\$ 609,935
2018	609,935
2019	553,319
2020	<u>1,171,932</u>
Total	<u>\$ 2,945,121</u>

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year.

**Actuarial Assumptions** - The total pension liability as of September 30, 2015 is based on the results of an actuarial valuation date of September 30, 2014 and rolled forward:

Actuarial cost method	Entry age normal cost actuarial cost method
Investment rate of return	7.00 to 8.00 percent, net of investment expenses based on the groups
Salary increases	3.50 to 12.3 percent, including wage inflation of 3.5 percent
Mortality basis	RP 2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2025 using projection scale BB
Cost of living pension adjustments	3 percent annual noncompounded for MIP members

The actuarial assumptions used for the September 30, 2014 valuation were based on the results of an actuarial experience study for the period from October 1, 2007 to September 30, 2012. As a result of this study, the actuarial assumptions were adjusted to more closely reflect actual experience.

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 10 - Michigan Public School Employees' Retirement System (Continued)

**Discount Rate** - The discount rate used to measure the total pension liability was 7.00 to 8.00 percent depending on the plan option. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

Investment Category	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity pools	28.0 %	5.9 %
Private equity pools	18.0	9.2
International equity pools	16.0	7.2
Fixed-income pools	10.5	0.9
Real estate and infrastructure pools	10.0	4.3
Real return, opportunistic, and absolute pool	15.5	6.0
Short-term investment pools	2.0	-
Total	100.0 %	

# Gull Lake Community Schools

## Notes to Financial Statements June 30, 2016 and 2015

### Note 10 - Michigan Public School Employees' Retirement System (Continued)

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the net pension liability of the School District calculated using the discount rate of 7.00 to 8.00 percent, depending on the plan option. The following also reflects what the School District's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower (6.0 to 7.0 percent) or 1.00 percentage point higher (8.0 to 9.0 percent) than the current rate:

1.00 Percent Decrease (6.0 to 7.0 Percent)	Current Discount Rate (7.0 to 8.0 Percent)	1.00 Percent Increase (8.0 to 9.0 Percent)
\$ 54,716,088	\$ 42,440,037	\$ 32,090,824

**Pension Plan Fiduciary Net Position** - Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS financial report.

**Payable to the Pension Plan** - At June 30, 2016, the School District reported a payable of \$550,594 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2016.

**Postemployment Benefits Other Than Pensions (OPEB)** - Under the MPSERS act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate ranged from 2.2 to 2.71 percent of covered payroll for the period from July 1, 2015 to September 30, 2015 and from 6.4 percent to 6.83 percent of covered payroll for the period from October 1, 2015 through June 30, 2016 dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3 percent of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3 percent contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2 percent employee contribution into their 457 account as of their transition date and create a 2 percent employer match into the employee's 403B account.

# **Gull Lake Community Schools**

## **Notes to Financial Statements June 30, 2016 and 2015**

### **Note 10 - Michigan Public School Employees' Retirement System (Continued)**

The School District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016, 2015, and 2014 were approximately \$828,000, \$700,000, and \$1,168,000, respectively. In addition, a portion ranging from 35-100 percent of the the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate is considered a contribution to the retiree healthcare plan.

### **Note 11 - State Aid Anticipation Note**

On August 20, 2015, the School District borrowed \$2,100,000 on a Series C state aid anticipation note. The note bears interest at 0.99 percent and is maturing on July 20, 2016. The School District had \$1,691,119 withheld from state aid payments prior to June 30, 2016 for repayment of the note. The liability recorded at year end includes the outstanding principal balance plus accrued interest, net of amounts withheld, totaling \$419,875.

### **Note 12 - Upcoming Accounting Pronouncements**

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

### **Note 13 - Subsequent Events**

In August 2016, the School District borrowed \$2,000,000 on a Series C state aid anticipation note at an effective interest rate of 1.133 percent, maturing on July 20, 2017. The School District will have funds withheld from its monthly state aid payments which will be deposited with a bank for repayment of the note.

## **Required Supplemental Information**

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# Gull Lake Community Schools

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenue</b>				
Local sources	\$ 4,041,986	\$ 4,018,722	\$ 4,145,896	\$ 127,174
State sources	23,689,469	25,625,982	25,556,221	(69,761)
Federal sources	389,617	352,960	250,389	(102,571)
Interdistrict sources	2,707,607	2,895,262	2,923,368	28,106
Athletic revenue	128,375	139,082	78,509	(60,573)
Total revenue	30,957,054	33,032,008	32,954,383	(77,625)
<b>Expenditures - Current</b>				
Instruction:				
Basic program	16,530,975	17,807,358	17,433,018	(374,340)
Added needs	1,860,869	2,010,213	1,984,863	(25,350)
Support services:				
Pupil	1,826,398	1,779,106	1,742,139	(36,967)
Instructional staff	946,047	988,061	853,861	(134,200)
General administration	719,101	662,869	618,564	(44,305)
School administration	1,710,846	1,726,076	1,716,205	(9,871)
Business	606,380	670,113	674,458	4,345
Operations and maintenance	2,462,756	2,473,199	2,687,300	214,101
Pupil transportation services	1,618,845	1,608,429	1,509,912	(98,517)
Technology, information, and other	500,979	602,603	735,203	132,600
Athletics	513,229	495,480	482,236	(13,244)
Community services	1,219,534	1,499,188	1,436,290	(62,898)
Interfund reimbursement	(25,000)	(25,000)	(25,000)	-
Total expenditures	30,490,959	32,297,695	31,849,049	(448,646)
<b>Excess of Revenue Over Expenditures</b>	466,095	734,313	1,105,334	371,021
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	-	-	5,098	5,098
Transfers out	(353,000)	(422,615)	(400,000)	22,615
<b>Net Change in Fund Balance</b>	113,095	311,698	710,432	398,734
<b>Fund Balance - Beginning of year</b>	2,676,722	2,676,722	2,676,722	-
<b>Fund Balance - End of year</b>	<u>\$ 2,789,817</u>	<u>\$ 2,988,420</u>	<u>\$ 3,387,154</u>	<u>\$ 398,734</u>

## **Gull Lake Community Schools**

### **Required Supplemental Information Schedule of Gull Lake Community Schools's Proportionate Share of the Net Pension Liability Michigan Public School Employees' Retirement System Determined as of the Plan Year Ended September 30**

	2015	2014
School District's proportion of the net pension liability	0.17376 %	0.16435 %
School District's proportionate share of the net pension liability	\$ 42,440,037	\$ 36,199,942
School District's covered employee payroll	14,453,392	13,319,013
School District's proportionate share of the net pension liability as a percentage of its covered employee payroll	293.63 %	271.79 %
Plan fiduciary net position as a percentage of the total pension liability	62.92 %	66.20 %



## **Gull Lake Community Schools**

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### **Required Supplemental Information Schedule of Gull Lake Community Schools's Contributions Michigan Public School Employees Retirement System Determined as of the Year Ended June 30**

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 4,107,034	\$ 2,552,503
Contributions in relation to the statutorily required contribution	4,107,034	2,552,503
Contribution deficiency	-	-
School District's covered employee payroll	14,858,598	13,566,153
Contributions as a percentage of covered employee payroll	27.64 %	18.82 %

## **Gull Lake Community Schools**

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### **Note to Pension Required Supplemental Information Schedules Year Ended June 30, 2016**

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

**Changes in Assumptions** - There were no changes of benefit assumptions for the plan year ended September 30, 2015.

## **Other Supplemental Information**

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# Gull Lake Community Schools

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2016

	Special Revenue Fund	Debt Service Funds					Capital Projects Funds				Total Nonmajor Governmental Funds			
		2006 Debt Service Fund	2007 Debt Service Fund	2012 Debt Service Fund	2013 Debt Service Fund	2015 Debt Service Fund	2012 Capital Projects Fund	2015 Capital Projects Fund	2014 Sinking Fund	Building and Site Fund				
Assets														
Cash and cash equivalents	\$ 164,139	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 164,139
Receivables	17,918	-	-	-	-	-	-	-	-	-	-	-	-	17,918
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	400,000	-	400,000
Inventories	12,277	-	-	-	-	-	-	-	-	-	-	-	-	12,277
Prepaid costs and other assets	50,000	-	-	-	-	-	-	-	-	-	-	-	-	50,000
Restricted assets	-	221,328	197,364	96,301	328,212	55,525	152,766	506,033	742,485	-	-	-	-	2,300,014
Total assets	\$ 244,334	\$ 221,328	\$ 197,364	\$ 96,301	\$ 328,212	\$ 55,525	\$ 152,766	\$ 506,033	\$ 742,485	\$ 400,000	\$ 2,944,348			
Liabilities and Fund Balances														
Liabilities														
Accounts payable	\$ 20,839	\$ -	\$ -	\$ -	\$ 217	\$ -	\$ -	\$ 10,129	\$ 365,915	\$ -	\$ -	\$ -	\$ -	\$ 397,100
Accrued payroll-related liabilities	11,506	-	-	-	-	-	-	-	-	-	11,506	-	-	11,506
Unearned revenue	1,085	-	-	-	-	-	-	-	-	-	-	-	-	1,085
Total liabilities	33,430	-	-	-	217	-	-	10,129	365,915	-	409,691			
Fund Balances														
Nonspendable:														
Inventories	12,277	-	-	-	-	-	-	-	-	-	-	-	-	12,277
Prepaid costs	50,000	-	-	-	-	-	-	-	-	-	-	-	-	50,000
Restricted:														
Capital projects	-	-	-	-	-	-	152,766	495,904	376,570	-	1,025,240			
Debt service	-	221,328	197,364	96,301	327,995	55,525	-	-	-	-	898,513			
Food services	148,627	-	-	-	-	-	-	-	-	-	148,627			
Assigned - Capital projects	-	-	-	-	-	-	-	-	-	400,000	400,000			
Total fund balances	210,904	221,328	197,364	96,301	327,995	55,525	152,766	495,904	376,570	400,000	2,534,657			
Total liabilities and fund balances	\$ 244,334	\$ 221,328	\$ 197,364	\$ 96,301	\$ 328,212	\$ 55,525	\$ 152,766	\$ 506,033	\$ 742,485	\$ 400,000	\$ 2,944,348			

# Gull Lake Community Schools

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances General Fund Year Ended June 30, 2016

	Special Revenue Fund	Debt Service Funds						Capital Projects Fund			Total
		2006 Debt Service Fund	2007 Debt Service Fund	2012 Debt Service Fund	2013 Debt Service Fund	2015 Debt Service Fund	2012 Capital Projects Fund	2015 Capital Projects Fund	2014 Sinking Fund	Building and Site Fund	Nonmajor Governmental Funds
<b>Revenue</b>											
Local sources	\$ 604,841	\$ 390,202	\$ 353,000	\$ 436,719	\$ 2,406,720	\$ 288,237	\$ -	\$ 24	\$ 605,488	\$ -	\$ 5,085,231
State sources	41,934	-	-	-	-	-	-	-	-	-	41,934
Federal sources	453,477	-	-	-	-	-	-	-	-	-	453,477
	<u>1,100,252</u>	<u>390,202</u>	<u>353,000</u>	<u>436,719</u>	<u>2,406,720</u>	<u>288,237</u>	<u>-</u>	<u>24</u>	<u>605,488</u>	<u>-</u>	<u>5,580,642</u>
<b>Expenditures</b>											
Current:											
Support services	-	-	-	-	-	-	-	-	148	-	148
Food services	1,030,528	-	-	-	-	-	-	-	-	-	1,030,528
Interfund reimbursement	25,000	-	-	-	-	-	-	-	-	-	25,000
Debt service:											
Principal	-	-	-	315,000	2,090,000	225,000	-	-	-	-	2,630,000
Interest	-	399,444	361,203	125,800	400,221	7,712	-	-	-	-	1,294,380
Capital outlay	13,154	-	-	-	-	-	29,617	704,120	668,020	-	1,414,911
	<u>1,068,682</u>	<u>399,444</u>	<u>361,203</u>	<u>440,800</u>	<u>2,490,221</u>	<u>232,712</u>	<u>29,617</u>	<u>704,120</u>	<u>668,168</u>	<u>-</u>	<u>6,394,967</u>
Total expenditures											
	31,570	(9,242)	(8,203)	(4,081)	(83,501)	55,525	(29,617)	(704,096)	(62,680)	-	(814,325)
<b>Excess of Revenue Over (Under)</b>											
Expenditures											
Transfers in	-	-	-	-	-	-	-	-	-	400,000	1,600,000
Face value of debt issued	-	-	-	-	-	-	-	1,200,000	-	-	400,000
Total other financing sources	-	-	-	-	-	-	-	1,200,000	-	400,000	1,600,000
<b>Net Change in Fund Balances</b>	31,570	(9,242)	(8,203)	(4,081)	(83,501)	55,525	(29,617)	495,904	(62,680)	400,000	785,675
<b>Fund Balances - Beginning of year</b>	179,334	230,570	205,567	100,382	411,496	-	182,383	-	439,250	-	1,748,982
<b>Fund Balances - End of year</b>	<u>\$ 210,904</u>	<u>\$ 221,328</u>	<u>\$ 197,364</u>	<u>\$ 96,301</u>	<u>\$ 327,995</u>	<u>\$ 55,525</u>	<u>\$ 152,766</u>	<u>\$ 495,904</u>	<u>\$ 376,570</u>	<u>\$ 400,000</u>	<u>\$ 2,534,657</u>

# Gull Lake Community Schools

## Other Supplemental Information Schedule of Bonded Indebtedness June 30, 2016

June 30	2006		2007 Refunding Bonds		2012 Building and Site Bonds		2013 Series B Refunding Bonds		2013 Series A Refunding Bonds		2015 Series B Building and Site Bonds		2016 School Improvement Bonds	
	Refunding Bonds		Bonds		and Site Bonds		Refunding Bonds		Refunding Bonds		Building and Site Bonds		Improvement Bonds	
	Principal		Principal		Principal		Principal		Principal		Principal		Principal	
2017	\$ -	\$ -		\$ -	\$ 475,000	\$ 475,000	\$ 1,330,000	\$ 670,000	\$ 245,000	\$ 245,000	\$ 355,000			
2018	-	65,000		65,000	475,000	475,000	1,385,000	635,000	245,000	245,000	370,000			
2019	-	70,000		70,000	475,000	475,000	1,430,000	585,000	160,000	160,000	385,000			
2020	-	70,000		70,000	475,000	475,000	1,500,000	565,000	160,000	160,000	395,000			
2021	-	680,000		680,000	475,000	475,000	1,000,000	545,000	165,000	165,000	405,000			
2022	-	1,885,000		1,885,000	500,000	500,000	-	-	-	-	235,000			
2023	-	1,895,000		1,895,000	500,000	500,000	-	-	-	-	240,000			
2024	70,000	1,905,000		1,905,000	500,000	500,000	-	-	-	-	250,000			
2025	75,000	1,910,000		1,910,000	-	-	-	-	-	-	255,000			
2026	1,465,000	530,000		530,000	-	-	-	-	-	-	260,000			
2027	1,985,000	-		-	-	-	-	-	-	-	-			
2028	2,045,000	-		-	-	-	-	-	-	-	-			
2029	2,050,000	-		-	-	-	-	-	-	-	-			
2030	2,035,000	-		-	-	-	-	-	-	-	-			
Total	\$ 9,725,000	\$ 9,010,000		\$ 9,010,000	\$ 3,875,000	\$ 6,645,000	\$ 3,000,000	\$ 975,000	\$ 3,150,000					
Principal payments due	May 1	May 15		May 15	May 1	May 1	May 1	May 1	May 1	May 1	May 1			
Interest payments due	May 1 and Nov. 1	May 15		May 15	May 1 and Nov. 1	May 1 and Nov. 1	May 1 and Nov. 1	May 1 and Nov. 1	May 1 and Nov. 1	May 1 and Nov. 1	May 1 and Nov. 1			
Interest rate	4.00% to 4.125%	4.00%		4.00%	3.00%	4.00% to 5.00%	2.00% to 2.50%	0.50% to 1.00%	0.50% to 1.00%	0.50% to 1.00%	2.00%			
Original issue	\$10,000,000	\$ 9,200,000		\$ 9,200,000	\$ 4,600,000	\$ 9,395,000	\$ 5,405,000	\$ 1,200,000	\$ 3,150,000	\$ 3,150,000				