NILES COMMUNITY SCHOOLS
FINANCIAL STATEMENTS
Year Ended June 30, 2015

NILES COMMUNITY SCHOOLS

NILES, MICHIGAN

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SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Niles Community Schools
Niles, Michigan

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

Significant Change in Accounting for Net Pension Liability

As more fully discussed in Notes I and M to the financial statements, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* , during the year ended June 30, 2015. As a result, the financial statements now recognize the District's unfunded defined pension benefit obligation as a liability for the first time and more comprehensively and comparably measures the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The effect of this change has significantly decreased the District's net position. Our opinion is not modified with respect to this matter.

Additionally, as more fully discussed in Notes I and M to the financial statements, the District implemented GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68* , during the year. As a result, the District recognized a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule 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 an opinion on the financial statements that collectively comprise Niles Community Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued, under separate cover, our report dated October 15, 2015, on our consideration of Niles Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing Niles Community Schools' internal control over financial reporting and compliance.

Scafone & Co., P.C.

October 15, 2015

As management of the Niles Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the notes and financial statements, which follow this section.

As with other sections of this financial report, the information contained within this MD&A should be considered only a part of a greater whole. The readers of this statement should take time to read and evaluate all sections of this report, including the footnotes and the other Required Supplemental Information ("RSI") that is provided in addition to this MD&A.

FINANCIAL HIGHLIGHTS

The $39,753,302 in deficit unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Without the effects of GASB Statement No. 68, the District's total net position would be $8,230,822. This amount enables the District to meet working capital and cash flow requirements as well as provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position (deficit) from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities as summarized in Table 2 which shows the changes in net position for the fiscal years 2015 and 2014.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Niles Community Schools' basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. The report also includes other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Niles Community Schools' finances, in a manner similar to a private-sector business.

1) The Statement of Net Position
This statement reports all assets and liabilities of the District as of June 30, 2015. The difference between total assets and total liabilities is reported as "net position." Increases in net position generally indicates an improvement in financial position while a decrease may indicate a deterioration of financial position.

2) The Statement of Activities
This statement serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the District for the year ended June 30, 2015. Changes in net position are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the District's various programs net of the related revenues, as well as a separate presentation of revenues available for general purposes.

OVERVIEW OF FINANCIAL STATEMENTS-CONCLUDED

Both of the government-wide financial statements distinguish functions of the District that are principally supported by intergovernmental revenues (pupil allowance), taxes and other functions that are intended to recover all or a significant portion of their costs through user fees and charges. The major governmental activities of Niles Community Schools include major instructional and instructional support activities. Other relevant governmental funds include Capital Projects and the Food Service Fund.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other Michigan schools, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual."

Governmental funds

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

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the school district's government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The District has one fiduciary fund, the School Activity Agency Fund.

Notes to the financial statements

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

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information. The combining statements referred to earlier in connection with nonmajor funds and fiduciary funds are presented immediately after the basic financial statements. Also included are budget comparisons for the general fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The statement of net position (deficit) provides the perspective of the District as a whole. A summary of the District's net position (deficit) as of June 30, 2015 and 2014 is as follows:

Table 1
Statement of Net Position (Deficit)
Governmental Activities

	2015	2014
Assets		
Current and other assets	$ 12,004,110	$ 10,931,559
Capital assets (net)	6,214,679	6,227,043
Total assets	18,218,789	17,158,602
Deferred outflows of resources-pension	4,896,181	3,222,658
Total assets and deferred outflows of resources	23,114,970	20,381,260
Liabilities		
Current liabilities	7,266,144	7,258,142
Long-term liabilities	2,721,823	1,867,029
Net pension liability	43,113,263	45,863,089
Total liabilities	53,101,230	54,988,260
Deferred inflows of resources-pension	4,766,189	-
Total liabilities and deferred inflows of resources	57,867,419	54,988,260
Net Position (Deficit)		
Net investment in capital assets	3,778,179	4,595,043
Restricted	1,222,674	732,364
Unrestricted	(39,753,302)	(39,934,407)
Total net position (deficit)	$ (34,752,449)	$ (34,607,000)

The financial analysis will focus on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

As noted earlier, net position (deficit) may serve over time as a useful indicator of a government's financial position. At June 30, 2015, the District's net position (deficit) was $(34,752,449).

A portion of the District's net position (deficit), $1,222,674, represents resources subject to external restrictions on how they may be used.

GOVERNMENT-WIDE FINANCIAL ANALYSIS- CONTINUED

Another portion of the District's net position, $3.8 million reflects its investment in capital assets less depreciation and any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services which in turn leave these assets not available for future spending.

Table 2
Changes in Net Position (Deficit)

	2015	2014
Program Revenues:		
Charges for services	$ 1,877,692	$ 1,879,228
Operating grants and contributions	5,890,811	5,715,379
General Revenues:		
Property taxes	3,817,401	3,664,610
Michigan State Aid	27,457,240	26,512,601
Delinquent taxes	-	(247,557)
Other revenues	180,905	219,039
Total revenues	39,224,049	37,743,300
Expenses:		
Instruction	21,771,226	20,880,899
Support	14,834,042	14,748,653
Community services	537,694	549,022
Food service	1,564,808	1,655,969
Interest on short & long-term debt	47,333	50,090
Athletics	614,395	559,615
Total expenses	39,369,498	38,444,248
Decrease in net position	(145,449)	(700,948)
Net position (deficit), beginning of year	(34,607,000)	8,734,379
Impact of GASB Statement Nos. 68 and 71	-	(42,640,431)
Net position (deficit), end of year	$ (34,752,449)	$ (34,607,000)

As required by the Government Accounting Standards Board (GASB) the District adopted Statement Nos. 68 and 71. These standards required the inclusion of the District's proportionate share of the obligations related to the Michigan Public School Employees Retirement Plan within the District's financial statements, effective July 1, 2014. The effect of the adoption of these standards was to decrease the District's beginning net position as of July 1, 2014 by approximately $42.6 million, and to include the pension obligation and related deferred inflows and outflows of resources in the June 30, 2015 financial statements. All governments participating in the retirement plan were required to adopt these new standards.

GOVERNMENTAL ACTIVITIES

Niles Community Schools is heavily reliant on state aid, grants and property taxes to support operations. State aid provided 70%, grants 15% and taxes 10% of the school district's total revenues. Also, charges for services represent 5% of governmental operating revenues. This means that the District relies on state taxpayers and federal revenues to cover 95% of the governmental activities. For school districts, in general, self-generated revenue is a relatively small percentage of total revenues.

The District’s largest category of functional expenses is related to the direct instruction of regular education, special education and other students. Instructional expenditures comprised $21.8 million or 55% of the total expenses. These costs include teacher salaries and benefits, textbooks and supplies used in instruction.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, Niles Community Schools uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds

The purpose of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District’s governmental funds reported a combined ending fund balance of $4,737,966. Of this amount, $3,158,637 (67%) is unassigned fund balance, which is available for spending at the District’s discretion. The unassigned fund balance will be used at the discretion of the School Board for revenue shortfalls, capital projects and any other unexpected expenditures.

The general fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was $3,158,637, an increase of $530,302.

Individual fund data for each of the nonmajor governmental funds is provided in the form of the combining statements in the Supplemental Information section.

Fiduciary funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. The basic fiduciary funds financial statements can be found later in this report.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District adopts an annual appropriated budget for its general fund. The final budget expenditures were less than the original budget expenditures by $.4 million. The majority of this increase was due to the State's retirement system flow through of both revenues and expenditures. The remaining increase is due mostly to an increase in grant activity for both revenues and expenditures. An amended original budget can be explained by a current budget year overrun. The general fund budget is reviewed throughout the year and is revised twice a year with the approval of the School Board. At the end of the fiscal year the actual expenditures are projected and the budget is amended to prevent any budget overruns. The District tries to work within its original budget by increasing categories that will exceed budget while decreasing other categories to cover these overruns. If the transferring will not cover these expenditures, then the District must appropriate from its fund balance.

The actual revenues are $350,352 under budget and expenditures are $447,360 under budget. The $350,352 decrease includes shortages in various accounts. The under spending of the expenditures can be attributed to shortages in various accounts. In all, the District's budget has been prepared on a conservative basis and provided adequate resources to fund services provided. All schools have limited resources and, thus limited numbers of programs and services that can be provided. We are proud to say that we have done well in terms of maintaining a solid financially sound organization by spending well within our means.

CAPITAL ASSETS

The District's investment in capital assets for its governmental activities at June 30, 2015, amounts to $6,214,679 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, automobiles and equipment. A detailed note of these capital assets can be found in the Notes to the Financial Statements (Note D).

Major capital asset additions during the current fiscal year included the following:

-- Improvements to school buildings within the school district

Table 3
Capital Assets-Governmental Activities

	2015	2014
Capital assets not being depreciated:		
Land	$ 151,500	$ 151,500
Construction in progress	-	-
	151,500	151,500
Capital assets being depreciated:		
Building	18,581,274	18,380,343
Improvements other than buildings	2,343,998	2,292,006
Equipment	1,247,448	1,247,522
Vehicles	489,927	489,927
	22,662,647	22,409,798
Less accumulated depreciation for:		
Buildings	12,734,084	12,503,102
Improvements other than buildings	2,232,146	2,211,666
Equipment	1,164,028	1,155,433
Vehicles	469,210	464,054
	16,599,468	16,334,255
Total capital assets being depreciated, net	6,063,179	6,075,543
Total capital assets, net	$ 6,214,679	$ 6,227,043

DEBT ADMINISTRATION

At June 30, 2015, the District had debt outstanding for Qualified Zone Academy Bonds in the amount of $2,436,500.

In addition to bonded debt, the school district has incurred liabilities for early retirement obligations and compensated absences earned by employees.

A detailed listing of this debt can be found in the Notes to the Financial Statements (Note G).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The general fund operating budget is a financial plan for the fiscal year commencing July 1, 2015 and ending June 30, 2016 and is made on the basis of the best estimates available at the time of preparation. Comparisons and trends are made with the projected 2014/15 final budget. General fund revenue is being budgeted $1.2 million less than FY 2014-15 amended budget without the MPSRS Rate Stabilization Funds.

Revenue

Local:

The net revenue decrease from 2014-15 is $55,580. The majority of this decrease is due to a shift from property tax revenue to State Aid payments. All other revenues in this category are being budgeted at or around 14/15 levels.

State:

The net revenue decrease from 2014-15 is $345,000 when MPSR Rate Stabilization is taken out. This includes a $140 increase to the foundation allowance and moving the categorical equity payment of $125 to the foundation. This increases the total foundation to $7,391. Per our Middle Cities student projection, we are budgeting 20 fewer students from 14-15. This decrease plus the increase in the foundation and the shift from property taxes increases the State Aid by $371,000. Elimination of best practices revenue of $194,000 and performance incentives of $155,000 and an increase of $36,000 for Retirement Relief. At this time we are also not budgeting the retirement rate stabilization funds, a decrease of $1,464,000. We anticipate these funds but at this time we cannot accurately project them. There is also a corresponding decrease in expenditures of the same amount. A decrease of $144,000 in at risk funds, this is 85% of current funding. A decrease of $171,500 of Adult Ed 107 funds which were funds that were carried forward from previous years. The elimination of categorical, i.e. dual enrollment incentives and technology grants, which total $87,500.

Federal:

The net revenue decrease from 2014-15 is $373,000. This decrease is due to budgeting Title One, Two and Three at 85% of current funding levels. We are also showing a minor decrease in IDEA funds due to federal funds that will be available. All other revenues in this category are being budgeted at or around 14/15 levels.

Transfers:

The net revenue decrease from 2014-15 is $420,000. This is the loss of BRESA fund equity distribution. All other revenues in this category are being budgeted at or around 14/15 levels.

Expenditures

General fund expenditures are being budgeted $743,000 less than FY 2014-15 amended budget without the MPSRS Rate Stabilization Funds. The majority of the budget (75%) is for employee compensation, reflecting that public education is a labor-intensive enterprise.

REQUESTS FOR FINANCIAL INFORMATION

This financial report is designed to provide a general overview of the Niles Community Schools finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Office, Niles Community Schools.

NILES COMMUNITY SCHOOLS

STATEMENT OF NET POSITION

June 30, 2015

ASSETS		
Current Assets:		
Cash and investments	$	5,259,898
Accounts receivable		25,164
Intergovernmental receivable		6,348,443
Prepaid expenses		323,085
Inventories		33,570
Other current assets		13,950
Total current assets		12,004,110
Noncurrent Assets:		
Capital assets not being depreciated		151,500
Capital assets, being depreciated, net		6,063,179
Total noncurrent assets		6,214,679
Total Assets		18,218,789
Deferred outflow of resources-pension		4,896,181
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$	23,114,970
LIABILITIES		
Current Liabilities:		
Accounts payable	$	485,291
Accrued wages and benefits payable		1,899,941
State aid anticipation note		2,971,428
Accrued expenses		404,372
Intergovernmental payable		1,161,978
Unearned revenue		343,134
Long-term Liabilities:		
Due within one year		691,023
Due in more than one year		2,030,800
Net pension liability		43,113,263
Total Liabilities		53,101,230
Deferred inflow of resources-pension		4,766,189
TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES		57,867,419
NET POSITION (DEFICIT)		
Net investment in capital assets		3,778,179
Restricted for capital projects		1,218,489
Restricted for food service		4,185
Unrestricted (deficit)		(39,753,302)
Total Net Position (Deficit)	$	(34,752,449)

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

Year ended June 30, 2015

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Governmental Activities Net (Expense) Revenue and Changes in Net Position
Governmental Activities:				
Instruction	$ 21,771,226	$ 216,985	$ 5,890,811	$ (15,663,430)
Support services	14,834,042	21,702	-	(14,812,340)
Community services	537,694	-	-	(537,694)
Athletics	614,395	76,132	-	(538,263)
Food service	1,564,808	1,562,873	-	(1,935)
Interest expense	47,333	-	-	(47,333)
Total Governmental Activities	$ 39,369,498	$ 1,877,692	$ 5,890,811	$ (31,600,995)

General Revenues:	
Property taxes levied for general purposes	3,252,700
Property taxes levied for capital projects	564,701
State of Michigan aid, unrestricted	27,457,240
Interest and investment earnings	10,868
Other revenues	170,037
Total General Revenues	31,455,546
Change in Net Position	(145,449)
Restated Net Position (Deficit), Beginning of Year	(34,607,000)
Net Position (Deficit), End of Year	$ (34,752,449)

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2015

	General	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and investments	$ 3,994,255	$ 1,265,643	$ 5,259,898
Accounts receivable	25,164	-	25,164
Due from other funds	53,519	33,640	87,159
Due from other governments	6,169,735	178,708	6,348,443
Prepaid expenses	323,085	-	323,085
Inventories	-	33,570	33,570
Other assets	13,950	-	13,950
Total Assets	$ 10,579,708	$ 1,511,561	$ 12,091,269
LIABILITIES			
Accounts payable	$ 283,493	$ 201,798	$ 485,291
Payroll payable	1,899,941	-	1,899,941
Accrued expenses	404,372	-	404,372
Intergovernmental payable	1,161,978	-	1,161,978
Due to other funds	33,640	53,519	87,159
Short term liabilities	2,971,428	-	2,971,428
Unearned revenue	343,134	-	343,134
Total Liabilities	7,097,986	255,317	7,353,303
FUND BALANCES			
Nonspendable	323,085	33,570	356,655
Restricted	-	1,120,138	1,120,138
Committed	-	102,536	102,536
Unassigned	3,158,637	-	3,158,637
Total Fund Balances	3,481,722	1,256,244	4,737,966
Total Liabilities and Fund Balances	$ 10,579,708	$ 1,511,561	$ 12,091,269

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET POSITION

June 30, 2015

Total Fund Balances - Governmental Funds		$ 4,737,966
Amounts reported for governmental activities on the statement of net position are different as follows:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Cost of capital assets	$ 22,814,147	
Less, accumulated depreciation	(16,599,468)	
Capital assets, net		6,214,679
Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the district-wide financial statements. These amounts consist of:		
Deferred outflows of resources related to pensions	4,896,181	
Deferred inflows of resources related to pensions	(4,766,189)	
		129,992
Long term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds and notes payable	(2,436,500)	
Compensated absences and severance pay	(285,323)	
Net pension liability	(43,113,263)	
		(45,835,086)
Net Position (Deficit) of Governmental Activities		$ (34,752,449)

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended June 30, 2015

	General	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Local sources:			
Property taxes	$ 3,252,700	$ 564,701	$ 3,817,401
Tuition	57,513	-	57,513
Interest	9,662	1,206	10,868
Food sales	-	314,775	314,775
Athletic admissions	76,132	-	76,132
Other	232,611	32,947	265,558
Total local sources	3,628,618	913,629	4,542,247
State sources	29,286,444	55,287	29,341,731
Federal sources	3,020,100	1,170,864	4,190,964
Other sources	1,154,079	-	1,154,079
Total revenues	37,089,241	2,139,780	39,229,021
Expenditures:			
Current:			
Instruction	21,385,208	-	21,385,208
Support services	13,903,634	-	13,903,634
Athletics	614,395	-	614,395
Food services	-	1,560,579	1,560,579
Community services	537,694	-	537,694
Capital outlay	12,750	904,300	917,050
Debt Service:			
Principal repayment	16,320	187,680	204,000
Interest expense	44,906	2,427	47,333
Other	-	3,079	3,079
Total expenditures	36,514,907	2,658,065	39,172,972
Excess (deficiency) of revenues over expenditures	574,334	(518,285)	56,049
Other Financing Sources:			
Bond proceeds	-	1,008,500	1,008,500
Total other financing sources	-	1,008,500	1,008,500
Excess of revenues and other financing sources over expenditures	574,334	490,215	1,064,549
Fund Balances, Beginning of Year	2,907,388	766,029	3,673,417
Fund Balances, End of Year	$ 3,481,722	$ 1,256,244	$ 4,737,966

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES

Year ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds		$ 1,064,549
Amounts reported for governmental activities on the statement of activities are different as follows:		
Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year:		
Depreciation	$ (271,233)	
Capital outlay-over threshold	258,869	(12,364)
Proceeds from borrowing provide current financial resources to governmental funds in the period received, but are recorded as long-term liabilities in the statement of net position		(1,008,500)
Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		204,000
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in accrued compensated absences	(50,294)	
Increase in deferred outflows of resources related to pensions	1,673,523	
Increase in deferred inflows of resources related to pensions	(4,766,189)	
Decrease in net pension liability	2,749,826	
		(393,134)
Change in Net Position of Governmental Activities		$ (145,449)

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

FIDUCIARY FUND

June 30, 2015

	Agency Fund - Student Activities
ASSETS	
Cash and cash equivalents	$ 375,780
Total Assets	$ 375,780
LIABILITIES	
Due to other funds	$ 13,616
Due to student groups	362,164
Total Liabilities	$ 375,780

See accompanying notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Niles Community Schools District ("District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. A summary of significant policies adopted by the District are as follows:

REPORTING ENTITY:

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the District's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

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

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FUND FINANCIAL STATEMENT PRESENTATION:

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FUND FINANCIAL STATEMENT PRESENTATION - CONTINUED:

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

When an expense is incurred for purposes for which both restricted and unrestricted net position of fund balance are available, it is the policy of the District to first apply restricted resources.

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

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

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental fund:

General Fund - The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

Additionally, the District reports the following fund types:

Special Revenue Funds - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is the only Special Revenue Fund maintained by the District.

*Capital Projects Fund*s - The Capital Projects Funds are used to account for the accumulation of resources appropriated for capital outlay expenditures.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FUND FINANCIAL STATEMENT PRESENTATION - CONCLUDED:

Additionally, the District reports the following fund types - concluded:

Building and Site Fund - The Building and Site Capital Projects Fund accounts for the collection of property taxes related to a sinking fund millage approved by the taxpayers for the years 2008 through 2017. Such revenue can only be expended for allowable capital purposes in accordance with the initial ballot language.

The Building and Site Capital Projects Fund records capital projects activities funded with a sinking fund millage. For this fund, the District has complied with the applicable provisions of § 1212 of the Revised School Code.

Fiduciary Funds - The Fiduciary Fund is used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the Government-Wide financial statements. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The District presently maintains an Agency Fund to record the transactions of student and parent groups for school and school related purposes. The funds are segregated and held in trust for the student and parent groups.

BUDGETS AND BUDGETARY ACCOUNTING:

The District uses the following procedures in establishing the budgetary data reflected in the general purpose financial statements:

1. Prior to June 30, management of the District submits to the Board of Education a proposed operating budget for the fiscal year commencing July 1, of that year. The operating budget includes proposed revenues and expenditures for the General Fund and Special Revenue Fund.

2. Prior to July 1, the budget is legally enacted on an activity level basis through passage of a board resolution.

3. Budget amounts are reported in the basic financial statements as originally adopted or as amended by the Board of Education.

4. Budgets are adopted using the basis of accounting described above.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents are recorded at cost and include cash on hand, demand deposits and short-term investments with a maturity of three months or less.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

INVESTMENTS:

Investments are recorded at cost which approximates market value.

The types of investments authorized by resolution of the Board are as follows:

Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State of Michigan.

Certificates of deposit and savings receipts issued by a state or national bank, savings accounts of a state, national bank or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in the State of Michigan.

Commercial paper rated prime at the time of purchase and maturing no more than 270 days after the date of purchase.

RECEIVABLES AND PAYABLES:

In general, outstanding balances between funds are reported as "due from/due to other funds."

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

INVENTORIES:

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories recorded in the Food Service Fund consist of food and paper goods. Additionally such inventories include donated USDA commodities inventories received which are valued at fair market value at the date of donation.

PROPERTY TAXES:

Property taxes are recognized as revenue on a levy year basis. The 2014 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after the year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed value of the property located in the District as of the preceding December 31. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

STATE AID:

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

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenues earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, monies received which have not been expended by the close of the fiscal year are recorded as unearned revenue. Other categorical funding is recognized when the appropriation is received.

PREPAID ITEMS

Payments to vendors for services that will benefit periods beyond the District's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

CAPITAL ASSETS:

Capital assets, which include land, buildings, equipment, and vehicles are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the district as assets with an individual cost of $5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at 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 District does not have infrastructure type assets.

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

Land improvements	20 years
Buildings	50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED:

SALARIES PAYABLE AND ACCRUED EMPLOYEE BENEFITS:

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the District who do not work during the summer months when school is not in session but have elected to have their salaries paid over an entire year. The liability for accrued retirement and employer share of FICA related to the salaries payable has been recorded, as well as the liability for employee health insurance for the months of July and August.

COMPENSATED ABSENCES:

The liability for compensated absences reported in the government-wide statements consists of earned but unused accumulated vacation, sick leave, and retirement benefits. The liability has been calculated using the vesting method, in which leave amounts for employees who are currently eligible to receive termination payments in the future and other employees who are expected to become eligible to receive such payments upon termination are included. The liability in the fund financial statements is the current portion, if any, of unpaid compensated absences.

NET PENSION LIABILITY:

The net pension liability is deemed to be a noncurrent liability and is recognized on district-wide financial statements as the District's proportionate share of the Michigan Public School Employees' Retirement System's (MPSERS) total pension liability, less the pension plan's fiduciary net position.

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, a separate financial statement element, represents a consumption of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred inflows of resources, a separate financial statement element, represents an acquisition of net position or fund balance, respectively, that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District's pension liability is the only element for reporting in these categories and are reported in the district-wide financial statement of net position. These items relate to the District's net pension liability and differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date.

LONG-TERM OBLIGATIONS:

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONCLUDED:

FUND BALANCE:

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by outside parties, constitutional provisions or enabling legislation. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Education. A formal resolution of the Board of Education is required to establish, modify, or rescind a fund balance commitment. The District reports assigned fund balance for amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund.

When the District incurs expenditures for purposes for which various fund balance classifications can be used, it is the policy of the District to use restricted fund balance first, then committed fund balance, assigned fund balance and finally unassigned fund balance.

The Board of Education has adopted a minimum fund balance policy that states that the District will maintain a minimum fund balance equal to five percent of the prior year's actual expenditures and operating transfers. Deficiencies resulting in a fund balance of less than the minimum five percent shall be replenished over a period not to exceed three years.

ESTIMATES:

The process of preparing 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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS:

At June 30, 2015, the District's cash was reported in the basic financial statements as follows:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	$ 5,259,898	$ 375,780	$ 5,635,678

The breakdown between deposits and petty cash for the District is as follows:

Deposits (checking, and savings accounts)	$ 5,635,578
Petty Cash	100
Total cash	$ 5,635,678

NOTE B - CASH AND INVESTMENTS - CONCLUDED:

The District's cash is subject to custodial credit risk as detailed below:

Custodial Credit Risk- Deposits: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. As of June 30, 2015, $5,714,459 of the District's deposits in financial institutions was exposed to credit risk because this amount was not covered by federal depository insurance.

NOTE C - RECEIVABLES:

Receivables for the District's General Fund and the aggregated nonmajor funds at June 30, 2015 are as follows:

	General Fund	Nonmajor Funds	Total
Accounts receivable	$ 25,164	$ -	$ 25,164
Intergovernmental receivable	6,169,735	178,708	6,348,443
Total	$ 6,194,899	$ 178,708	$ 6,373,607

NOTE D - CAPITAL ASSETS:

Capital asset activity of the District's Governmental activities for the year ended June 30, 2015 were as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Assets not being depreciated:				
Land	$ 151,500	$ -	$ -	$ 151,500
Construction in progress	-	-	-	-
	151,500	-	-	151,500
Capital assets being depreciated:				
Land improvements	2,292,006	51,992	-	2,343,998
Buildings	18,380,343	200,931	-	18,581,274
Equipment	1,247,522	17,985	18,059	1,247,448
Vehicles	489,927	-	-	489,927
	22,409,798	270,908	18,059	22,662,647
Accumulated depreciation:				
Land improvements	2,211,666	20,480	-	2,232,146
Buildings	12,503,102	230,982	-	12,734,084
Equipment	1,155,433	14,615	6,020	1,164,028
Vehicles	464,054	5,156	-	469,210
	16,334,255	271,233	6,020	16,599,468
Net capital assets being depreciated	6,075,543	(325)	12,039	6,063,179
Net capital assets	$ 6,227,043	$ (325)	$ 12,039	$ 6,214,679

NOTE D - CAPITAL ASSETS-CONCLUDED:

Depreciation expense was charged to programs of the primary governmental activities as follows:

Governmental activities		
Support Services	$	267,004
Food Service		4,229
Total primary governmental activities	$	271,233

NOTE E - INTERFUND RECEIVABLES AND PAYABLES:

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flows for operations. The composition of interfund balances as of June 30, 2015 is as follows:

Receivable Fund			Payable Fund		
General Fund	$	53,519	General Fund	$	33,640
Food Service Fund		33,640	Food Service Fund		51,500
			Capital Develop. Fund		2,019
	$	87,159		$	87,159

NOTE F - STATE AID ANTICIPATION NOTE:

On August 20, 2014, the District borrowed an aggregate $4,000,000 through the issuance of state aid anticipation notes from the Michigan Finance Authority. Such notes consisted of a $1,200,000 State Aid Anticipation Series 2014 B-1 Note with a 0.42% annual interest rate, a $1,540,000 State Aid Anticipation Series 2014 B-2 Note with a 1.05% annual interest rate, and a $1,260,000 State Aid Anticipation Series 2014 B-3 Note with a 1.05% annual interest rate. The Series B-2 and B-3 notes have a maturity date of August 20, 2015. Terms of the Series B-1 note call for seven monthly payments ranging from $171,485 to $173,529 including interest, beginning January 20, 2015 with a final payment due July 20, 2015. Interest on the Series B-1 note, the B-2 and the B-3 note amounted to $3,364, $16,170 and $15,561 respectively, for the year ended June 30, 2015.

	Balance June 30, 2014	Additions	Repayments	Balance June 30, 2015
Series 2013 B-1	$ 160,059	$	$ 160,059	$ -
Series 2013 B-2	1,540,000		1,540,000	-
Series 2013 B-3	1,260,000		1,260,000	-
Series 2014 B-1	-	1,200,000	1,028,572	171,428
Series 2014 B-2	-	1,540,000	-	1,540,000
Series 2014 B-3	-	1,260,000	-	1,260,000
Total State Aid Anticipation Notes	$ 2,960,059	$ 4,000,000	$ 3,988,631	$ 2,971,428

NOTE G - GENERAL LONG-TERM DEBT:

The District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include severance pay and compensated absences. The following is a summary of the changes in general long-term debt for the year ended June 30, 2015.

	Balance June 30, 2014	Additions	Repayments	Balance June 30, 2015	Due Within One Year
Bonds payable	$ 1,632,000	$ 1,008,500	$ 204,000	$ 2,436,500	$ 405,700
Severance pay	39,532	2,144	-	41,676	41,676
Compensated absences	195,497	48,150	-	243,647	243,647
	235,029	50,294	-	285,323	285,323
	$ 1,867,029	$ 1,058,794	$ 204,000	$ 2,721,823	$ 691,023

General obligation bonds consist of the following at June 30, 2015:

Qualified Zone Academy Bonds dated September 22, 2011, with annual principal payments of $204,000, and final maturity September 22, 2021.	$ 1,428,000
Qualified Zone Academy Bonds dated October 1, 2014, with annual principal payments of $201,700, and final maturity September 15, 2019.	1,008,500
	$ 2,436,500

On September 22, 2011 the District issued $2,040,000 of Qualified Zone Academy Bonds under Section 54A of the Internal Revenue Code of 1986, as amended and has elected to receive a direct credit from the United States Treasury. Credits, when received, on semi-annual interest payment dates are used to pay all of the interest on the Bonds when due. If for any reason, the District does not receive the tax credit from the Internal Revenue Service within two days of the required interest payment, the District is liable for the interest payments. The District has contracted with the Bank of New York Mellon Trust Company, N.A to service the bond and associated credits.

On October 1, 2014 the District issued $1,008,500 of Qualified Zone Academy Bonds under Section 54A of the Internal Revenue Code of 1986, as amended and has elected to receive a direct credit from the United States Treasury. Credits, when received, on semi-annual interest payment dates are used to pay all of the interest on the Bonds when due. The registered owner of these bonds is Chemical Bank, Midland, Michigan.

NOTE G - GENERAL LONG-TERM DEBT- CONCLUDED:

The Bonds were issued for the purpose of remodeling, equipping, and re-equipping school facilities, in part for energy conservation improvements.

The Bonds shall mature at the following schedule.

	2011 QZAB	2014 QZAB	Total
2016	$ 204,000	$ 201,700	$ 405,700
2017	204,000	201,700	405,700
2018	204,000	201,700	405,700
2019	204,000	201,700	405,700
2020	204,000	201,700	405,700
2021-2022	408,000	-	408,000
Total	$ 1,428,000	$ 1,008,500	$ 2,436,500

NOTE H - CONTINGENT LIABILITY - GENERAL LONG-TERM DEBT:

Under the terms of the Qualified Zone Academy Bonds issued by the District as described in Note G, the District elected to receive a direct credit from the United States Treasury for the semi-annual interest payments. If for any reason, the District does not receive the tax credit from the Internal Revenue Service the District is liable for the interest payments.

Following is a summary of future contingent bond interest requirements:

June 30,	Interest
2016	$ 100,563
2017	82,287
2018	64,010
2019	45,734
2020	32,016
2021-2022	18,319
Total	$ 342,929

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS:

Organization:

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a cost-sharing, multiple-employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, re-codified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes the Board's authority to promulgate or amend the provisions of the System. The Board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member. The Governor appointed board members consist of:

* Two active classroom teachers or other certified school personnel.
* One active member or retiree from a non-certified support position.
* One active school system superintendent.
* One active finance or operations (non-superintendent) member.
* One retiree from a classroom teaching position.
* One retiree from a finance or operations management position.
* One administrator or trustee of a community college that is a reporting unit of the System.
* Two from the general public, one with health insurance or actuarial science experience and one with institutional investment experience.
* One elected member of a reporting unit's board of control.

The System's pension plan was established by the State to provide retirement, survivor and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. There are 693 participating employers, adjusted for changes to employer status that occurred during the measurement period. The System is a qualified pension trust fund under section 401(a) of the Internal Revenue Code. By statute, employees of K-12 public school districts, public school academies, district libraries, tax-supported community colleges and seven universities may be members. The seven universities are: Eastern Michigan, Central Michigan, Northern Michigan, Western Michigan, Ferris State, Michigan Technological and Lake Superior State. Employees, who first become employed by one of the seven universities on or after January 1, 1996, become members of an alternative plan.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report.

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

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONTINUED:

Membership:

At September 30, 2014, the System's membership consisted of the following:

Inactive plan members or their beneficiaries currently receiving benefits:

Regular benefits	181,489
Survivor benefits	16,855
Disability benefits	6,168
Total	204,512
Inactive plan members entitled to but not yet receiving benefits	16,979
Active plan members:	
Vested	108,934
Non-vested	101,843
Total	210,777
Total plan members	432,268

Benefits Provided:

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

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

Member Contributions:

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining non-contributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987, through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 6.4% of all wages over $15,000.

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS-CONTINUED:

Member Contributions-Concluded:

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Their options are described in detail under Pension Reform 2012 later in this note. Members who elected to increase their level of contribution contribute 4% (Basis Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions:

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits.

Summary of Significant Accounting Policies:

Basis of Accounting and Presentation:

The System's financial statements are prepared using the accrual basis of accounting. Contributions from the employers are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System. The reserves are described below.

GASB Statement No. 67, which was adopted during the year ended September 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB Statement No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information.

Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB Statement No. 67 did not significantly impact the accounting for accounts receivable and investment balances.

Reserves:

Reserves for Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Retired Benefit Payments for regular and disability retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Employer Contributions representing unclaimed funds.

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS-CONTINUED:

Summary of Significant Accounting Policies - Continued:

Reserves-Continued:

Members no longer contribute to this reserve except to purchase eligible service credit or repay previously refunded contributions. At September 30, 2014, the balance in this reserve was $1.5 billion.

Reserve for Pension Plus Employee Contributions - This reserve represents active member contributions and interest less amounts transferred to the Reserve for Pension Plus Retired Benefit Payments for regular retirement, amounts refunded to terminated members, and amounts transferred to the Reserve for Pension Plus Employer Contributions representing unclaimed funds. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was $59.5 million.

Reserve for Member Investment Plan - This reserve represents MIP contributions and interest less refunds and transfers to the Reserve for Retired Benefit Payments. At September 30, 2014, the balance in this reserve was $4.7 billion.

Reserve for Employer Contributions - This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually. Amounts are transferred annually to the Reserve for Retired Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was ($25.8) billion.

Reserve for Pension Plus Employer Contributions - This reserve represents all reporting unit contributions for Pension Plus members, except payments for health benefits. Interest from the Reserve for Undistributed Investment Income reserve is credited annually at a rate of 7%. Amounts are transferred annually to the Reserve Retired Pension Plus Benefit Payments to bring the balance of that reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. At September 30, 2014, the balance in this reserve was $55.5 million.

Reserve for Retired Benefit Payments - This reserve represents payments of future retirement benefits to current retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. At September 30, 2014, the balance in this reserve was $44.6 billion.

Reserve for Retired Pension Plus Benefit Payments - This reserve represents payments of future retirement benefits to current Pension Plus retirees. At retirement, a member's accumulated contributions plus interest are transferred into this reserve. Monthly benefits, which are paid to the retiree, reduce this reserve. At the end of each fiscal year, an amount, determined by an annual actuarial valuation, is transferred from the Reserve for Pension Plus Employer Contributions to bring the balance of this reserve into balance with the actuarial present value of retirement allowances. This reserve was established under the provisions of Public Act 75 of 2010. Currently, there are no participants qualified to retire under this program. At September 30, 2014, the balance in this reserve was $0.

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS-CONTINUED:

Summary of Significant Accounting Policies - Continued:

Reserves-Concluded:

Reserves for Undistributed Investment Income - This reserve represents all investment earnings. Interest is transferred annually to the other reserves. Administrative expenses of the System are paid from the Reserve for Administrative Expenses, which is credited with amounts from the Reserve for Undistributed Investment Income to cover the expenses. For ease of reporting and understanding, the two reserves are presented as one reserve in the supporting schedules. Public Act 143 of 1997 established a stabilization subaccount within the Reserve for Undistributed Investment Income to which any over funding is credited. As of September 30, 2014, the balance in the subaccount was zero. At September 30, 2014, the balance in the reserve was $18.6 billion.

Reserve for Health (OPEB) Related Benefits - This reserve is credited with employee and employer contributions for retirees' health, dental, and vision benefits. Staring in fiscal year 2013, the employer contribution is based on a prefunded basis and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liability (or funding excess) over a period not to exceed thirty years. In addition, in fiscal year 2014, federal funding for Medicare Part D and Employer Group Waiver Plan (EGWP) was paid directly to a third party vendor. The third party vendor uses the EGWP funding for any claims submitted and bills the system for any remaining claims outstanding. Premiums for health, dental and vision benefits are paid from this reserve. At September 30, 2014, the balance in this reserve was $3.5 billion.

Reporting Entity:

The System is a pension and other employee benefit trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension and other employee benefit trust fund. The System and its Board are not financially accountable for any other entities or other organizations.

Benefit Protection:

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "antialienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments:

Plan investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. The fair value of private investments is based on the net asset value reported in the financial statements of the respective investment entity. The net asset value is determined in accordance with governing documents of the investment entity, and is subject to an independent annual audit. Securities purchased with cash collateral under securities lending activities are recorded at estimated fair value. Other investments not having an established market are recorded at estimated fair value.

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS-CONTINUED:

Summary of Significant Accounting Policies - Concluded:

Investment Income:

Dividend and interest income is recognized on the accrual basis. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System:

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the State's general fund based on either a direct cost or allocation basis depending on the nature of the expense. Costs of administering the System are financed by undistributed investment income of the System.

Cash:

At September 30, 2014, the System had $246.7 million in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to ($0.6) thousand for the year ended September 30, 2014.

Contributions and Funding Status:

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2014 valuation will be amortized over a 22 year period for the 2014 fiscal year.

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONTINUED:

Contributions and Funding Status - Concluded:

The schedule below summarizes pension contribution rates in effect for fiscal year 2014.

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

The System may reconcile with actuarial requirements annually. If the system reconciles in a year, any funding excess or deficiency for pension benefits is smoothed over a maximum of 5 years, with at least one-fifth (20%) of the funding excess or deficiency included in the subsequent year's contribution. This payment is not recognized as a payable or receivable in the accounting records. If the System does not reconcile in a year, any funding excess or deficiency for pension benefits is accounted for in subsequent required contributions over the remaining amortization period. For fiscal year 2014, the System did not reconcile.

In May, 1996, the Internal Revenue Service issued a private letter ruling allowing the System's members to purchase service credit and repay refunds using tax-deferred (pre-tax) dollars. The program was implemented in fiscal year 1998, and payments began in fiscal year 1999.

The program allows members to purchase service credit and repay refunds on a tax-deferred basis. Members sign an irrevocable agreement that identifies the contract duration, monthly payment, total contract amount and years of service credit being purchased. The duration of the contract can range from 1 to 20 years. The amounts are withheld from members' paychecks and are treated as employer pick-up contributions pursuant to Internal Revenue Code Section 414(h). At September 30, 2014, there were 16,503 agreements. The agreements were discounted using the assumed actuarial rate of return of 8% for September 30, 2014. The average remaining length of a contract was approximately 6.0 years for 2014. The short-term receivable was $29.7 million and the discounted long-term receivable was $83.6 million at September 30, 2014.

Net Pension Liability - Non-University:

Measurement of the MPSERS (Plan) Net Pension Liability:

The plan's net pension liability is to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the market value of assets (not the smoothed actuarial value of assets that is often encountered in actuarial valuations performed to determine the employer's contribution requirement).

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONTINUED:

Net Pension Liability - Non-University - Continued:

MPSERS (Plan) Net Pension Liability-Non-University	As of 9/30/14	As of 10/1/13
Total Pension Liability	$ 65,160,887,182	$ 62,859,499,994
Plan Fiduciary Net Position	43,134,384,072	39,427,686,072
Net Pension Liability	$ 22,026,503,110	$ 23,431,813,922
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	66.20%	
Net Pension Liability as a Percentage of Covered-Employee Payroll	250.11%	

The first year of implementation recognizes a 0.00% change in the employer's proportionate share between beginning net position liability and ending net pension liability.

Proportionate Share of the District's Net Pension Liability:

At September 30, 2014, the District reported a liability of $43,113,263 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The District's proportionate share of the net pension liability was based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2014, the District's proportionate share percent was .19573 percent.

Long-Term Expected Return on Plan Assets:

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014, are summarized in the following table:

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONTINUED:

Net Pension Liability - Non-University - Continued:

Long-Term Expected Return on Plan Assets - Concluded:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity Pools	28.0%	4.8%
% Alternative Investment Pools	18.0%	8.5%
International Equity	16.0%	6.1%
Fixed Income Pools	10.5%	1.5%
Real Estate and Infrastructure Pools	10.0%	5.3%
Absolute Return Pools	15.5%	6.3%
Short-Term Investment Pools	2.0%	(.2%)
	100.0%	

Rate of Return:

For the fiscal year ended September 30, 2014, the annual money-weighted rate of return on pension plan investment, net of pension plan investment expense was 12.58%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate:

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan). This discount rate was based on the long-term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONTINUED:

Net Pension Liability - Non-University - Continued:

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

As required by GASB Statement No. 68, the following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 8.0% (7.0% for the Pension Plus Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage point higher:

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
$56,841,083	$43,113,263	$31,547,372

Timing of the Valuation:

An actuarial valuation to determine the total pension liability is required to be performed every year. If the actuarial valuation is not calculated as of the plan's fiscal year end, the total pension liability is required to be rolled forward from the actuarial valuation date to the pension plan's fiscal year end.

The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally actuarial procedures.

Actuarial Valuations and Assumptions:

Actuarial valuations for the pension plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions (ARC) are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONTINUED:

Net Pension Liability - Non-University - Concluded:

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions:

Actuarial Assumptions	
Wage Inflation Rate	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	8.0%
- Pension Plan Plus (Hybrid)	7.0%
Projected Salary Increases	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments	3% Annual Non-Compounded for MIP Members
Healthcare Cost Trend Rate	8.5% Year 1 graded to 3.5% Year 12

Mortality:

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

Notes:

* Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.

* Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457

* Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

NOTE I - DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS - CONCLUDED:

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

For the year ended June 30, 2015, the District recognized total pension expense of $4,173,227. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	$ 1,590,787	$ -
Net difference between projected and actual earnings on pension plan investments	-	4,766,189
Changes in proportion and differences between the District's contributions and proportionate share of contributions	689	-
District's contributions subsequent to the measurement date	3,304,705	-
Total	$ 4,896,181	$ 4,766,189

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

Deferred (Inflows) and Deferred Outflows of Resources by Year (to be Recognized in Future Pension Expenses) are as follows:

Plan Year Ended September 30,	Amount
2015	$ 777,715
2016	777,715
2017	777,715
2018	841,568

NOTE J - FUND BALANCES - GOVERNMENTAL FUNDS:

The District has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Detailed information on fund balances of governmental funds is as follows:

	General Fund	Nonmajor Governmental Funds	Total
Nonspendable:			
Inventory	$ -	$ 33,570	$ 33,570
Prepaid Items	323,085	-	323,085
Total Nonspendable	323,085	33,570	356,655
Restricted for:			
Food Service Program	-	4,185	4,185
Capital Improvements	-	1,115,953	1,115,953
Total Restricted	-	1,120,138	1,120,138
Committed for:			
Capital Improvements	-	102,536	102,536
Unassigned	3,158,637	-	3,158,637
Total fund balances - governmental funds	$ 3,481,722	$ 1,256,244	$ 4,737,966

NOTE K - INTEREST EXPENSE:

Interest expense of $47,333 was charged to overall District operations and not specific activities as the District considers that its debt impacts multiple activities and allocation is not practical.

NOTE L - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS:

During the year ended June 30, 2015, the District incurred expenditures that were in excess of the amounts budgeted as follows:

Item	Budget	Actual	Overrun
Pupil services	$ 2,189,208	$ 2,267,080	$ 77,872
General administration	463,925	488,625	24,700
School administration	2,324,645	2,400,643	75,998
Business services	310,580	326,931	16,351
Operations/maintenance	3,554,395	3,584,345	29,950
Transportation	2,267,865	2,297,378	29,513
Capital outlay	12,000	12,750	750

NOTE M- RESTATEMENT OF NET POSITION (DEFICIT), BEGINNING OF YEAR:

Net position (deficit), beginning of year (June 30, 2014) has been restated for governmental activities due to a change in accounting principles related to the District's accounting for pension liability in accordance with GASB #68 as follows:

Net Position, Beginning of Year	$ 8,033,431
Net Pension Liability	(45,863,089)
Beginning deferred outflows for contributions subsequent to the measurement date	3,222,658
Net Position (Deficit), Beginning of Year, as restated	$ (34,607,000)

NOTE N - SUBSEQUENT EVENTS:

On August 20, 2015, the District borrowed an aggregate $4,000,000 through the issuance of state aid anticipation notes from the Michigan Finance Authority. Such notes consisted of a $815,483 State Aid Anticipation Series 2015C-1 Note with a 0.76% annual interest rate, a $384,517 State Aid Anticipation Series 2015C-2 Note with a 0.64% annual interest rate, a $1,199,609 State Aid Anticipation Series 2015C-3 Note with a 1.08% annual interest rate, and a $1,600,391 State Aid Anticipation Series 2015C-4 Note with a 1.4625% annual interest rate. Note repayment terms for such notes require principal of $1,200,00 plus interest to be paid on July 20, 2016 and principal of $2,800,000 plus interest to be paid on August 22, 2016.

On September 3, 2015 the District issued $40,070,000 in 2015 School Building and Site Bonds (General Obligation - Unlimited Tax) for the purpose of partially remodeling, furnishing and refurnishing, equipping and re-equipping school facilities; erecting, furnishing and equipping additions to Howard Elementary School and Ring Lardner Middle School; and developing and improving sites.

NOTE N - SUBSEQUENT EVENTS-CONCLUDED:

The Bonds will pledge the full faith and credit of the District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the District, without limitation as to rate or amount.

Terms of the Bonds require semi-annual interest payments commencing May 1, 2016 through May 1, 2045 at annual interest rates ranging from 3% - 4%, and annual principal payments ranging from $75,000 - $9,780,000 through May 1, 2045.

NOTE O - UPCOMING GASB PRONOUNCEMENTS:

In February, 2015 the GASB issued Statement No. 72, *Fair Value Measurement and Application* . This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurement.

In June, 2015 the GASB issued Statement No. 73, *Accounting for Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* . The statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68 and it amends certain provisions of Statements No. 67 and No. 68.

In June, 2015 the GASB issued Statements No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and Statement No. 75, *Accounting and Financial Reporting for Post Employment Benefits Other than Pensions* . Statement No. 74 establishes new accounting and financial reporting for other postemployment benefits (OPEB) plans. Statement No. 75 requires governments providing OPEB to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits.

In June, 2015 the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* . The statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The District is currently evaluating the impact that the above standards will have on the financial statements when adopted in future years.

REQUIRED SUPPLEMENTAL INFORMATION

NILES COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year ended June 30, 2015

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance with Final Budget
Revenues:				
Local sources	$ 3,383,800	$ 3,551,865	$ 3,628,618	$ 76,753
State sources	27,058,560	29,236,010	29,286,444	50,434
Federal sources	2,955,000	3,420,993	3,020,100	(400,893)
Interdistrict sources	874,800	1,230,725	1,154,079	(76,646)
Total revenues	34,272,160	37,439,593	37,089,241	(350,352)
Expenditures:				
Current:				
Instruction:				
Basic programs	13,576,518	16,173,705	16,028,920	144,785
Added needs	5,728,883	5,353,089	5,189,890	163,199
Adult/community	100,030	180,708	166,398	14,310
Support Services:				
Pupil services	2,034,552	2,189,208	2,267,080	(77,872)
Instructional staff	2,585,163	2,365,740	2,198,456	167,284
General administration	553,360	463,925	488,625	(24,700)
School administration	2,311,000	2,324,645	2,400,643	(75,998)
Business services	300,716	310,580	326,931	(16,351)
Operations/maintenance	3,436,835	3,554,395	3,584,345	(29,950)
Transportation	1,761,020	2,267,865	2,297,378	(29,513)
Other support services	297,420	346,551	340,176	6,375
Athletics	600,000	615,586	614,395	1,191
Capital outlay	12,000	12,000	12,750	(750)
Community services	476,200	542,950	537,694	5,256
Debt Service	261,320	261,320	61,226	200,094
Total expenditures	34,035,017	36,962,267	36,514,907	447,360
Excess (deficiency) of revenues over expenditures	237,143	477,326	574,334	97,008
Fund Balance, Beginning of Year	2,907,388	2,907,388	2,907,388	-
Fund Balance, End of Year	$ 3,144,531	$ 3,384,714	$ 3,481,722	$ 97,008

See accompanying notes to financial statements.

OTHER SUPPLEMENTAL INFORMATION

NILES COMMUNITY SCHOOLS

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2015

	Nonmajor Food Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and investments	$ 45,135	$ 1,220,508	$ 1,265,643
Due from other governments	178,708	-	178,708
Due from other funds	33,640	-	33,640
Inventories	33,570	-	33,570
Total Assets	$ 291,053	$ 1,220,508	$ 1,511,561
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	$ 201,798	$ -	$ 201,798
Due to other funds	51,500	2,019	53,519
Total liabilities	253,298	2,019	255,317
Fund balances:			
Non-spendable	33,570	-	33,570
Restricted	4,185	1,115,953	1,120,138
Committed	-	102,536	102,536
Total fund balances	37,755	1,218,489	1,256,244
Total Liabilities and Fund Balances	$ 291,053	$ 1,220,508	$ 1,511,561

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2015

	Nonmajor Food Service Fund	Nonmajor Capital Projects Fund	Total Nonmajor Governmental Funds
Revenues:			
Local sources:			
Property taxes	$ -	$ 564,701	$ 564,701
Interest	246	960	1,206
Food sales	314,775	-	314,775
Other	21,947	11,000	32,947
Total local sources	336,968	576,661	913,629
State sources	55,287	-	55,287
Federal sources	1,170,864	-	1,170,864
Total revenues	1,563,119	576,661	2,139,780
Expenditures:			
Current operations:			
Food service	1,560,579	-	1,560,579
Capital outlay	-	904,300	904,300
Debt Service:			
Principal repayments	-	187,680	187,680
Interest expense	-	2,427	2,427
Other	-	3,079	3,079
Total expenditures	1,560,579	1,097,486	2,658,065
Excess (deficiency) of revenues over expenditures	2,540	(520,825)	(518,285)
Other Financing Sources:			
Bond proceeds	-	1,008,500	1,008,500
Excess of revenues and other financing sources over expenditures	2,540	487,675	490,215
Fund Balances, Beginning of Year	35,215	730,814	766,029
Fund Balances, End of Year	$ 37,755	$ 1,218,489	$ 1,256,244

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

COMBINING BALANCE SHEET

CAPITAL PROJECTS FUNDS

June 30, 2015

	Capital Development	Building & Site	2011 QZAB Fund	2014 Capital Projects (QZAB) Fund	Total
ASSETS					
Cash and equivalents	$ 104,555	$ 528,206	$ 1,006	$ 586,741	$ 1,220,508
Due from other funds	-	-	-	-	-
Total Assets	$ 104,555	$ 528,206	$ 1,006	$ 586,741	$ 1,220,508
LIABILITIES					
Due to other funds	$ 2,019	$ -	$ -	$ -	$ 2,019
Total liabilities	2,019	-	-	-	2,019
FUND BALANCES					
Restricted	-	528,206	1,006	586,741	1,115,953
Committed	102,536	-	-	-	102,536
Total fund balances	102,536	528,206	1,006	586,741	1,218,489
Total Liabilities and Fund Balances	$ 104,555	$ 528,206	$ 1,006	$ 586,741	$ 1,220,508

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

CAPITAL PROJECTS FUNDS

Year ended June 30, 2015

	Capital Development	Building & Site	2011 QZAB Fund	2014 Capital Project (QZAB) Fund	Total
REVENUES:					
Local sources:					
Property taxes	$ -	$ 564,701	$ -	$ -	$ 564,701
Other	-	11,000	-	-	11,000
Interest	278	682	-	-	960
Total revenues	278	576,383	-	-	576,661
EXPENDITURES:					
Capital outlay	105,483	377,058	-	421,759	904,300
Debt Service:					
Principal repayment	-	187,680	-	-	187,680
Interest expense	-	2,427	-	-	2,427
Other	-	3,079	-	-	3,079
Total expenditures	105,483	570,244	-	421,759	1,097,486
Excess (deficiency) of revenues over expenditures	(105,205)	6,139	-	(421,759)	(520,825)
OTHER FINANCING SOURCES:					
Bond proceeds	-	-	-	1,008,500	1,008,500
Excess (deficiency) of revenues and other financing sources over expenditures	(105,205)	6,139	-	586,741	487,675
Fund Balances, Beginning of Year	207,741	522,067	1,006	-	730,814
Fund Balances, End of Year	$ 102,536	$ 528,206	$ 1,006	$ 586,741	$ 1,218,489

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

Year ended June 30, 2015

	Balance June 30, 2014	Receipts	Disbursements	Balance June 30, 2015
ASSETS				
Cash and equivalents	$ 421,525	$ 591,493	$ 637,238	$ 375,780
LIABILITIES				
Due to other funds	$ 20,299	$ -	$ 6,683	$ 13,616
Due to student groups	401,226	591,493	630,555	362,164
	$ 421,525	$ 591,493	$ 637,238	$ 375,780

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

Determined as of the Plan Year Ended September 30, 2014

District's portion of the net pension liability	.19573%
District's proportionate share of the net pension liability	$ 43,113,263
District's covered employee payroll	$ 21,005,255
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	205%
Plan fiduciary net position as a percentage of the total pension liability	66.2%

NILES COMMUNITY SCHOOLS

SCHEDULE OF PRINCIPAL REQUIREMENTS

LONG-TERM DEBT - QUALIFIED ZONE ACADEMY BONDS

Year ended June 30, 2015

Year Ending June 30,	Principal September 22
2016	$ 204,000
2017	204,000
2018	204,000
2019	204,000
2020	204,000
2021	204,000
2022	204,000
	$ 1,428,000

NILES COMMUNITY SCHOOLS

SCHEDULE OF PRINCIPAL REQUIREMENTS

2014 SCHOOL TECHNOLOGY GENERAL OBLIGATION BONDS
(QUALIFIED ZONE ACADEMY BONDS)

Year ended June 30, 2015

Year Ending June 30,	Principal September 15
2016	$ 201,700
2017	201,700
2018	201,700
2019	201,700
2020	201,700
	$ 1,008,500

NILES COMMUNITY SCHOOLS
FEDERAL AWARDS
Year Ended June 30, 2015

NILES COMMUNITY SCHOOLS

NILES, MICHIGAN

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SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Niles Community Schools
Niles, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the remaining fund information of Niles Community Schools as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 15, 2015, which contained an unmodified opinion with emphasis of matter related to the implementation of Governmental Accounting Standards Board Statements No. 68 and 71 on those basic financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 15, 2015.

The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Scarpone & Co., P.C.

October 15, 2015

23 North Second Street, Niles, Michigan 49120 Telephone 269-684-5100 Fax 269-684-5102

SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Niles Community Schools
Niles, Michigan

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Niles Community Schools, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 15, 2015.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Scarfone & Co., P.C.

October 15, 2015

SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Niles Community Schools
Niles, Michigan

Report on Compliance for Each Major Federal Program

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

Management Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Niles Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above.

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Scarbone & Co., P.C.

October 15, 2015

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2015

Federal Grantor Pass Through Grantor Program Title and Grant Number	Federal CFDA Number	Pass-Through Grantor's Number	Approved Grant Award Amount	Prior Year(s) Expenditures (Memo Only)
Passed through Michigan Department of Education:				
Child Nutrition Cluster				
National School Lunch Program				
Non-Cash Assistance (commodities):				
Entitlement Commodities	10.555	N/A	$ 75,037	$ -
Non-Cash Assistance Subtotal			75,037	-
Cash Assistance:				
National School Breakfast				
NSL Breakfast	10.553	141970	305,617	273,338
NSL Breakfast	10.553	151970	264,838	-
			570,455	273,338
NSL- Section 4 All Lunches	10.555	141960	782,516	684,580
NSL- Section 4 All Lunches	10.555	151960	700,120	-
			1,482,636	684,580
Cash Assistance Subtotal			2,053,091	957,918
TOTAL U.S. DEPARTMENT OF AGRICULTURE			$ 2,128,128	$ 957,918

See notes to Schedule of Expenditures of Federal Awards

Accrued Revenue June 30, 2014	Adjustments	Current Year Expenditures	Current Year Receipts	Accrued Revenue June 30, 2015
$ -	$ -	$ 75,037	$ 75,037	$ -
-	-	75,037	75,037	-
49,821	-	32,279	82,100	-
-	-	265,492	213,744	51,748
49,821	-	297,771	295,844	51,748
122,349	-	97,936	220,285	-
-	-	700,120	573,159	126,961
122,349	-	798,056	793,444	126,961
172,170	-	1,095,827	1,089,288	178,709
$ 172,170	$ -	$ 1,170,864	$ 1,164,325	$ 178,709

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended June 30, 2015

Federal Grantor Pass Through Grantor Program Title and Grant Number	Federal CFDA Number	Pass-Through Grantor's Number	Approved Grant Award Amount	Prior Year(s) Expenditures (Memo Only)
Passed through Michigan Department of Education				
ABE Instruction	84.002	141130	$ 515,000	$ 511,533
ABE Instruction	84.002	141190	65,000	51,738
ABE Instruction	84.002	151130	450,000	-
ABE Instruction	84.002	151190	12,075	-
			1,042,075	563,271
Title I, Part A-Improving Basic Programs	84.010	141530	1,103,944	1,013,554
Title I, Part A-Improving Basic Programs	84.010	151530	1,329,774	-
			2,433,718	1,013,554
Title III, Limited English	84.365	150580	12,688	-
Title II, Part A -Teacher/Principal Training	84.367	140520	208,759	135,925
Title II, Part A -Teacher/Principal Training	84.367	150520	264,617	-
			473,376	135,925
Total Passed through Michigan Department of Education			3,961,857	1,712,750
Passed through Berrien RESA:				
IDEA 2013-2014	84.027		1,195,471	1,195,471
IDEA 2014-2015	84.027		1,090,059	-
			2,285,530	1,195,471
IDEA - Preschool Grants 2013-2014	84.173		132,845	132,845
IDEA - Preschool Grants 2014-2015	84.173		141,555	-
			274,400	132,845
CTE - Perkins 2014-2015	84.048		44,413	-
Total passed through Berrien RESA			2,604,343	1,328,316
TOTAL U.S. DEPARTMENT OF EDUCATION			$ 6,566,200	$ 3,041,066

See notes to Schedule of Expenditures of Federal Awards

Accrued Revenue June 30, 2014	Adjustments	Current Year Expenditures	Current Year Receipts	Accrued Revenue June 30, 2015
$ 123,098	$ -	$	$ 123,098	$ -
4,791	-	-	4,791	-
-	257	433,739	330,169	103,827
-	-	12,075	12,075	-
127,889	257	445,814	470,133	103,827
30,692		-	30,692	-
-	-	1,145,599	1,054,794	90,805
30,692	-	1,145,599	1,085,486	90,805
-	-	3,003	1,760	1,243
16,824	(257)	-	16,567	-
-	-	137,172	98,208	38,964
16,824	-	137,172	114,775	38,964
175,405	-	1,731,588	1,672,154	234,839
272,531		-	272,531	-
-	-	1,090,059	715,647	374,412
272,531	-	1,090,059	988,178	374,412
49,083		-	49,083	-
-	-	141,555	141,555	-
49,083	-	141,555	190,638	-
-	-	44,413	44,413	-
321,614	-	1,276,027	1,223,229	374,412
$ 497,019	$ -	$ 3,007,615	$ 2,895,383	$ 609,251

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year ended June 30, 2015

Federal Grantor Pass Through Grantor Program Title and Grant Number	Federal CFDA Number	Pass-Through Grantor's Number	Approved Grant Award Amount	Prior Year(s) Expenditures (Memo Only)
Passed through Berrien RESA:				
Medicaid Outreach 2014-2015	93.778		$ 12,485	$ -
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			$ 12,485	$ -
TOTAL FEDERAL FINANCIAL ASSISTANCE			$ 8,706,813	$ 3,998,984

See notes to Schedule of Expenditures of Federal Awards

Accrued Revenue June 30, 2014	Adjustments	Current Year Expenditures	Current Year Receipts	Accrued Revenue June 30, 2015
$ -	$ -	$ 12,485	$ 12,485	$ -
$ 0	$ -	$ 12,485	$ 12,485	$ -
$ 669,189	$ -	$ 4,190,964	$ 4,072,193	$ 787,960

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS

Year ended June 30, 2015

Federal Program Title/Subrecipients Name	CFDA #	Current Year Cash Provided to Subrecipients
ABE - Instruction		
Ferry Street Resource Center	84.002	$ 11,550
Michigan Works	84.002	96,698
Brandywine Community Schools	84.002	46,347
Dowagiac Union Schools	84.002	27,898
Heartland Human Care	84.002	67,200
Cassopolis Public Schools	84.002	111,500
Total CFDA # 84.002		$ 361,193

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2015

NOTE A - BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Niles Community Schools under programs of the federal government for the year ended June 30, 2015. The information on this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Niles Community Schools, it is not intended to and does not present the financial position, or changes in net position of Niles Community Schools.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited to reimbursement. Negative amounts (if any) shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

NOTE C - GRANT AUDITOR REPORT:

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards.

NOTE D - NONCASH ASSISTANCE:

The value of noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

NOTE E - ADJUSTMENTS:

Adjustments resulted from changes in prior year award amounts during the year ended June 30, 2015 are as follows:

Federal Program Title	CFDA #	Description	Amount
ABE Instruction	84.002	Prior year receivable adjustment	$ 257
Title II, Part A	84.367	Prior year receivable adjustment	(257)
Net adjustment			$ -

NOTE F - FEDERAL EXPENDITURES:

Federal expenditures are reported as revenue in the following funds in the financial statements:

General Fund	$	3,020,100
Special Revenue Funds - Food Service		1,170,864
Total revenues per financial statements	$	4,190,964

NILES COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2015

SECTION I -SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:

Financial Statements:

Type of auditor's report issued:	Unmodified	
Internal controls over financial reporting:		
Material weakness(es) identified?	___ yes	x no
Significant deficiency(ies) identified?	___ yes	x none reported
Noncompliance material to financial statements noted?	___ yes	x no

Federal Awards

Internal controls over major programs:		
Material weakness(es) identified?	___ yes	x no
Significant deficiency(ies) identified?	___ yes	x none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133	___ yes	x no

Identification of Major Program

CFDA Numbers	Name of Federal Program or Cluster
10.553	National School Lunch Program - National School Breakfast
10.555	National School Lunch Program - Entitlement Commodities
10.555	National School Lunch Program - National School Lunch
84.010	Title I, Part A - Improving Basic Programs

Dollar threshold used to distinguish between type A and type B programs:		$ 300,000
Auditee qualifies as a low-risk auditee?	x yes	___ no

SECTION II -FINANCIAL STATEMENT AUDIT FINDINGS:

None

SECTION III -FEDERAL PROGRAM AUDIT FINDINGS:

None

SCARPONE & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Members of the Board of Education
Niles Community Schools
Niles, Michigan

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of Niles Community Schools for the year ended June 30, 2015, and issued our report thereon dated October 15, 2015. Professional standards require that we provide you with the following information related to our audit.

<u>Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133</u>

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Niles Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

As part of obtaining reasonable assurance about whether Niles Community Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also in accordance with OMB Circular A-133, we examined on a test basis, evidence about Niles Community Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-111 Compliance Supplement* applicable to each of its major programs for the purpose of expressing an opinion on Niles Community Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of Niles Community Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting principles and their application. The significant accounting policies used by Niles Community Schools are described in Note A to the financial statements. As described in Notes I and M, the District implemented new accounting policies related to pensions in accordance with GASB No. 68 and 71 during the current year. The effect of this change has significantly decreased the District's net position. We note no transactions entered into by Niles Community Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the useful lives of depreciable assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.

- Management's estimate of accrued compensated absences is based on balances of earned but unused sick time and personnel policies and employment contacts.

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

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Significant Findings or Issues

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

Management Responsibilities

We have requested certain representations from management that are included in the management representation letter dated October 15, 2015.

Management Consultations with Other Independent Accountants

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

Other Information in Documents Containing Audited Financial Statements

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

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

We appreciate the opportunity to be of service to you. As always, should you have any questions, please do not hesitate to contact us.

Sincerely,

SCARPONE & CO., P.C.

Scarpone & Co., P.C.

James F. Scarpone, CFP, CPA, CVA

October 15, 2015