

**Athens Area Schools**

Financial Report  
With Supplemental Information

Year Ended June 30, 2016

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**WILLIS & JURASEK**

CPAS AND CONSULTANTS

## **Independent Auditors' Report**

Board of Education  
Athens Area Schools  
Athens, 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 Athens Area Schools, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

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

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2016, on our consideration of Athens Area Schools' internal control over financial reporting and on our tests of 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Athens Area Schools' internal control over financial reporting and compliance.

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

October 10, 2016

**Athens Area Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2016

Our discussion and analysis of Athens Area Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2016.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the current position of the School District's financial statements and other supplemental information that presents all the School District's revenues and expenditures by program for the General Fund, Food Service Fund, Debt Retirement Fund, and Capital Projects Fund.

**FINANCIAL HIGHLIGHTS**

The overall condition of all funds and instructional activities remains sound for the School District. All goals related to the financial activities have been met, and if revenue and expenditure patterns can be maintained, sufficient resources for next year will be available.

Total expenditures for all of our programs were \$5,666,179 for the year. Program revenues (charges for services, operating grants and contributions) totaled \$1,179,029, leaving a net unfunded cost for the year of \$4,487,150. The School District's property taxes, state aid, and other revenue sources were sufficient to cover this total unfunded cost.

**USING THIS ANNUAL REPORT**

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than government-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

**Reporting the School District as a Whole**

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

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

**Athens Area Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2016

**Reporting the School District's Most Significant Funds**

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Debt Service Fund).

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the School District's operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

**The School District as Trustee**

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in a separate Statement of Fiduciary Net Position – Agency Funds on page 7. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**The School District as a Whole**

The School District's net position was (\$1,292,334) at June 30, 2016. Of this amount, (\$5,943,433) was unrestricted. Restricted net position is reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. On the following pages we focus our attention on the net position (TABLE 1) and changes in net position (TABLE 2) of the School District's governmental activities.

**Athens Area Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2016

**The School District as a Whole (Continued)**

**TABLE 1 – Net Position**

June 30, 2016 and 2015

		<u>2016</u>	<u>2015</u>
Assets			
	Current Assets	\$ 1,861,847	\$ 1,869,231
	Noncurrent Assets	<u>4,983,617</u>	<u>5,128,249</u>
	Total Assets	<u>6,845,464</u>	<u>6,997,480</u>
Deferred Outflows		<u>984,555</u>	<u>735,151</u>
Liabilities			
	Current Liabilities	1,205,856	1,770,928
	Noncurrent Liabilities	<u>7,696,713</u>	<u>6,992,119</u>
	Total Liabilities	<u>8,902,569</u>	<u>8,763,047</u>
Deferred Inflows		<u>\$219,784</u>	<u>706,714</u>
Net Position			
	Net investment in Capital Assets	4,335,625	3,803,203
	Restricted	315,474	475,419
	Unrestricted	<u>(5,943,433)</u>	<u>(6,015,752)</u>
	Total Net Position	<u>\$ (1,292,334)</u>	<u>\$(1,737,130)</u>

**Athens Area Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2016

**The School District as a Whole (Continued)**

**TABLE 2 – Changes in Net Position**

Years ended June 30, 2016 and 2015

	<b><u>2016</u></b>	<b><u>2015</u></b>
Program Revenue		
Charges for Services	\$ 168,082	\$ 152,034
Operating Grants and Contributions	1,010,947	1,136,015
General Revenue		
Property Taxes-General Purposes	906,750	581,869
Property Taxes-Debt Service	731,609	652,988
State and Federal School Aid	3,160,803	3,328,973
Gain on Sale of Asset	1,250	-
Miscellaneous	131,534	130,972
Total Revenue	6,110,975	5,982,851
Expenses		
Instruction	3,163,807	3,166,724
Support Services	1,801,718	1,787,165
Food Service	234,623	222,578
Community Services	13,583	27,976
Payments to Other Districts	69,143	53,280
Depreciation – Unallocated	376,057	370,119
Interest on Long-Term Debt	7,248	52,007
Total Expenses	5,666,179	5,679,849
Increase in Net Position	\$ 444,796	\$ 303,002

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$5,666,179.

**Athens Area Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2016

**MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2016, the School District amended the General Fund Budget two times.

**General Fund**

The actual revenue of the General Fund was \$5,347,641, above the original budget estimate of \$5,117,003, and the final amended budget of \$5,312,717. The increase in revenue between the original and final budget was due to a slightly larger increase in State Aid per pupil, as well as an increase in local tax revenue. Actual revenues were right in line with the final amended budget figure.

The actual expenditures of the General Fund were \$5,184,256, above original budget estimates of \$5,121,103, and below the final amended budget of \$5,325,874. The differences between the actual expenditures and the original and final budgets were due to cost containment in all areas and grants not completely spent in the fiscal year. Even with inflation pressures and rising utility costs, we were still able to reduce our expenditures considerably from what was approved by the Board.

**OTHER GOVERNMENTAL FUNDS OPERATING HIGHLIGHTS**

**Debt Service Fund**

The Debt Service Fund experienced a net increase in fund balance of \$34,432 leaving a fund balance of \$99,310 as of June 30, 2016. Property tax revenue increased over the previous year by \$70,777 while expenditures increased over the previous year by \$23,736. The increase in expenditures can be attributed to greater principal being paid down, \$40,000, but offset by less interest being paid, \$15,170.

**Food Service Fund**

The Food Service Fund showed a decrease in fund balance of \$20,894 for the year and a fund balance of \$16,243 as of June 30, 2016. Revenues increased over the previous year by \$16,412 and can be attributed to fewer meals served and less reimbursement from State sources. Expenditures increased over the previous year by \$18,015 and the major difference is increased food and supply costs.

**Capital Projects Fund**

The Capital Projects Fund showed a decrease in fund balance of \$170,170 for the year and a fund balance of \$218,853. Revenue included interest on investments of \$635 and expenditures for bus purchases for the year was \$170,805.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

At the end of fiscal year 2016, the School District had \$9,895,137 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$4,911,520 through June 30, 2016; therefore, we currently have a net book value of \$4,983,617.

**Athens Area Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2016

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

Capital assets at year-end were as follows:

Land	\$ 109,800
Equipment and Vehicles	1,179,192
Buildings	8,606,145
Less: Accumulated Depreciation	<u>(4,911,520)</u>
 Total Capital Assets, Net of Depreciation	 <u>\$ 4,983,617</u>

At June 30, 2016, the School District had \$647,992 in bonds and long-term notes outstanding, as shown below:

General Obligation Bonds	
2015 School Bus Bonds	\$ 405,000
Other	
Energy Bond	210,000
Capital leases	<u>32,992</u>
 Total	 <u>\$ 647,992</u>

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

Three years ago, we were very pleased to report that our school district was off the State's deficit district list and had satisfied our Deficit Elimination Plan with the Michigan Department of Education. We are pleased that for a third year we have improved our financial position, after restoring employees who had taken pay cuts four years ago (administrators and administrative staff, bus drivers, and secretaries) to their previous wage and salary levels and giving one-time, off-schedule payments to teachers, paraprofessionals, and cooks.

We continue to guard against "creep," the tendency for spending to creep back into or creep up in the budget when times are good. The simple lesson we have learned, and are happy to share with other school districts is, "You can't spend more than you're taking in." Too many school districts and other local governmental bodies, not to mention non-profits and even businesses, seem to think one can conduct business as usual in the face of declining revenues and increasing costs. Sooner or later, fund equity runs out. The only responsible path is to keep expenditures under revenue.

We also continue to contract and share services with a number of other interests. Information technology (IT) services are contracted with Calhoun Intermediate School District's Department of Technology (CDOT), adding to the number of shared or contracted services which already include: financial services from Calhoun ISD, custodial services with Hi-Tec Building Services, special education out-of-district busing through a Calhoun Area Educators/Calhoun ISD consortium with Dean Transportation, substitute teacher services through PESG, one administrative position filled by Good Marks for Schools, boiler maintenance services contracted through Hunter-Prell, student and financial IT and fiber optic services through the Calhoun ISD consortia, study opportunities and curriculum materials as members of the Battle Creek Area Mathematics and Science Center and Calhoun Area Career Center, independently contracted with another local district's bus mechanic, and others.

We are pleased that voters approved a bus bond proposal on the November 2014 ballot, which will allow us to renew our fleet with six new buses over the next four years. We have purchased two of the buses already and will purchase two more during the next fiscal year with the last two being purchased in 2018. Newer buses would decrease operational expenses for maintenance and fuel (due to increased efficiency). We are currently pursuing a 3.39 sinking fund millage that, if approved, will allow us to make substantial capital renovations to the districts infrastructure further reducing the need to use general fund dollars in those areas. This additional millage will keep with the Board commitment to keeping the total debt millage for taxpayers at or under the current 4.5 mills.

**Athens Area Schools**  
Management's Discussion and Analysis  
Year Ended June 30, 2016

Athens Area Schools remains committed to providing the highest quality education to the children of our community, in the safest environment, with fidelity and accountability to our voters and taxpayers.

**CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT**

This report is designed to give an overview of the financial conditions of the Athens Area Schools. If you have any questions about this report or need further information, please contact the Central Office at 4320 K Drive S, East Leroy, MI 49051; telephone (269) 729-5427.

**Athens Area Schools**  
Statement of Net Position  
June 30, 2016

	<b>Governmental Activities</b>
<b>Assets:</b>	
Cash and investments	\$ 956,351
Receivables	1,596
Due from other governmental units	895,847
Inventories	8,053
Capital assets:	
Cost of capital assets	9,895,137
Less: accumulated depreciation	(4,911,520)
Net capital assets	4,983,617
Total assets	6,845,464
 <b>Deferred Outflows of Resources:</b>	
Pension related	984,555
Total deferred outflows of resources	984,555
 <b>Liabilities:</b>	
State aid anticipation note	480,000
Accounts payable and accrued expenses	540,618
Unearned revenue	5,226
Long-term liabilities:	
Due within one year:	
Bonds, capital leases and contracts	177,323
Accrued interest	2,689
Due in more than one year:	
Bonds, capital leases and contracts	470,669
Compensated absences	52,328
Net pension liability	7,173,716
Total liabilities	8,902,569
 <b>Deferred Inflows of Resources:</b>	
Pension related	219,784
Total deferred inflows of resources	219,784
 <b>Net Position:</b>	
Net investment in capital assets	4,335,625
Restricted for:	
Capital projects	218,853
Debt service	96,621
Unrestricted	(5,943,433)
Total net position	\$ (1,292,334)

**Athens Area Schools**  
Statement of Activities  
Year Ended June 30, 2016

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expenses)</u>
			<u>Contributions</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Position</u>
<b>Primary Government</b>				
Governmental activities				
Instruction	\$ 3,163,807	\$ -	\$ 746,869	\$ (2,416,938)
Support services	1,801,718	104,910	93,955	(1,602,853)
Food service activities	234,623	63,172	170,123	(1,328)
Community services	13,583	-	-	(13,583)
Payments to other districts	69,143	-	-	(69,143)
Interest on long-term debt	7,248	-	-	(7,248)
Depreciation (unallocated)	376,057	-	-	(376,057)
Total governmental activities	<u>\$ 5,666,179</u>	<u>\$ 168,082</u>	<u>\$ 1,010,947</u>	<u>(4,487,150)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				906,750
Property taxes, levied for debt service				731,609
State aid not restricted to specific purposes				3,160,803
Unrestricted investment earnings				2,654
Other				128,880
Gain on sale of asset				1,250
Total general revenues				<u>4,931,946</u>
<b>Change in Net Position</b>				444,796
<b>Net Position - Beginning of Year</b>				<u>(1,737,130)</u>
<b>Net Position - End of Year</b>				<u>\$ (1,292,334)</u>

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>Assets</u></b>					
Cash and investments	\$ 611,732	\$ 99,310	\$ 218,853	\$ 26,456	\$ 956,351
Due from other funds	17,511	-	-	-	17,511
Receivable from other governments	894,357	-	-	1,490	895,847
Other receivables	1,596	-	-	-	1,596
Inventories	-	-	-	8,053	8,053
Total assets	<u>\$ 1,525,196</u>	<u>\$ 99,310</u>	<u>\$ 218,853</u>	<u>\$ 35,999</u>	<u>\$ 1,879,358</u>
<b><u>Liabilities and Fund Balances</u></b>					
<b>Liabilities:</b>					
Accounts payable	\$ 27,994	\$ -	\$ -	\$ 540	\$ 28,534
Due to other funds	-	-	-	17,511	17,511
State aid anticipation notes	480,000	-	-	-	480,000
Unearned revenue	3,521	-	-	1,705	5,226
Salaries payable	505,230	-	-	-	505,230
Accrued expenditures	6,854	-	-	-	6,854
Total liabilities	<u>1,023,599</u>	<u>-</u>	<u>-</u>	<u>19,756</u>	<u>1,043,355</u>
<b>Fund Balances:</b>					
Nonspendable:					
Inventories	-	-	-	8,053	8,053
Restricted	-	99,310	218,853	8,190	326,353
Unassigned	501,597	-	-	-	501,597
Total fund balances	<u>501,597</u>	<u>99,310</u>	<u>218,853</u>	<u>16,243</u>	<u>836,003</u>
Total liabilities and fund balances	<u>\$ 1,525,196</u>	<u>\$ 99,310</u>	<u>\$ 218,853</u>	<u>\$ 35,999</u>	<u>\$ 1,879,358</u>

**Athens Area Schools**

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

<b>Total Fund Balances - Governmental Funds</b>			\$	836,003
Amounts reported for governmental activities in the Statement of Net Position are different because:				
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.				4,983,617
Long-term liabilities not due and payable in the current period and not reported in the funds:				
Long-term debt payable	(647,992)			
Accrued interest	(2,689)			
Compensated absences	<u>(52,328)</u>			(703,009)
The pension liability and related deferred inflows and outflows are not due and payable in the current period and therefore are not reported in the funds.				
Net pension liability	(7,173,716)			
Deferred outflows related to pensions	984,555			
Deferred inflows related to pensions	<u>(219,784)</u>			<u>(6,408,945)</u>
<b>Total Net Position - Governmental Activities</b>			\$	<u><u>(1,292,334)</u></u>

**Athens Area Schools**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2016

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Local sources	\$ 1,157,383	\$ 724,209	\$ 635	\$ 64,390	\$ 1,946,617
State sources	3,774,178	-	-	9,497	3,783,675
Federal sources	186,266	-	-	160,626	346,892
Interdistrict and other	229,814	-	-	-	229,814
Total revenues	<u>5,347,641</u>	<u>724,209</u>	<u>635</u>	<u>234,513</u>	<u>6,306,998</u>
<b>Expenditures:</b>					
Instruction	3,223,027	-	-	-	3,223,027
Support services	1,826,966	-	-	-	1,826,966
Food service activities	-	-	-	240,593	240,593
Community services	13,583	-	-	-	13,583
Payments to other districts	69,143	-	-	-	69,143
Debt service:					
Principal	51,537	655,000	-	-	706,537
Interest and other charges	-	34,777	-	-	34,777
Capital outlay	-	-	170,805	-	170,805
Total expenditures	<u>5,184,256</u>	<u>689,777</u>	<u>170,805</u>	<u>240,593</u>	<u>6,285,431</u>
<b>Revenues Over (Under) Expenditures</b>	<u>163,385</u>	<u>34,432</u>	<u>(170,170)</u>	<u>(6,080)</u>	<u>21,567</u>
<b>Other Financing Sources (Uses):</b>					
Proceeds from long-term debt, net	-	-	-	-	-
Transfers in	15,000	-	-	186	15,186
Transfers out	(186)	-	-	(15,000)	(15,186)
Total other financing sources (uses)	<u>14,814</u>	<u>-</u>	<u>-</u>	<u>(14,814)</u>	<u>-</u>
<b>Net Changes in Fund Balance</b>	178,199	34,432	(170,170)	(20,894)	21,567
<b>Fund Balances - Beginning of Year</b>	<u>323,398</u>	<u>64,878</u>	<u>389,023</u>	<u>37,137</u>	<u>814,436</u>
<b>Fund Balances - End of Year</b>	<u>\$ 501,597</u>	<u>\$ 99,310</u>	<u>\$ 218,853</u>	<u>\$ 16,243</u>	<u>\$ 836,003</u>

## Athens Area Schools

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

**Net Change in Fund Balances - Total Governmental Funds** \$ 21,567

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

The amount by which depreciation \$376,057 was exceeded by capital expenditures \$231,425 in the current period. (144,632)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments and amortized bond premium exceeded proceeds. 685,399

Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued interest 4,867  
Compensated absences 6,124

Governmental funds report the required pension contributions for the fiscal year June 30, 2016 as an expenditure. The Statement of Activities reports the fully accrued pension expense based upon a September year-end to coincide with the State of Michigan's fiscal year.

Changes in pension related liabilities and deferrals (128,529)

**Change in Net Position of Governmental Activities** \$ 444,796

**Athens Area Schools**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
June 30, 2016

	<u>Agency Fund</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 118,883
Total assets	<u>\$ 118,883</u>
<b>Liabilities:</b>	
Due to student groups	\$ 118,883
	<u>\$ 118,883</u>

**Athens Area Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies**

The basic financial statements of Athens Area Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

**Reporting Entity**

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

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

**District-Wide and Fund Financial Statements**

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

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

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

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

**Athens Area Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**District-Wide and Fund Financial Statements (continued)**

It is the District's policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

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

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

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Expenditure reimbursing grants are recognized when the qualifying expenditures have been incurred, eligibility requirements have been met, and receipt of monies is expected within the current availability period (60 days post year-end). All other revenue items are considered to be available only when cash is received by the government.

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

The School District reports the following major governmental funds:

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

**Debt Service Fund** – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof related to bond issues. The District maintains one debt fund to record all activity related to the 2015 School Bus Bond Fund, 2011 Building and Site Fund Bonds, and the Energy Conservation Improvement Bonds.

Additionally, the government reports the following fund types:

**Capital Projects Funds** are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The District maintains one capital projects fund.

The 2015 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

**Athens Area Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)**

**District-Wide and Fund Financial Statements (Continued)**

Additionally, the government reports the following fund types:

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

**Fiduciary Funds** – Fiduciary Funds are used to account for assets held by the District in a trustee capacity (trust funds) or as an agent (agency funds). Fiduciary Fund net position and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held for the students and parents.

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

**State Revenue** - 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 Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2016, the foundation allowance was based on pupil membership counts taken in February 2015 and September 2015.

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

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

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

**Athens Area Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Revenues, Assets, Liabilities, and Net Position or Equity (Continued)**

**Property Taxes (Continued)**

For the year ended June 30, 2016, the District levied the following amounts per \$1,000 of assessed taxable valuation:

General Fund – Non-primary residence	18.0000
General Fund – Commercial personal property	6.0000
Debt Funds – All taxable values	4.3200

**Cash and Investments** – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB professional standards. Under these standards, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

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

**Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

**Inventories and Prepaid Items** – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

**Athens Area Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Revenues, Assets, Liabilities, and Net Position or Equity (Continued)**

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

Fixed assets are depreciated using the straight-line method over the following useful lives:

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

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

**Long-Term Obligations** – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are reported as a deferred inflow or outflow, separate from liabilities, and are amortized over the life of the bond using the straight-line method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Deferred Outflows/Inflows of Resources** – In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position or fund balance that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District currently reports deferred outflows of resources related to deferred pension plan expenses. Deferred pension plan expenses are recognized in the plan years to which it applies. The District also currently reports deferred outflows of resources from pension payments made subsequent to the measurement date to be recognized as the corresponding time lags are met.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District currently reports deferred inflows of resources related to its pension plan. These future resources will be amortized and recognized over a time period established by the actuary and relate to differences between actuarial estimates and actual results.

**Athens Area Schools**  
Notes to Financial Statements

**Note 1 – Summary of Significant Accounting Policies (Continued)**

**Revenues, Assets, Liabilities, and Net Position or Equity (Continued)**

**Defined Benefit Pension Plan** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees' Retirement System (MPERS) and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value. See Note 10 for detailed information.

**Fund Balance** – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of *nonspendable* amounts which are not in spendable form or are legally or contractually required to be maintained intact; *restricted* amounts that are constrained for specific purposes set by external parties or law; *committed* amounts that are constraints set by the highest decision making authority (the School Board) through adoption of a resolution and may only be removed by the School Board through a rescindment resolution; *assigned* amounts that have an intended purpose but require no formal specific action; and *unassigned* amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

**Use of Estimates** - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**Note 2 – Stewardship, Compliance, and Accountability**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any, for the General Fund, are noted in the required supplemental information section.

**Athens Area Schools**  
Notes to Financial Statements

**Note 2 – Stewardship, Compliance, and Accountability (Continued)**

4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end.

**Note 3 – Cash and Investments**

At year-end, the District’s cash and investments were reported in the basic financial statements in the following categories:

	<b>Governmental Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and investments	\$ 956,351	\$ 118,883	\$ 1,075,234

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking and savings accounts, certificates of deposits)	\$ 1,075,134
Petty cash	100
Total	\$ 1,075,234

**Investment and Deposit Risk** – The District’s cash and investments are subject to several types of risk, as noted 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. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately \$855,000 of the District’s bank balance of \$1,105,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial Credit Risk – Investments** – Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have an investment policy for custodial credit risk.

**Interest Rate Risk** – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The District’s investment policy does not restrict investment maturities beyond State law.

**Credit Risk** – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers’ acceptances of specific financial institutions, qualified mutual funds and

**Athens Area Schools**  
Notes to Financial Statements

**Note 3 – Deposits and Investments (Continued)**

**Credit Risk (Continued)** – qualified external investment pools. The District's investment policy does not have specific limits in excess of State law on investment credit risk.

**Concentration of Credit Risk** – The District's investment policy does not limit investments with individual issuers.

**Foreign Currency Risk** – The District does not invest in foreign currency and does not maintain a policy regarding foreign currency risk.

**Note 4 – Receivables**

Receivables at year-end were approximately \$897,000 and consist mainly of amounts due from the State of Michigan and reimbursement for federal grants.

**Note 5 – Capital Assets**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ 109,800	\$ -	\$ -	\$ 109,800
Capital assets being depreciated:				
Buildings and improvements	8,606,145	-	-	8,606,145
Buses and other vehicles	661,445	170,805	-	832,250
Furniture and equipment	323,157	60,620	(36,835)	346,942
Subtotal	<u>9,590,747</u>	<u>231,425</u>	<u>(36,835)</u>	<u>9,785,337</u>
Accumulated depreciation:				
Buildings and improvements	3,868,496	301,587	-	4,170,083
Buses and other vehicles	525,645	23,279	-	548,924
Furniture and equipment	178,157	51,191	(36,835)	192,513
Subtotal	<u>4,572,298</u>	<u>376,057</u>	<u>(36,835)</u>	<u>4,911,520</u>
Net capital assets being depreciated	<u>5,018,449</u>	<u>(144,632)</u>	<u>-</u>	<u>4,873,817</u>
Net capital assets	<u>\$ 5,128,249</u>	<u>\$ (144,632)</u>	<u>\$ -</u>	<u>\$ 4,983,617</u>

Depreciation expense, which totaled \$376,057 was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

**Athens Area Schools**  
Notes to Financial Statements

**Note 6 – Notes Payable**

At June 30, 2016, the School District was issued State Aid anticipation notes that totaled \$800,000, with interest rates between .760% and 1.463% and maturity dates of July 20, 2016 and August 22, 2016, as follows:

<u>Note</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
2015C-1	\$ 271,828	0.760%	7/20/2016
2015C-2	171,372	1.080%	8/22/2016
2015C-3	228,628	1.463%	8/22/2016
2015C-4	128,172	0.640%	7/20/2016

The State Aid Anticipation Notes are secured by the full faith and credit of the District as well as pledges of State Aid. Note 2015C-1 and 2015C-4 required payments to an irrevocable set-aside account of \$320,000 by June 30, 2016. At year-end, the total of these payments is considered defeased debt and is not included in the year-end balance.

<u>Balance June 30, 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2016</u>
\$ 500,000	\$ 800,000	\$ 820,000	\$ 480,000

The District has also approved the issuance of State Aid anticipation notes in the amounts of \$239,853, \$360,147, and \$300,000 with respective interest rates of 1.00%, 0.76%, and 1.20% and with a one-year maturity due August 21, 2017 for the 2016-2017 school year. Under the agreement, the District will begin making payments on the \$239,853 and \$360,147 notes beginning March 2017.

**Note 7 – Interfund Receivables, Payables and Transfers**

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the Balance Sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**Due To/From Other Funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ <u>17,511</u>

During the year, the Food Service Fund transferred \$15,000 to the General Fund for the payment of indirect costs. A transfer of \$186 was made from the General Fund to the Food Service Fund for miscellaneous items.

**Athens Area Schools**  
Notes to Financial Statements

**Note 8 – Long-Term Debt**

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment as well as to account for compensated absences payable. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligations can be summarized as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 1,315,000	\$ -	\$ 700,000	\$ 615,000	\$ 170,000
Installment purchases:					
School bus loans/leases	\$ 10,046	38,930	15,984	32,992	\$ 7,323
Compensated absences	58,452	-	6,124	52,328	-
Total governmental activities	<u>\$ 1,383,498</u>	<u>\$ 38,930</u>	<u>\$ 722,108</u>	<u>\$ 700,320</u>	<u>\$ 177,323</u>

Annual debt service requirements to maturity on the above governmental obligations (excluding compensated absences) are as follows:

	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 177,323	\$ 17,572	\$ 194,895
2018	182,686	13,589	196,275
2019	113,066	9,109	122,175
2020	118,466	5,244	123,710
2021	56,451	1,191	57,642
	<u>\$ 647,992</u>	<u>\$ 46,705</u>	<u>\$ 694,697</u>

At June 30, 2016 long-term debt consisted of the following individual issues:

Capital lease obligation, US Bancorp Equipment Finance, secured by office photocopiers, payable in monthly installments of \$730 including interest at an imputed rate of 4.844% through August 25, 2021.	\$ 32,992
\$605,000 Energy Conservation Improvement Bonds, annual installments of \$45,000 to \$55,000 plus interest at a rate ranging from 3.50% to 4.90% through May 1, 2020.	210,000
2015 School Bus Bonds, annual installments of \$55,000 to \$125,000 plus interest at a rate ranging from 1.100% to 2.150% through May 1, 2021.	<u>405,000</u>
	<u>\$ 647,992</u>

**Athens Area Schools**  
Notes to Financial Statements

**Note 9 – Risk Management**

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injury as well as medical, life and workers' compensation benefits provided to employees. School Board liability, errors and omissions, student accident, and all health and life insurances have been purchased through a combination of self-insurance programs and commercial insurance policies.

The School District is a member of the School Employees Group (SEG), Self-Insured Workers Disability Compensation Fund (the "Fund"), established pursuant to the provisions of Act 138 of Michigan Public Acts of 1982, which authorizes contracts between school districts to form a self-insurance fund, and to prescribe conditions to the performance of these contracts.

The School District pays quarterly premiums to the Fund for workers' disability compensation coverage. The agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will purchase both specific and aggregate insurance to the limits determined necessary by the Fund management.

At June 30, 2016, there were no claims which exceeded insurance coverage, nor have any settled claims during the past three years exceeded insurance coverage. The School District did not have any significant reduction in insurance coverage from previous years.

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits**

**Organization**

**Plan Description** – The School District participates in the Michigan Public School Employees' Retirement System ("MPERS" or "the System"), a State-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees and their beneficiaries, and covers substantially all employees of the School District. In addition, the System's health plan provides postemployment healthcare benefits to all retirees and beneficiaries as an elective option including health, dental, and vision coverage. There are currently approximately 700 participating employers in the System which meets the definition of a qualified pension trust fund under Section 401(a) of the Internal Revenue Code.

The System was originally created under Public Act 136 of 1945, recodified, and currently operates under the provisions of Public Act 300 of 1980, as amended. Section 25 of this Act establishes a governing board and its authority to promulgate or amend the provisions of the System. The board consists of twelve members – eleven appointed by the Governor plus the State Superintendent of Instruction, who serves as an ex-officio member.

The System 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 System resides. The State Treasurer serves as the investment officer and custodian for the System.

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 and are available at [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr). Information provided in this report includes financial data, actuarial assumptions data, and detailed information about the pension plan's fiduciary net position.

**Athens Area Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Organization (Continued)**

**Benefits Provided** - Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for DB plan members are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. 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.

**Contributions** – Public Act 300 of 1980, as amended, requires contributions from both the participating employers and the plan members. The School District, as a participating employer, is required to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Under these provisions, each school district's contribution is expected to finance the costs of benefits earned by employees (plan members) during the year, with an additional amount paid in to finance a portion of the unfunded accrued liability.

The System is set up with seven different benefit options which are available to plan members (employees) based on date of hire. Depending on the plan selected, plan member contributions range from 0% up to 7% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

The School District's contributions are determined based on employee elections. Contribution rates are adjusted annually by ORS. For the reported year, the rates ranged from 18.76% to 23.07% for the period of July 1, 2015 through September 30, 2015 and 14.56% to 18.95% for the period of October 1, 2015 through June 30, 2016.

The District's required and actual contributions to the plan for the year ended June 30, 2016 were \$661,526. The District's required and actual contributions include an allocation of \$196,023 in revenue received from the State of Michigan, and remitted to the System, to fund the MPSERS unfunded actuarial liability (UAAL) stabilization rate for the year ended June 30, 2016.

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

**Proportionate Share of School District's Net Pension Liability** - At June 30, 2016, the District reported a liability of \$7,173,716 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The District's proportionate share of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the System during the measurement period by the percent of statutorily required pension contributions from all applicable employers during the measurement period. At September 30, 2015, the District's proportionate share percent was .02937035 percent, an increase of .00069035 percent from its proportion measured as of September 30, 2014.

**Pension Expense** - For the year ended June 30, 2016, the School District recognized pension expense of \$644,353, exclusive of payments to fund the MPSERS UAAL stabilization rate.

**Athens Area Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

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

**Deferred Outflows and Deferred Inflows** - At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 23,761
Changes of assumptions	176,632	-
Net difference between projected and actual earnings on pension plan investments	36,616	-
Changes in proportion and differences between the School District's contributions and proportionate share of contributions	141,277	-
School District's contributions subsequent to the measurement date	<u>630,030</u>	<u>196,023</u>
Total	<u>\$ 984,555</u>	<u>\$ 219,784</u>

\$630,030 reported as deferred outflows of resources related to pensions resulting from District employer contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The remaining other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$58,150
2018	58,150
2019	48,573
2020	165,891

**Payables to the Pension Plan** - The District reported an accrued pension plan payable at June 30, 2016 of \$70,817. This amount represents employee withholdings and the employer amount payable for wages earned at June 30, 2016 but not yet paid.

**Actuarial Assumptions**

**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.

**Athens Area Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Actuarial Assumptions (Continued)**

**Actuarial Valuations and Assumptions (Continued)** - 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.

A summary of actuarial assumptions as of the latest actuarial valuation follows:

Valuation date	September 30, 2014
Actuarial cost method	Entry age, normal
Wage inflation rate	3.5%
Investment rate of return:	
MIP and Basic plans (non-hybrid)	8.0%
Pension Plus Plan (hybrid)	7.0%
Projected salary increases	3.5 – 12.3%, including wage inflation at 3.5%
Cost of living pension adjustments	3.0% annual non-compounded for MIP members
Mortality	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

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, 2015 is based on the results of an actuarial valuation date of September 30, 2014, 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 – 4.7158.
- Recognition period for assets in years is 5.0000.
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

**Long-Term Expected Rate of 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.

**Athens Area Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Actuarial Assumptions (Continued)**

**Long-Term Expected Rate of Return on Plan Assets (Continued)** – Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic equity pools	28.0%	5.9%
Alternative investment pools	18.0%	9.2%
International equity	16.0%	7.2%
Fixed income pools	10.5%	0.9%
Real estate and infrastructure pools	10.0%	4.3%
Absolute return pools	15.5%	6.0%
Short-term investment pools	<u>2.0%</u>	0.0%
Total	<u>100.0%</u>	

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

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

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate** - The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (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 one percentage point lower or one percentage point higher:

<u>Current Single Discount Rate</u>		
<u>1% Decrease (Non-Hybrid/Hybrid)* 7.0%/6.0%</u>	<u>Assumption (Non-Hybrid/Hybrid)* 8.0%/7.0%</u>	<u>1% Increase (Non-Hybrid/Hybrid)* 9.0%/8.0%</u>
<u>\$9,248,759</u>	<u>\$7,173,716</u>	<u>\$5,524,370</u>

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

**Athens Area Schools**  
Notes to Financial Statements

**Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits (Continued)**

**Post-Employment Benefits Other than Pensions (OPEB)**

Under the MPSERS act, all participating retirees have the option of continuing health, dental, and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent, or 20 percent for those not Medicare eligible, of the monthly premium amount for the various coverages at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rates to fund the benefits on a pay-as-you-go basis. The employer contribution rate on covered payroll for the period of July 1, 2015 through September 30, 2015 was 2.20% to 2.71% and for the period of October 1, 2015 through June 30, 2016 was 6.04% to 6.83%, dependent upon the employee's date of hire and plan election.

Members can choose to contribute 3.0% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit or they can elect not to pay the 3.0% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a plan with 2.0% employee contributions into their 457 account as of their transition date and with a 2.0% employer match into the employee's 401(k) account.

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016 and 2015 were approximately \$231,833 and \$83,702, respectively. In addition, a portion ranging from 35-100 percent of the MPSERS unfunded actuarial accrued liability (UAAL) stabilization rate is considered a contribution to the retiree healthcare plan.

**Note 11 – Federal and State Grants**

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

**Note 12 – Upcoming Accounting and Reporting Changes**

The Government Accounting Standards Board has issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 requires new government disclosures about tax abatement agreements with entities and individuals including the purpose of the program, the tax being abated, the dollar amount and provisions for recapturing abated taxes as well as the types of commitments made by tax abatement recipients. It also requires disclosures about other commitments made by a government in tax abatement agreements, such as to build infrastructure assets. The new standard also requires disclosures about tax abatements that are entered into by other governments that reduce the reporting government's tax revenues. Statement No. 77 is effective for the year ended June 30, 2017 with earlier application encouraged.

Another upcoming reporting change comes from GASB's issuance of Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 sets standards for governments that provide postemployment benefits other than pensions (OPEB). Similar to the GASB standards set for pension benefits, the Statement requires the District, as a cost-sharing employer participating in MPSERS, to recognize and report its proportionate share of the MPSERS' net OPEB liability as well as the related deferred inflows and outflows of resources, and expenses/expenditures. The Statement also addresses standards for OPEB note disclosures and required supplementary information. Statement No. 75 will be effective for the District's fiscal year ending June 30, 2018.

## **Required Supplemental Information**

**Athens Area Schools**  
 Budgetary Comparison Schedule - General Fund  
 Year Ended June 30, 2016

	<b>Budgeted Amounts</b>		<b>Actual</b>
	<b>Original</b>	<b>Final</b>	
<b>Revenues:</b>			
Local sources	\$ 797,662	\$ 1,107,152	\$ 1,157,383
State sources	4,003,341	3,755,957	3,774,178
Federal sources	136,000	219,501	186,266
Interdistrict and other	180,000	230,107	229,814
Total revenues	<u>5,117,003</u>	<u>5,312,717</u>	<u>5,347,641</u>
<b>Expenditures:</b>			
Instruction:			
Basic programs	2,520,184	2,652,525	2,662,176
Added needs	582,712	599,196	560,851
Support services:			
Pupil	110,593	114,598	116,914
Instructional staff	102,923	101,565	90,456
General administration	190,095	92,192	69,141
School administration	219,342	329,817	299,096
Business	166,435	150,478	135,043
Operation & maintenance	457,327	533,575	516,232
Pupil transportation	363,226	332,660	343,106
Central services	114,250	124,175	109,288
Athletic activities	155,987	158,868	147,690
Community services:			
Community activities	27,870	13,475	12,745
Custody and care of children	-	-	-
Other	-	500	838
Payments to other public schools	45,000	67,500	69,143
Debt service:			
Principal and interest	62,659	52,250	51,537
Capital outlay	2,500	2,500	-
Total expenditures	<u>5,121,103</u>	<u>5,325,874</u>	<u>5,184,256</u>
<b>Revenues Over (Under) Expenditures</b>	<u>(4,100)</u>	<u>(13,157)</u>	<u>163,385</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	15,000	15,000	15,000
Transfers out	-	(1,000)	(186)
Total other financing sources (uses)	<u>15,000</u>	<u>14,000</u>	<u>14,814</u>
<b>Net Changes in Fund Balances</b>	10,900	843	178,199
<b>Fund Balances - Beginning of Year</b>	<u>323,398</u>	<u>323,398</u>	<u>323,398</u>
<b>Fund Balances - End of Year</b>	<u>\$ 334,298</u>	<u>\$ 324,241</u>	<u>\$ 501,597</u>

### Athens Area Schools

Schedule of the District's Proportionate Share of the Net Pension Liability of the MPSERS Plan  
Last Two Fiscal Years (Amounts Determined Each Year as of September 30)

	<b>2016</b>	<b>2015</b>
District's proportion of net pension liability (%)	0.029370350%	0.028680000%
District's proportionate share of net pension liability	\$ 7,173,716	\$ 6,317,199
District's covered-employee payroll	\$ 2,497,117	\$ 2,520,799
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	287.28%	250.60%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

**Athens Area Schools**

Schedule of the District's Contributions to the MPSERS Plan  
Last Two Fiscal Year (Amounts Determined Each Year as of June 30)

	<u>2016</u>	<u>2015</u>
Statutorily required contributions	\$ 661,526	\$ 554,197
Contributions in relation to statutorily required contributions	<u>661,526</u>	<u>554,197</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 2,444,226</u>	<u>\$ 2,521,503</u>
Contributions as a percentage of covered-employee payroll	<u>27.06%</u>	<u>21.98%</u>

## **Athens Area Schools**

Notes to Required Supplementary Information Pension Schedules  
Year Ended June 30, 2016

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

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

## **Other Supplemental Information**



**WILLIS & JURASEK**

CPAS AND CONSULTANTS

**Independent Auditors' Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with  
Government Auditing Standards**

Board of Education  
Athens Area Schools  
Athens, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Athens Area Schools' basic financial statements and have issued our report thereon dated October 10, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

Board of Education  
Athens Area Schools  
Athens, Michigan

## **2016-1 – Budget Overage**

Criteria or Specific Requirement: It is management's responsibility to ensure that the District does not expend more than the budget adopted by the board.

Condition: As noted in the required supplemental budget information, expenditures for certain functions exceeded the final adopted budget.

Recommendation: We recommend the District consider reviewing the procedures for budget amendments to ensure the budgets are sufficient for anticipated expenditures.

Views of Responsible Officials and Planned Corrective Action: We are aware of the overages and will continue to monitor both the budget and the expenditures to account for potential variances.

## **Athens Area Schools' Response to Findings**

Athens Area Schools' response to the findings identified in our audit and referred to as 2016-1 is described previously. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.

October 10, 2016



**WILLIS & JURASEK**

CPAS AND CONSULTANTS

October 10, 2016

To the Board of Education  
Athens Area Schools  
Athens, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 31, 2016. Professional standards also require that we communicate to you the following information related to our audit.

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Athens Area Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2016. We noted no transactions entered into by the School District unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period

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

Management's estimate of the capitalized assets and the estimate of related accumulated depreciation. The bulk of the capitalized cost is based upon an asset appraisal done in a prior year. Related depreciation is based upon estimated lives and methods to formulate net book value. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statements contain estimates for net pension liability and related deferred inflows and deferred outflows of resources. This information has been provided by ORS to all school districts participating in the MPSERS pension system. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures 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.

To the Board of Education  
Athens Area Schools  
Page 2

*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 each opinion unit's 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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated as per the auditors' report.

*Management Consultations with Other Independent Accountants*

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

*Other Audit Findings or Issues*

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

Other Matters

We applied certain limited procedures to the Budgetary Comparison Schedules, the Schedule of Reporting Unit's Contributions, and the Schedule of Reporting Unit's Proportionate Share of the Net Pension Liability and related notes which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Very truly yours,

*Willis & Jurasek, P.C.*

Willis & Jurasek, P.C.