



NILES COMMUNITY SCHOOLS  
FINANCIAL STATEMENTS  
Year Ended June 30, 2016

NILES COMMUNITY SCHOOLS

NILES, MICHIGAN

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**FEDERAL AWARDS SUPPLEMENTAL INFORMATION**

Issued under separate cover



## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Niles Community Schools  
Niles, Michigan

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

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

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

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

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

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

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

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

### ***Opinion***

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

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule, the schedule of the School District's proportionate share of the net MPERS pension liability, and the schedule of the School District's contributions to MPERS, as outlined 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

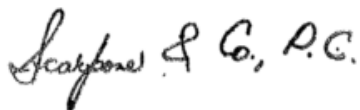
### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Niles Community Schools' basic financial statements. The other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated October 14, 2016, on our consideration of Niles Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing Niles Community Schools' internal control over financial reporting and compliance.

Handwritten signature in cursive script that reads "Scarfone & Co., P.C."

October 14, 2016

# NILES COMMUNITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2016

As management of the Niles Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the notes and financial statements, which follow this section.

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

### FINANCIAL HIGHLIGHTS

The \$40,531,168 in deficit unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Without the effects of GASB Statement No. 68, the District's total net position would be \$8,720,900. This amount enables the District to meet working capital and cash flow requirements as well as provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position (deficit) from year to year.

The results of this year's operations for the District as a whole are reported in the statement of activities as summarized in Table 2 which shows the changes in net position for the fiscal years 2016 and 2015.

### OVERVIEW OF FINANCIAL STATEMENTS

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

#### Government-wide financial statements

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

##### *1) The Statement of Net Position*

This statement reports all assets and liabilities of the District as of June 30, 2016. The difference between total assets and total liabilities is reported as "net position." Increases in net position generally indicates an improvement in financial position while a decrease may indicate a deterioration of financial position.

##### *2) The Statement of Activities*

This statement serves the purpose of the traditional income statement. It provides consolidated reporting of the results of all activities of the District for the year ended June 30, 2016. Changes in net position are recorded in the period in which the underlying event takes place, which may differ from the period in which cash is received or disbursed. The Statement of Activities displays the expense of the District's various programs net of the related revenues, as well as a separate presentation of revenues available for general purposes.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS-CONCLUDED

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

Fund financial statements

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

*Governmental funds*

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

*Fiduciary funds*

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

Notes to the financial statements

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

Other information

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

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The statement of net position (deficit) provides the perspective of the District as a whole. A summary of the District's net position (deficit) as of June 30, 2016 and 2015 is as follows:

		<u>Table 1</u>	
		<u>Statement of Net Position (Deficit)</u>	
		<u>Governmental Activities</u>	
		<u>2016</u>	<u>2015</u>
<b>Assets</b>			
Current and other assets	\$	49,953,031	\$ 12,004,110
Capital assets (net)		<u>7,922,113</u>	<u>6,214,679</u>
Total assets		57,875,144	18,218,789
Deferred outflows of resources related to pension			
		<u>6,644,015</u>	<u>4,896,181</u>
Total assets and deferred outflows of resources		64,519,159	23,114,970
<b>Liabilities</b>			
Current liabilities		6,884,845	7,266,144
Long-term liabilities		42,269,399	2,721,823
Net pension liability		<u>48,290,806</u>	<u>43,113,263</u>
Total liabilities		97,445,050	53,101,230
Deferred inflows of resources related to pension			
		<u>1,489,160</u>	<u>4,766,189</u>
Total liabilities and deferred inflows of resources		98,934,210	57,867,419
<b>Net Position (Deficit)</b>			
Net investment in capital assets		4,091,866	3,778,179
Restricted		2,024,251	1,222,674
Unrestricted		<u>(40,531,168)</u>	<u>(39,753,302)</u>
Total net position (deficit)	\$	<u>(34,415,051)</u>	\$ <u>(34,752,449)</u>

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

As noted earlier, net position (deficit) may serve over time as a useful indicator of a government's financial position. At June 30, 2016, the District's net position (deficit) was \$(34,415,051).

A portion of the District's net position (deficit), \$2,024,251, represents resources subject to external restrictions on how they may be used.



NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS- CONTINUED

Another portion of the District's net position, \$4.1 million reflects its investment in capital assets less depreciation and any related debt used to acquire those assets that is still outstanding. The District uses capital assets to provide services which in turn leave these assets not available for future spending.

Table 2  
Changes in Net Position (Deficit)

	<u>2016</u>	<u>2015</u>
Program Revenues:		
Charges for services	\$ 528,429	\$ 1,877,692
Operating grants and contributions	7,086,149	5,890,811
General Revenues:		
Property taxes	5,935,430	3,817,401
Michigan State Aid	28,210,561	27,457,240
Interest and investment earnings	367,374	-
Other revenues	231,362	180,905
Total revenues	<u>42,359,305</u>	<u>39,224,049</u>
Expenses:		
Instruction	22,425,516	21,771,226
Support	15,200,056	14,834,042
Community services	572,710	537,694
Food service	1,569,761	1,564,808
Interest on short & long-term debt & bond costs	1,612,580	47,333
Athletics	641,284	614,395
Total expenses	<u>42,021,907</u>	<u>39,369,498</u>
Increase (decrease) in net position	337,398	(145,449)
Net position (deficit), beginning of year	<u>(34,752,449)</u>	<u>(34,607,000)</u>
Net position (deficit), end of year	<u>\$ (34,415,051)</u>	<u>\$ (34,752,449)</u>

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2016

GOVERNMENTAL ACTIVITIES

Niles Community Schools is heavily reliant on state aid, grants and property taxes to support operations. State aid provided 67%, grants 17% and taxes 14% of the school district's total revenues. Also, charges for services represent 1% of governmental operating revenues. This means that the District relies on state taxpayers and federal revenues to cover 98% of the governmental activities. For school districts, in general, self-generated revenue is a relatively small percentage of total revenues.

The District's largest category of functional expenses is related to the direct instruction of regular education, special education and other students. Instructional expenditures comprised \$22.4 million or 53% of the total expenses. These costs include teacher salaries and benefits, textbooks and supplies used in instruction.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

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

Governmental funds

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

At the end of the current fiscal year, the District's governmental funds reported a combined ending fund balance of \$43,317,579. Of this amount, \$2,418,820 (6%) is unassigned fund balance, which is available for spending at the District's discretion. The unassigned fund balance will be used at the discretion of the School Board for revenue shortfalls, capital projects and any other unexpected expenditures.

The general fund is the District's chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$2,418,820, a decrease of \$739,817.

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

Fiduciary funds

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

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

The District adopts an annual appropriated budget for its general fund. The final budget expenditures were more than the original budget expenditures by \$3,821,953. The majority of this increase was due to the State's retirement system flow through of both revenues and expenditures. The remaining increase is due mostly to an increase in grant activity for both revenues and expenditures. An amended original budget can be explained by a current budget year overrun. The general fund budget is reviewed throughout the year and is revised twice a year with the approval of the School Board. At the end of the fiscal year the actual expenditures are projected and the budget is amended to prevent any budget overruns. The District tries to work within its original budget by increasing categories that will exceed budget while decreasing other categories to cover these overruns. If the transferring will not cover these expenditures, then the District must appropriate from its fund balance.

The actual revenues are \$311,912 under budget and expenditures are \$388,978 under budget. The \$311,912 decrease includes shortages in various accounts. The under spending of the expenditures can be attributed to variances in all accounts. In all, the District's budget has been prepared on a conservative basis and provided adequate resources to fund services provided. All schools have limited resources and, thus limited numbers of programs and services that can be provided. We are proud to say that we have done well in terms of maintaining a solid financially sound organization by spending well within our means.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2016

CAPITAL ASSETS

The District's investment in capital assets for its governmental activities at June 30, 2016, amounts to \$7,960,710 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, automobiles and equipment. A detailed note of these capital assets can be found in the Notes to the Financial Statements (Note D).

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

- Improvements to school buildings within the school district

Table 3  
Capital Assets-Governmental Activities

	<u>2016</u>	<u>2015</u>
Capital assets not being depreciated:		
Land	\$ 151,500	\$ 151,500
Construction in progress	1,908,195	-
	<u>2,059,695</u>	<u>151,500</u>
Capital assets being depreciated:		
Building	18,607,239	18,581,274
Improvements other than buildings	2,343,998	2,343,998
Equipment	1,258,804	1,247,448
Vehicles	489,927	489,927
	<u>22,699,968</u>	<u>22,662,647</u>
Less accumulated depreciation for:		
Buildings	12,942,878	12,734,084
Improvements other than buildings	2,243,850	2,232,146
Equipment	1,176,456	1,164,028
Vehicles	474,366	469,210
	<u>16,837,550</u>	<u>16,599,468</u>
Total capital assets		
being depreciated, net	<u>5,862,418</u>	<u>6,063,179</u>
Total capital assets, net	<u>\$ 7,922,113</u>	<u>\$ 6,214,679</u>

DEBT ADMINISTRATION

At June 30, 2016, the District had debt outstanding for Qualified Zone Academy Bonds and 2015 Building and Site Bonds in the amounts of \$2,030,800 and \$39,995,000, respectively.

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

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

# NILES COMMUNITY SCHOOLS

## MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

June 30, 2016

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The general fund operating budget is a financial plan for the fiscal year commencing July 1, 2016 and ending June 30, 2017 and is made on the basis of the best estimates available at the time of preparation. Comparisons and trends are made with the 2015/16 final budget. General fund revenue is being budgeted \$0.5 million less than FY 2015-16 amended budget without the MPSRS Rate Stabilization Funds.

#### **Revenue**

##### Local:

All other revenues in this category are being budgeted at or around 15/16 levels.

##### State:

All State Aid is based on the conference committee report. This includes a \$120 increase to the foundation allowance which sets the foundation to \$7,511. We are budgeting our student projection at the same amount of students from 15/16. This increase in the foundation increases State Aid by \$464,040. We are projecting a decrease of \$95,500 in at-risk funds and a decrease of \$238,000 of Adult Ed 107 funds which were funds that were carried forward from previous years and used in the 15/16 school year. A decrease of \$49,620 in CTE revenue which was a special one year increase. The elimination of state categoricals, i.e., dual enrollment incentives and technology grants, which total \$130,400.

##### Federal:

The net revenue decrease from 2015-16 is \$403,000. This decrease is due to budgeting Title One, Two and Three at the state estimated funding levels. We are also showing a minor decrease IDEA funds. All other revenues in this category are being budgeted at or around 15/16 levels.

##### Transfers:

The net revenue decrease from 2015-16 is \$113,300. This majority of this decrease is due to not budgeting any BRESA fund equity distribution. All other revenues in this category are being budgeted at or around 15/16 levels.

#### **Expenditures**

General fund expenditures are being budgeted \$1,200,000 less than FY 2015-16 amended budget without the MPSRS Rate Stabilization Funds.

The majority of the budget, 75%, is for employee compensation, reflecting the fact that public education is a labor-intensive enterprise.

- A 1.0% reduction in the MPSRS rate (\$178,000)
- There will be a reduction of two teachers through attrition, and there will also be savings from eight retirements and filling these positions at lower levels (\$320,000).
- Grant expenditures will be budgeted at lower levels to match revenue (\$515,000).
- Reduction of curriculum budget due to the fact that a majority of this year's expenditure was purchased in the 15/16 school year (\$200,000).
- Merit pay will be determined in the 16/17 school year (\$65,000).
- Vehicle fund transfer (\$50,000).
- All other expenditures are being budgeted at or around 15/16 levels.

NILES COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONCLUDED

June 30, 2016

REQUESTS FOR FINANCIAL INFORMATION

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

NILES COMMUNITY SCHOOLS

STATEMENT OF NET POSITION

June 30, 2016

**ASSETS**

Current Assets:

Cash and investments	\$ 43,140,673
Accounts receivable	21,322
Intergovernmental receivable	6,084,140
Prepaid expenses	678,955
Inventories	27,941

Total current assets	49,953,031
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Noncurrent Assets:

Capital assets not being depreciated	2,059,695
Capital assets, being depreciated, net	5,862,418
Total noncurrent assets	7,922,113

<b>Total Assets</b>	57,875,144
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Deferred outflow of resources related to pension	6,644,015
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<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	\$ 64,519,159
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**LIABILITIES**

Current Liabilities:

Accounts payable	\$ 279,893
Accrued wages and benefits payable	1,956,302
State aid anticipation note	2,800,000
Accrued expenses	740,727
Intergovernmental payable	1,107,923

Long-term Liabilities:

Due within one year	1,024,299
Due in more than one year	41,245,100
Net pension liability	48,290,806

Total Liabilities	97,445,050
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Deferred inflow of resources related to pension	1,489,160
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<b>TOTAL LIABILITIES AND DEFERRED INFLOW OF RESOURCES</b>	98,934,210
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**NET POSITION (DEFICIT)**

Net investment in capital assets	4,091,866
Restricted for debt service	925,678
Restricted for capital projects	1,024,606
Restricted for food service	73,967
Unrestricted (deficit)	(40,531,168)

Total Net Position (Deficit)	\$ (34,415,051)
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See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

Year ended June 30, 2016

		<u>Program Revenues</u>		Governmental Activities Net (Expense) Revenue and Changes in Net Position
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
<b>Governmental Activities:</b>				
Instruction	\$ 22,425,516	\$ 204,415	\$ 7,056,289	\$ (15,164,812)
Support services	15,200,056	14,023	-	(15,186,033)
Athletics	641,284	61,767	-	(579,517)
Food service	1,569,761	248,224	29,860	(1,291,677)
Community services	572,710	-	-	(572,710)
Interest expense & bond costs	<u>1,612,580</u>	<u>-</u>	<u>-</u>	<u>(1,612,580)</u>
<b>Total Governmental Activities</b>	<b>\$ 42,021,907</b>	<b>\$ 528,429</b>	<b>\$ 7,086,149</b>	<b>\$ (34,407,329)</b>
 <b>General Revenues:</b>				
				3,342,479
				603,356
				1,989,595
				28,210,561
				367,374
				<u>231,362</u>
		Total General Revenues		<u>34,744,727</u>
				337,398
				<u>(34,752,449)</u>
				<u><u>\$ (34,415,051)</u></u>

See accompanying notes to financial statements.



NILES COMMUNITY SCHOOLS

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2016

	<u>General</u>	2015 <u>Building and Site Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 2,830,145	\$ 38,195,553	\$ 2,114,975	\$ 43,140,673
Accounts receivable	21,322	-	-	21,322
Due from other funds	184,141	-	69,000	253,141
Due from other governments	6,025,607	-	58,533	6,084,140
Prepaid expenses	678,955	-	-	678,955
Inventories	-	-	27,941	27,941
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 9,740,170</b>	<b>\$ 38,195,553</b>	<b>\$ 2,270,449</b>	<b>\$ 50,206,172</b>
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 217,836	\$ -	\$ 62,057	\$ 279,893
Payroll payable	1,956,302	-	-	1,956,302
Accrued expenses	491,334	-	-	491,334
Intergovernmental payable	1,107,923	-	-	1,107,923
Due to other funds	69,000	-	184,141	253,141
Short term borrowings	2,800,000	-	-	2,800,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	6,642,395	-	246,198	6,888,593
<b><u>FUND BALANCES</u></b>				
Nonspendable	678,955	-	27,941	706,896
Restricted	-	38,195,553	1,912,668	40,108,221
Committed	-	-	83,642	83,642
Unassigned	2,418,820	-	-	2,418,820
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	3,097,775	38,195,553	2,024,251	43,317,579
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,740,170</b>	<b>\$ 38,195,553</b>	<b>\$ 2,270,449</b>	<b>\$ 50,206,172</b>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET POSITION

June 30, 2016

**Total Fund Balances - Governmental Funds** \$ 43,317,579

Amounts reported for governmental activities on the statement of net position are different as follows:

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

Cost of capital assets	\$ 24,759,663	
Less, accumulated depreciation	<u>(16,837,550)</u>	
Capital assets, net		7,922,113

Governmental funds report actual pension expenditures for the fiscal year, whereas the governmental activities will recognize the net pension liability as of the measurement date. Pension contributions subsequent to the measurement date will be deferred in the statement of net position. In addition, resources related to changes of assumptions, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings will be deferred over time in the district-wide financial statements. These amounts consist of:

Deferred outflows of resources related to pensions	6,644,015	
Deferred inflows of resources related to pensions	<u>(1,489,160)</u>	
		5,154,855

Accrued interest payable is not included as a liability in governmental funds (249,393)

Long term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:

Bonds and notes payable	(42,025,800)	
Compensated absences and severance pay	(243,599)	
Net pension liability	<u>(48,290,806)</u>	
		<u>(90,560,205)</u>

**Net Position (Deficit) of Governmental Activities** \$ (34,415,051)

NILES COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended June 30, 2016

	<u>General</u>	2015 <u>Building and Site Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>				
Local sources:				
Property taxes	\$ 3,342,479	\$ -	\$ 2,592,951	\$ 5,935,430
Tuition	44,360	-	-	44,360
Interest	10,652	352,735	3,987	367,374
Food sales	-	-	248,224	248,224
Athletic admissions	61,767	-	-	61,767
Other	298,262	-	29,860	328,122
Total local sources	<u>3,757,520</u>	<u>352,735</u>	<u>2,875,022</u>	<u>6,985,277</u>
State sources	30,189,405	-	56,885	30,246,290
Federal sources	3,060,472	-	1,270,777	4,331,249
Other sources	796,489	-	-	796,489
Total revenues	<u>37,803,886</u>	<u>352,735</u>	<u>4,202,684</u>	<u>42,359,305</u>
<b>Expenditures:</b>				
Current:				
Instruction	22,278,169	-	-	22,278,169
Support services	14,369,268	-	-	14,369,268
Athletics	641,284	-	-	641,284
Food services	-	-	1,569,761	1,569,761
Community services	572,710	-	-	572,710
Capital outlay	11,356	1,908,195	655,062	2,574,613
Debt Service:				
Principal repayment	12,240	-	468,460	480,700
Interest expense	51,106	-	993,094	1,044,200
Total expenditures	<u>37,936,133</u>	<u>1,908,195</u>	<u>3,686,377</u>	<u>43,530,705</u>
Excess (deficiency) of revenues over expenditures	<u>(132,247)</u>	<u>(1,555,460)</u>	<u>516,307</u>	<u>(1,171,400)</u>
<b>Other Financing Sources:</b>				
Bond proceeds, net of issuance costs	-	39,751,013	-	39,751,013
Operating transfers in	-	-	251,700	251,700
Operating transfers out	(251,700)	-	-	(251,700)
Total other financing sources	<u>(251,700)</u>	<u>39,751,013</u>	<u>251,700</u>	<u>39,751,013</u>
Excess of revenues and other financing sources over expenditures	(383,947)	38,195,553	768,007	38,579,613
Fund Balances, Beginning of Year	<u>3,481,722</u>	<u>-</u>	<u>1,256,244</u>	<u>4,737,966</u>
<b>Fund Balances, End of Year</b>	<u>\$ 3,097,775</u>	<u>\$ 38,195,553</u>	<u>\$ 2,024,251</u>	<u>\$ 43,317,579</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

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

Year ended June 30, 2016

**Net Change in Fund Balances - Total Governmental Funds** \$ 38,579,613

Amounts reported for governmental activities on the statement of activities are different as follows:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year:

Depreciation	\$ (238,082)	
Capital outlay-over threshold	<u>1,945,516</u>	1,707,434

Proceeds from borrowing provide current financial resources to governmental funds in the period received, but are recorded as long-term liabilities in the statement of net position (40,070,000)

Interest is recorded in statement of activities when incurred. It is not reported in governmental funds until paid (249,393)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. 480,700

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued compensated absences	41,724	
Increase in deferred outflows of resources related to pensions	1,747,834	
Decrease in deferred inflows of resources related to pensions	3,277,029	
Increase in net pension liability	<u>(5,177,543)</u>	<u>(110,956)</u>

**Change in Net Position of Governmental Activities** \$ 337,398

NILES COMMUNITY SCHOOLS

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES

FIDUCIARY FUND

June 30, 2016

	<u>Agency Fund - Student Activities</u>
<b><u>ASSETS</u></b>	
Cash and cash equivalents	\$ <u>458,994</u>
<b>Total Assets</b>	\$ <u><u>458,994</u></u>
<b><u>LIABILITIES</u></b>	
Due to student groups	\$ <u>458,994</u>
<b>Total Liabilities</b>	\$ <u><u>458,994</u></u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS  
NOTES TO FINANCIAL STATEMENTS

Year ended June 30, 2016

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES:

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

REPORTING ENTITY:

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

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

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

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

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

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

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

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

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

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

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

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

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

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

The District reports the following major governmental funds:

*General Fund* - The General Fund is the primary operating fund of the District and accounts for all financial resources and expenditures of the District, except those required to be accounted for in another fund.

*2015 Building and Site Fund* - The 2015 Building and Site Fund is used to record bond proceeds as revenue and the disbursement of invoices specifically designated for building improvements and remodeling, and equipment acquisitions. Such revenue can only be expended for allowable capital purposes in accordance with the initial ballot language. This fund operates until the purpose for which it was created is completed.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

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

Additionally, the District reports the following non-major fund types:

*Special Revenue Funds* - The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is the only Special Revenue Fund maintained by the District. The primary sources of revenue for the Food Service Fund are sales to students and grants from the state and federal governments.

*Capital Projects Funds* - The Capital Projects Funds are used to account for the accumulation of resources and related appropriations for capital outlay expenditures as follows:

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

*Debt Service Fund* - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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

BUDGETS AND BUDGETARY ACCOUNTING:

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

1. Prior to June 30, management of the District submits to the Board of Education a proposed operating budget for the fiscal year commencing July 1, of that year. The operating budget includes proposed revenues and expenditures for the General Fund and Special Revenue Fund.
2. Prior to July 1, the budget is legally enacted on an activity level basis through passage of a board resolution.



NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

3. Budget amounts are reported in the basic financial statements as originally adopted or as amended by the Board of Education.
4. Budgets are adopted using the basis of accounting described above.

CASH AND INVESTMENTS:

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

RECEIVABLES AND PAYABLES:

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

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

INVENTORIES:

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

PROPERTY TAXES:

Property taxes are recognized as revenue on a levy year basis. The 2015 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after the year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed value of the property located in the District as of the preceding December 31. Assessed values are established annually by the various governmental units within the District and are equalized by the State of Michigan.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

STATE AID:

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

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

PREPAID ITEMS

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

CAPITAL ASSETS:

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

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

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

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

SALARIES PAYABLE AND ACCRUED EMPLOYEE BENEFITS:

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

COMPENSATED ABSENCES:

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

NET PENSION LIABILITY:

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

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES:

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

LONG-TERM OBLIGATIONS:

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

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONTINUED:

FUND BALANCE:

Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- \* *Nonspendable* - Amounts that are not in spendable form or are legally or contractually required to be maintained intact
- \* *Restricted* - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose
- \* *Committed* - Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education
- \* *Assigned* - Intent to spend resources for specific purposes expressed by the Board of Education, or by District management, who are authorized by resolution and approved by the Board of Education to make assignments
- \* *Unassigned* - Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes

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

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

ESTIMATES:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE A - NATURE OF BUSINESS AND ACCOUNTING POLICIES - CONCLUDED:

COMPARATIVE DATA:

Comparative data is not included in the District's financial statements.

MEASUREMENT OF PENSION LIABILITY AND EXPENSE:

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Michigan Public School Employees Retirement System (MPERS), and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. MPERS uses the economic measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the plan benefit terms. Related plan investments are reported at fair value.

NOTE B - CASH AND INVESTMENTS:

At June 30, 2016, the District's cash and investments were reported in the basic financial statements as follows:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	\$ 43,140,673	\$ 458,994	\$ 43,599,667

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

Deposits (checking, and savings accounts)	\$ 5,404,014
Money market investment account	38,195,553
Petty Cash	<u>100</u>
Total cash	<u>\$ 43,599,667</u>

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

*Custodial Credit Risk- Deposits:* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2016, \$6,325,243 of the District's deposits in financial institutions was exposed to credit risk because this amount was not covered by federal depository insurance. The District believes that due to the dollar amounts of cash deposits and the limits of federal depository insurance coverage, it is not practical to insure all deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE C - RECEIVABLES:

Receivables for the District's General Fund and the aggregated nonmajor funds at June 30, 2016 are as follows:

	General Fund	Nonmajor Funds	Total
Accounts receivable	\$ 21,322	\$ -	\$ 21,322
Intergovernmental receivable	6,025,607	58,533	6,084,140
Total	<u>\$ 6,046,929</u>	<u>\$ 58,533</u>	<u>\$ 6,105,462</u>

NOTE D - CAPITAL ASSETS:

Capital asset activity of the District's Governmental activities for the year ended June 30, 2016 were as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Assets not being depreciated:				
Land	\$ 151,500	\$ -	\$ -	\$ 151,500
Construction in progress	-	1,908,195	-	1,908,195
	<u>151,500</u>	<u>1,908,195</u>	<u>-</u>	<u>2,059,695</u>
Capital assets being depreciated:				
Land improvements	2,343,998	-	-	2,343,998
Buildings	18,581,274	25,965	-	18,607,239
Equipment	1,247,448	11,356	-	1,258,804
Vehicles	489,927	-	-	489,927
	<u>22,662,647</u>	<u>37,321</u>	<u>-</u>	<u>22,699,968</u>
Accumulated depreciation:				
Land improvements	2,232,146	11,704	-	2,243,850
Buildings	12,734,084	208,794	-	12,942,878
Equipment	1,164,028	12,428	-	1,176,456
Vehicles	469,210	5,156	-	474,366
	<u>16,599,468</u>	<u>238,082</u>	<u>-</u>	<u>16,837,550</u>
Net capital assets being depreciated	<u>6,063,179</u>	<u>(200,761)</u>	<u>-</u>	<u>5,862,418</u>
Net capital assets	<u>\$ 6,214,679</u>	<u>\$ 1,707,434</u>	<u>\$ -</u>	<u>\$ 7,922,113</u>

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

Governmental activities		
Support Services		\$ 237,743
Food Service		339
		<u>\$ 238,082</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE D - CAPITAL ASSETS-CONCLUDED:

CONSTRUCTION IN PROGRESS AND COMMITMENTS

At June 30, 2016, the District had significant construction in progress activities within its 2015 Building and Site Fund related to building improvements and remodeling, and equipment acquisitions. The estimated remaining commitments in connection with these active construction projects as of June 30, 2016 are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitments</u>
Elementary School Buildings	\$ 1,072,454	\$ 17,650,861
Ring Lardner Middle School	434,199	6,967,124
Niles High School	351,940	9,226,549
Special and Alternative Education Buildings	48,402	3,136,643
Administration Building	1,200	33,092
	<u>\$ 1,908,195</u>	<u>\$ 37,014,269</u>

NOTE E - INTERFUND RECEIVABLES AND PAYABLES:

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flows for operations. The composition of interfund balances as of June 30, 2016 is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
General Fund	\$ 184,141	General Fund	\$ 69,000
Food Service Fund	19,000	Food Service Fund	49,137
Capital Development	50,000	Building & Site Fund	85,984
	-	2014 QZAB Fund	35,160
	-	Capital Development	13,860
	<u>\$ 253,141</u>		<u>\$ 253,141</u>

NOTE F - STATE AID ANTICIPATION NOTE:

On August 20, 2015, the District borrowed an aggregate \$4,000,000 through the issuance of state aid anticipation notes from the Michigan Finance Authority. Such notes consisted of a \$815,483 State Aid Anticipation Series 2015 C-1 Note with a 0.76% annual interest rate, a \$384,517 State Aid Anticipation Series 2015 C-4 Note with a 0.64% annual interest rate, a \$1,199,609 State Aid Anticipation Series 2015 C-2 Note with a 1.08% annual interest rate, and a \$1,600,391 State Aid Anticipation Series 2015 C-3 Note with a 1.4625% annual interest rate. The State Aid Anticipation C-1 and C-4 Notes were paid in full prior to June 30, 2016. The State Aid Anticipation Series C-2 and C-3 Notes mature August 22, 2016. Interest on the state aid anticipation notes amounted to \$50,966 for the year ended June 30, 2016.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE F - STATE AID ANTICIPATION NOTE-CONCLUDED:

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Repayments</u>	Balance <u>June 30, 2016</u>
Series 2014 B-1	\$ 171,428	\$	\$ 171,428	\$ -
Series 2014 B-2	1,540,000		1,540,000	-
Series 2014 B-3	1,260,000		1,260,000	-
Series 2015 C-1	-	815,483	815,483	-
Series 2015 C-4	-	384,517	384,517	-
Series 2015 C-2	-	1,199,609	-	1,199,609
Series 2015 C-3	-	1,600,391	-	1,600,391
Total State Aid Anticipation Notes	<u>\$ 2,971,428</u>	<u>\$ 4,000,000</u>	<u>\$ 4,171,428</u>	<u>\$ 2,800,000</u>

NOTE G - GENERAL LONG-TERM DEBT:

The District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include severance pay and compensated absences. The following is a summary of the changes in general long-term debt for the year ended June 30, 2016.

	Balance <u>June 30, 2015</u>	<u>Additions</u>	<u>Repayments</u>	Balance <u>June 30, 2016</u>	Due Within <u>One Year</u>
Bonds payable	\$ 2,436,500	\$ 40,070,000	\$ 480,700	\$ 42,025,800	\$ 780,700
Severance pay	41,676	12,305	-	53,981	53,981
Compensated absences	243,647	-	54,029	189,618	189,618
	<u>285,323</u>	<u>12,305</u>	<u>54,029</u>	<u>243,599</u>	<u>243,599</u>
	<u>\$ 2,721,823</u>	<u>\$ 40,082,305</u>	<u>\$ 534,729</u>	<u>\$ 42,269,399</u>	<u>\$ 1,024,299</u>

General obligation bonds consist of the following at June 30, 2016:

Qualified Zone Academy Bonds dated September 22, 2011, with annual principal payments of \$204,000, and final maturity September 22, 2021.	\$ 1,224,000
Qualified Zone Academy Bonds dated October 1, 2014, with annual principal payments of \$201,700, and final maturity September 15, 2019.	806,800
2015 School Building and Site Bonds dated August 17, 2015, with annual principal payments ranging from \$375,000 to \$2,590,000, and final maturity May 1, 2045.	<u>39,995,000</u>
	<u>\$ 42,025,800</u>



NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE G - GENERAL LONG-TERM DEBT- CONTINUED:

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

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

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

On September 3, 2015 the District issued \$40,070,000 in 2015 School Building and Site Bonds (General Obligation - Unlimited Tax) for the purpose of partially remodeling, furnishing and refurbishing, equipping and re-equipping school facilities; erecting, furnishing and equipping additions to Howard Elementary School and Ring Lardner Middle School; and developing and improving sites. The Bonds will pledge the full faith and credit of the District for payment of the principal and interest thereon and will be payable from ad valorem taxes, which may be levied on all taxable property in the District, without limitation as to rate or amount. Terms of the Bonds require semi-annual interest payments commencing May 1, 2016 through May 1, 2045 at annual interest rates ranging from 3% - 4%, and annual principal payments ranging from \$75,000 - \$2,590,000 through May 1, 2045.

The Bonds shall mature at the following schedule.

	<u>2011 QZAB</u>	<u>2014 QZAB</u>	<u>2015 Building &amp; Site</u>	<u>Total</u>
2017	\$ 204,000	\$ 201,700	\$ 375,000	\$ 780,700
2018	204,000	201,700	430,000	835,700
2019	204,000	201,700	485,000	890,700
2020	204,000	201,700	540,000	945,700
2021	204,000	-	600,000	804,000
2022-2026	204,000	-	4,035,000	4,239,000
2027-2031	-	-	6,015,000	6,015,000
2032-2036	-	-	7,810,000	7,810,000
2037-2041	-	-	9,925,000	9,925,000
2042-2045	-	-	9,780,000	9,780,000
Total	<u>\$ 1,224,000</u>	<u>\$ 806,800</u>	<u>\$ 39,995,000</u>	<u>\$ 42,025,800</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

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

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

<u>June 30,</u>	<u>Interest</u>
2017	\$ 82,287
2018	64,010
2019	45,734
2020	32,016
2021	18,319
2022	<u>9,160</u>
Total	<u>\$ 251,526</u>

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM:

PLAN DESCRIPTION:

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

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

The System's financial statements are available at [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr).

BENEFITS PROVIDED:

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. There is no mandatory retirement age.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

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

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

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

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

PLAN CONTRIBUTIONS:

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

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded actuarial accrued liability as of September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year. The range of pension contribution rates in effect for the District for the year ended June 30, 2016 is as follows:

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

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

The District's required and actual contributions to the plan for the year ended June 30, 2016 was \$5,759,780. The District's required and actual contributions to the plan include an allocation of \$1,329,207 of revenue received from the State of Michigan, and remitted to the system, to fund the MPSERS Unfunded Actuarial Accrued Liability (UAAL) Stabilization Rate for the year ended June 30, 2016.

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

NET PENSION DEFERRALS, AND PENSION EXPENSE:

At June 30, 2016, the District reported a liability of \$48,290,806 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, which used updated procedures to roll forward the estimated liability to September 30, 2015. The District's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined. At September 30, 2015, the School District's proportion was 0.19771 percent.

For the year ended June 30, 2016, the School District recognized pension expense of \$4,430,573, exclusive of payments to fund the MPSERS UAAL Stabilization Rate. At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Difference between expected and actual experience	\$ -	\$ 159,953
Changes of assumptions	1,189,022	-
	-	
Net difference between projected and actual earnings on pension plan investments	246,486	-
Changes in proportion and differences between the District's contributions and proportionate share of contributions	373,341	-
District's contributions subsequent to the measurement date	<u>4,835,166</u>	<u>-</u>
Total	<u>\$ 6,644,015</u>	<u>\$ 159,953</u>

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

Year Ending <u>June 30,</u>	<u>Amount</u>
2017	\$ 236,025
2018	236,025
2019	171,527
2020	<u>1,005,319</u>
Total	<u>\$ 1,648,896</u>

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

The total pension liability as of September 30, 2015 is based on the results of an actuarial date of September 30, 2014 and rolled forward to September 30, 2015 using the following actuarial assumptions:

Actuarial Assumptions:

Wage Inflation Rate	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid)	8.0%
- Pension Plan Plus (Hybrid)	7.0%
Projected Salary Increases	3.5 - 12.3%, including wage inflation of 3.5%
Cost-of-Living Pension Adjustments	3% 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. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- \* Assumption changes as a result of an experience study for the periods 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2014, is based on the results of an actuarial valuation date of September 30, 2013, and rolled forward using generally accepted actuarial procedures, including the experience study.
- \* Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.8457
- \* Full actuarial assumptions are available in the 2014 MPSERS Comprehensive Annual Financial Report.

LONG-TERM EXPECTED RATE OF RETURN:

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

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONTINUED:

<u>Investment Category</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity pools	28.0%	5.9%
Private equity pools	18.0%	9.2%
International equity pools	16.0%	7.2%
Fixed Income pools	10.5%	0.9%
Real estate and infrastructure pools	10.0%	4.3%
Real return, opportunistic, and absolute pool	15.5%	6.0%
Short-Term investment pools	<u>2.0%</u>	(0.9%)
	<u>100.0%</u>	

At September 30, 2015, the District reported a liability of \$43,113,263 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 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 based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period. At September 30, 2015, the District's proportionate share percent was .19573 percent.

Discount Rate:

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

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

The following presents the District's proportionate share of the net pension liability, calculated using a discount rate of 7.0% to 8.0%, depending on the Plan option, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1.0% percentage point lower (6.0 - 7.0 percent) or 1.0 percentage point higher (8.0 - 9.0 percent) than the current discount rate.

<u>1% Decrease (6.0 - 7.0 Percent)</u>	<u>Current Discount Rate Assumption (7.0 - 8.0 Percent)</u>	<u>1% Increase (8.0 - 9.0 Percent)</u>
\$62,259,228	\$48,290,086	\$36,514,854

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE I - MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM - CONCLUDED:

Timing of the Valuation:

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

The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures.

Actuarial Valuations and Assumptions:

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

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

NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

NOTE J - FUND BALANCES - GOVERNMENTAL FUNDS:

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

	<u>General Fund</u>	<u>2015 Building and Site Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Nonspendable:				
Inventory	\$ -	\$ -	\$ 27,941	\$ 27,941
Prepaid Items	678,955	-	-	678,955
Total Nonspendable	<u>678,955</u>	<u>-</u>	<u>27,941</u>	<u>706,896</u>
Restricted for:				
Food Service Program	-	-	46,026	46,026
Capital Improvements	-	38,195,553	940,964	39,136,517
Debt Service	-	-	925,678	925,678
Total Restricted	<u>-</u>	<u>-</u>	<u>1,912,668</u>	<u>40,108,221</u>
Committed for:				
Capital Improvements	-	-	83,642	83,642
Unassigned	<u>2,418,820</u>	<u>-</u>	<u>-</u>	<u>2,418,820</u>
Total fund balances - governmental funds	<u>\$ 3,097,775</u>	<u>\$ 38,195,553</u>	<u>\$ 2,024,251</u>	<u>\$ 43,317,579</u>

NOTE K - INTEREST EXPENSE:

Interest expense of \$1,044,200 was charged to overall District operations and not specific activities as the District considers that its debt impacts multiple activities and allocation is not practical.

There was also \$249,393 of accrued interest reported on the Statement of Net Position for a total accrued interest amount of \$1,293,593 as reported on the Statement of Activities.



NILES COMMUNITY SCHOOLS

NOTES TO FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2016

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

During the year ended June 30, 2016, the District incurred expenditures that were in excess of the amounts budgeted as follows:

<u>Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Overrun</u>
Adult/community	\$ 88,768	\$ 107,027	\$ 18,259
Pupil services	2,350,195	2,354,067	3,872
School administration	2,484,667	2,516,269	31,602
Athletics	635,601	641,284	5,683

NOTE M - SUBSEQUENT EVENTS:

On August 22, 2016, the District borrowed an aggregate \$4,900,000 through the issuance of state aid anticipation notes from the Michigan Finance Authority. Such notes consisted of a \$839,485 State Aid Anticipation Series 2016C-1 Note with a 1.00% annual interest rate, a \$1,260,515 State Aid Anticipation Series 2016C-2 Note with a 0.76% annual interest rate, and a \$2,800,000 State Aid Anticipation Series 2015C-3 Note with a 1.20% annual interest rate. Note repayment terms for such notes require principal plus interest to be paid in seven installments of approximately \$120,000 each month beginning January 20, 2017, with final payment due on July 20, 2017, principal of \$1,260,515 plus interest to be paid on July 20, 2017, and principal of \$2,800,000 plus interest to be paid on August 21, 2017.

REQUIRED SUPPLEMENTAL INFORMATION

NILES COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

Year ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Local sources	\$ 3,496,300	\$ 3,713,100	\$ 3,757,520	\$ 44,420
State sources	27,492,738	30,252,968	30,189,405	(63,563)
Federal sources	2,981,290	3,315,380	3,060,472	(254,908)
Interdistrict sources	810,000	834,350	796,489	(37,861)
	<u>34,780,328</u>	<u>38,115,798</u>	<u>37,803,886</u>	<u>(311,912)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Basic programs	14,323,000	16,653,468	16,563,178	90,290
Added needs	5,185,000	5,610,450	5,607,964	2,486
Adult/community	105,000	88,768	107,027	(18,259)
Support Services:				
Pupil services	2,196,000	2,350,195	2,354,067	(3,872)
Instructional staff	2,367,000	2,473,421	2,319,787	153,634
General administration	389,000	454,995	432,871	22,124
School administration	2,285,000	2,484,667	2,516,269	(31,602)
Business services	299,380	333,055	311,274	21,781
Operations/maintenance	3,550,000	3,680,748	3,587,102	93,646
Transportation	2,290,000	2,436,848	2,423,110	13,738
Other support services	327,000	469,607	424,788	44,819
Athletics	616,000	635,601	641,284	(5,683)
Capital outlay	12,000	12,000	11,356	644
Community services	492,538	575,048	572,710	2,338
Outgoing transfers	253,940	253,940	251,700	2,240
Debt Service	64,000	64,000	63,346	654
	<u>34,754,858</u>	<u>38,576,811</u>	<u>38,187,833</u>	<u>388,978</u>
Excess (deficiency) of revenues over expenditures	25,470	(461,013)	(383,947)	77,066
Fund Balance, Beginning of Year	<u>3,481,722</u>	<u>3,481,722</u>	<u>3,481,722</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 3,507,192</u></u>	<u><u>\$ 3,020,709</u></u>	<u><u>\$ 3,097,775</u></u>	<u><u>\$ 77,066</u></u>

See accompanying notes to financial statements.

OTHER SUPPLEMENTAL INFORMATION

NILES COMMUNITY SCHOOLS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS

June 30, 2016

	<u>Nonmajor Food Service Fund</u>	<u>Nonmajor Capital Projects Fund</u>	<u>Nonmajor Bond Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<b><u>ASSETS</u></b>				
Cash and investments	\$ 79,687	\$ 1,109,610	\$ 925,678	\$ 2,114,975
Due from other governments	58,533	-	-	58,533
Due from other funds	19,000	50,000	-	69,000
Inventories	27,941	-	-	27,941
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 185,161</b>	<b>\$ 1,159,610</b>	<b>\$ 925,678</b>	<b>\$ 2,270,449</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b><u>LIABILITIES AND FUND EQUITY</u></b>				
<b>Liabilities:</b>				
Accounts payable	\$ 62,057	\$ -	\$ -	\$ 62,057
Due to other funds	49,137	135,004	-	184,141
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	111,194	135,004	-	246,198
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Fund balances:</b>				
Non-spendable	27,941	-	-	27,941
Restricted	46,026	940,964	925,678	1,912,668
Committed	-	83,642	-	83,642
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	73,967	1,024,606	925,678	2,024,251
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 185,161</b>	<b>\$ 1,159,610</b>	<b>\$ 925,678</b>	<b>\$ 2,270,449</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

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

NONMAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2016

	Nonmajor Food Service <u>Fund</u>	Nonmajor Capital Projects <u>Fund</u>	Nonmajor Bond Debt Service <u>Fund</u>	Total Nonmajor Governmental <u>Funds</u>
<b>Revenues:</b>				
Local sources:				
Property taxes	\$ -	\$ 603,356	\$ 1,989,595	\$ 2,592,951
Interest	227	1,932	1,828	3,987
Food sales	248,224	-	-	248,224
Other	29,860	-	-	29,860
Total local sources	<u>278,311</u>	<u>605,288</u>	<u>1,991,423</u>	<u>2,875,022</u>
State sources	56,885	-	-	56,885
Federal sources	<u>1,270,777</u>	<u>-</u>	<u>-</u>	<u>1,270,777</u>
Total revenues	<u>1,605,973</u>	<u>605,288</u>	<u>1,991,423</u>	<u>4,202,684</u>
<b>Expenditures:</b>				
Current operations:				
Food service	1,569,761	-	-	1,569,761
Capital outlay	-	655,062	-	655,062
Debt Service:				
Principal repayment	-	393,460	75,000	468,460
Interest expense	-	2,349	990,745	993,094
Total expenditures	<u>1,569,761</u>	<u>1,050,871</u>	<u>1,065,745</u>	<u>3,686,377</u>
Excess (deficiency) of revenues over expenditures	36,212	(445,583)	925,678	516,307
<b>Other Financing Sources:</b>				
Operating transfers in	<u>-</u>	<u>251,700</u>	<u>-</u>	<u>251,700</u>
Excess (deficiency) of revenues and other financing sources over expenditures	36,212	(193,883)	925,678	768,007
Fund Balances, Beginning of Year	<u>37,755</u>	<u>1,218,489</u>	<u>-</u>	<u>1,256,244</u>
<b>Fund Balances, End of Year</b>	<u>\$ 73,967</u>	<u>\$ 1,024,606</u>	<u>\$ 925,678</u>	<u>\$ 2,024,251</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECTS FUNDS

June 30, 2016

	<u>Capital Development</u>	<u>Building &amp; Site</u>	<u>2011 QZAB Fund</u>	<u>2014 Capital Project (QZAB) Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>					
Cash and investments	\$ 47,502	\$ 854,452	\$ 1,006	\$ 206,650	\$ 1,109,610
Due from other funds	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
<b>Total Assets</b>	<b><u><u>\$ 97,502</u></u></b>	<b><u><u>\$ 854,452</u></u></b>	<b><u><u>\$ 1,006</u></u></b>	<b><u><u>\$ 206,650</u></u></b>	<b><u><u>\$ 1,159,610</u></u></b>
<b><u>LIABILITIES</u></b>					
Due to other funds	\$ <u>13,860</u>	\$ <u>85,984</u>	\$ <u>-</u>	\$ <u>35,160</u>	\$ <u>135,004</u>
Total liabilities	<u>13,860</u>	<u>85,984</u>	<u>-</u>	<u>35,160</u>	<u>135,004</u>
<b><u>FUND BALANCES</u></b>					
Restricted	-	768,468	1,006	171,490	940,964
Committed	<u>83,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,642</u>
Total fund balances	<u>83,642</u>	<u>768,468</u>	<u>1,006</u>	<u>171,490</u>	<u>1,024,606</u>
<b>Total Liabilities and Fund Balances</b>	<b><u><u>\$ 97,502</u></u></b>	<b><u><u>\$ 854,452</u></u></b>	<b><u><u>\$ 1,006</u></u></b>	<b><u><u>\$ 206,650</u></u></b>	<b><u><u>\$ 1,159,610</u></u></b>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES

CAPITAL PROJECTS FUNDS

Year ended June 30, 2016

	Capital Development	Building & Site	2011 QZAB Fund	2014 Capital Project (QZAB) Fund	Total
<b>REVENUES:</b>					
Local sources:					
Property taxes	\$ -	\$ 603,356	\$ -	\$ -	\$ 603,356
Other	-	-	-	-	-
Interest	127	1,805	-	-	1,932
Total revenues	127	605,161	-	-	605,288
<b>EXPENDITURES:</b>					
Capital outlay	69,021	170,790	-	415,251	655,062
Debt Service:					
Principal repayment	-	191,760	-	201,700	393,460
Interest expense	-	2,349	-	-	2,349
Other	-	-	-	-	-
Total expenditures	69,021	364,899	-	616,951	1,050,871
Excess (deficiency) of revenues over expenditures	(68,894)	240,262	-	(616,951)	(445,583)
<b>OTHER FINANCING SOURCES:</b>					
Operating transfers in	50,000	-	-	201,700	251,700
Excess (deficiency) of revenues and other financing sources over expenditures	(18,894)	240,262	-	(415,251)	(193,883)
Fund Balances, Beginning of Year	102,536	528,206	1,006	586,741	1,218,489
<b>Fund Balances, End of Year</b>	<b>\$ 83,642</b>	<b>\$ 768,468</b>	<b>\$ 1,006</b>	<b>\$ 171,490</b>	<b>\$ 1,024,606</b>

See accompanying notes to financial statements.



NILES COMMUNITY SCHOOLS

BALANCE SHEET

BOND DEBT SERVICE FUND

June 30, 2016

**ASSETS**

Cash and investments	\$ <u>925,678</u>
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**FUND BALANCE**

Restricted	\$ <u>925,678</u>
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See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE

BOND DEBT SERVICE FUND

Year ended June 30, 2016

**Revenues:**

Local sources:

Property taxes	\$ 1,989,595
Interest	1,828

Total revenues	<u>1,991,423</u>
----------------	------------------

**Expenditures:**

Principal repayment	75,000
Interest	990,745

Total expenditures	<u>1,065,745</u>
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Excess of revenues over expenditures	925,678
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Fund Balance, Beginning of Year	<u>-</u>
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<b>Fund Balance, End of Year</b>	<u><u>\$ 925,678</u></u>
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See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

AGENCY FUND

Year ended June 30, 2016

	Balance June 30, <u>2015</u>	<u>Receipts</u>	<u>Disbursements</u>	Balance June 30, <u>2016</u>
<b><u>ASSETS</u></b>				
Cash and equivalents	\$ <u>375,780</u>	\$ <u>612,822</u>	\$ <u>529,608</u>	\$ <u>458,994</u>
<b><u>LIABILITIES</u></b>				
Due to other funds	\$ 13,616	\$ -	\$ 13,616	\$ -
Due to student groups	<u>362,164</u>	<u>612,822</u>	<u>515,992</u>	<u>458,994</u>
	<u>\$ 375,780</u>	<u>\$ 612,822</u>	<u>\$ 529,608</u>	<u>\$ 458,994</u>

See accompanying notes to financial statements.

NILES COMMUNITY SCHOOLS

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

Determined as of the Plan Year Ended September 30,

	<u>2015</u>	<u>2014</u>
District's portion of the net pension liability	.19771%	.19573%
District's proportionate share of the net pension liability	\$ 48,290,806	\$ 43,113,263
District's covered employee payroll	\$ 17,371,112	\$ 17,098,335
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	278%	252%
Plan fiduciary net position as a percentage of the total pension liability	62.92%	66.20%

NILES COMMUNITY SCHOOLS  
SCHEDULE OF CONTRIBUTIONS TO THE  
MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM

Determined as of the Year Ended June 30,

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 4,430,577	\$ 4,300,641
Contributions in relation to the statutorily required contribution	\$ 4,430,577	\$ 4,300,641
Contribution deficiency	-	-
School District's covered employee payroll	\$ 17,371,112	\$ 17,098,335
Contributions as a percentage of covered employee payroll	25.51%	25.15%

NILES COMMUNITY SCHOOLS  
SCHEDULE OF PRINCIPAL REQUIREMENTS  
2011 - QUALIFIED ZONE ACCADEMY BONDS

Year Ending <u>June 30,</u>	Principal <u>September 22</u>
2017	\$ 204,000
2018	204,000
2019	204,000
2020	204,000
2021	204,000
2022	<u>204,000</u>
	<u>\$ 1,224,000</u>

NILES COMMUNITY SCHOOLS

SCHEDULE OF PRINCIPAL REQUIREMENTS

2014 SCHOOL TECHNOLOGY BONDS  
(QUALIFIED ZONE ACADEMY BONDS)

Year Ending <u>June 30,</u>	Principal <u>September 15</u>
2017	\$ 201,700
2018	201,700
2019	201,700
2020	<u>201,700</u>
	<u>\$ 806,800</u>

NILES COMMUNITY SCHOOLS

SCHEDULE OF PRINCIPAL AND REQUIREMENTS

2015 BUILDING AND SITE BONDS

Year Ending June 30,	<u>Principal</u>		<u>Interest Requirements</u>		<u>Total Interest</u>	<u>Annual Debt Service</u>
	<u>May 1</u>	<u>November 1</u>	<u>May 1</u>	<u>November 1</u>		
2017	\$ 375,000	\$ 748,178	\$ 748,178	\$ 748,178	\$ 1,496,356	\$ 1,871,356
2018	430,000	742,553	742,553	742,553	1,485,106	1,915,106
2019	485,000	736,103	736,103	736,103	1,472,206	1,957,206
2020	540,000	728,828	728,828	728,828	1,457,656	1,997,656
2021	600,000	720,728	720,728	720,728	1,441,456	2,041,456
2022	665,000	711,728	711,728	711,728	1,423,456	2,088,456
2023	735,000	701,753	701,753	701,753	1,403,506	2,138,506
2024	805,000	690,728	690,728	690,728	1,381,456	2,186,456
2025	875,000	678,653	678,653	678,653	1,357,306	2,232,306
2026	955,000	665,528	665,528	665,528	1,331,056	2,286,056
2027	1,040,000	651,203	651,203	651,203	1,302,406	2,342,406
2028	1,125,000	635,603	635,603	635,603	1,271,206	2,396,206
2029	1,215,000	618,728	618,728	618,728	1,237,456	2,452,456
2030	1,285,000	598,986	598,986	598,986	1,197,972	2,482,972
2031	1,350,000	577,300	577,300	577,300	1,154,600	2,504,600
2032	1,415,000	550,300	550,300	550,300	1,100,600	2,515,600
2033	1,485,000	522,000	522,000	522,000	1,044,000	2,529,000
2034	1,560,000	492,300	492,300	492,300	984,600	2,544,600
2035	1,635,000	461,100	461,100	461,100	922,200	2,557,200
2036	1,715,000	428,400	428,400	428,400	856,800	2,571,800
2037	1,800,000	394,100	394,100	394,100	788,200	2,588,200
2038	1,890,000	358,100	358,100	358,100	716,200	2,606,200
2039	1,980,000	320,300	320,300	320,300	640,600	2,620,600
2040	2,075,000	280,700	280,700	280,700	561,400	2,636,400
2041	2,180,000	239,200	239,200	239,200	478,400	2,658,400
2042	2,285,000	195,600	195,600	195,600	391,200	2,676,200
2043	2,395,000	149,900	149,900	149,900	299,800	2,694,800
2044	2,510,000	102,000	102,000	102,000	204,000	2,714,000
2045	2,590,000	51,800	51,800	51,800	103,600	2,693,600
	<u>\$ 39,995,000</u>	<u>\$ 14,752,400</u>	<u>\$ 14,752,400</u>	<u>\$ 14,752,400</u>	<u>\$ 29,504,800</u>	<u>\$ 69,499,800</u>





NILES COMMUNITY SCHOOLS  
FEDERAL AWARDS  
SUPPLEMENTAL INFORMATION  
Year Ended June 30, 2016

NILES COMMUNITY SCHOOLS

NILES, MICHIGAN

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REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Niles Community Schools  
Niles, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Niles Community Schools (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated October 14, 2016, which contained an unmodified opinion on the financial statements of Niles Community Schools. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to October 14, 2016.

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

*Scarpone & Co., P.C.*

October 14, 2016



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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Niles Community Schools  
Niles, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Niles Community Schools, (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 14, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Niles Community Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Niles Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

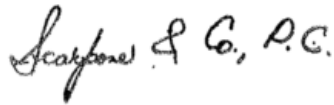
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

Handwritten signature in cursive script that reads "Scarpone & Co., P.C."

October 14, 2016



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Niles Community Schools  
Niles, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited Niles Community Schools' (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Compliance Supplement that could have a direct and material effect on each of Niles Community Schools' major federal programs for the year ended June 30, 2016. Niles Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management Responsibility**

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

**Auditor's Responsibility**

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Niles Community Schools' compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

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

## **Opinion on Each Major Federal Program**

In our opinion, Niles Community Schools complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## **Report on Internal Control Over Compliance**

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

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

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

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

*Scarpone & Co., P.C.*

October 14, 2016

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2016

Federal Grantor Pass Through Grantor <u>Program Title and Grant Number</u>	Federal CFDA <u>Number</u>	Pass-Through Grantor's <u>Number</u>	Approved Grant Award <u>Amount</u>	Prior Year(s) Expenditures <u>(Memo Only)</u>
Passed through Michigan Department of Education:				
Child Nutrition Cluster				
National School Lunch Program				
Non-Cash Assistance (commodities):				
Entitlement Commodities	10.555	N/A	\$ <u>76,479</u>	\$ <u>-</u>
Non-Cash Assistance Subtotal			<u>76,479</u>	<u>-</u>
Cash Assistance:				
National School Breakfast				
NSL Breakfast	10.553	151970	299,713	265,492
NSL Breakfast	10.553	161970	335,588	-
			<u>635,301</u>	<u>265,492</u>
NSL- Section 4 All Lunches	10.555	151960	775,701	700,120
NSL- Section 4 All Lunches	10.555	161960	701,511	-
			<u>1,477,212</u>	<u>700,120</u>
Summer Food Service Program				
SFSP - Operating	10.559	150900	36,156	-
SFSP - Administrative	10.559	151900	3,044	-
SFSP - Operating	10.559	160900	7,514	-
SFSP - Administrative	10.559	161900	683	-
			<u>47,397</u>	<u>-</u>
Cash Assistance Subtotal			<u>2,159,910</u>	<u>965,612</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ <u>2,236,389</u>	\$ <u>965,612</u>

See notes to Schedule of Expenditures of Federal Awards



Accrued Revenue <u>June 30, 2015</u>	<u>Adjustments</u>	Current Year <u>Expenditures</u>	Current Year <u>Receipts</u>	Accrued Revenue <u>June 30, 2016</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>76,479</u>	\$ <u>76,479</u>	\$ <u>-</u>
<u>-</u>	<u>-</u>	<u>76,479</u>	<u>76,479</u>	<u>-</u>
51,748	-	34,221	85,969	-
<u>-</u>	<u>-</u>	<u>335,588</u>	<u>319,423</u>	<u>16,165</u>
<u>51,748</u>	<u>-</u>	<u>369,809</u>	<u>405,392</u>	<u>16,165</u>
126,961	-	75,581	202,542	-
<u>-</u>	<u>-</u>	<u>701,511</u>	<u>667,340</u>	<u>34,171</u>
<u>126,961</u>	<u>-</u>	<u>777,092</u>	<u>869,882</u>	<u>34,171</u>
-	-	36,156	36,156	-
-	-	3,044	3,044	-
-	-	7,514	-	7,514
<u>-</u>	<u>-</u>	<u>683</u>	<u>-</u>	<u>683</u>
<u>-</u>	<u>-</u>	<u>47,397</u>	<u>39,200</u>	<u>8,197</u>
178,709	-	1,194,298	1,314,474	58,533
<u>178,709</u>	<u>-</u>	<u>1,194,298</u>	<u>1,314,474</u>	<u>58,533</u>
\$ <u>178,709</u>	\$ <u>-</u>	\$ <u>1,270,777</u>	\$ <u>1,390,953</u>	\$ <u>58,533</u>

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended June 30, 2016

Federal Grantor Pass Through Grantor <u>Program Title and Grant Number</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Approved Grant Award Amount</u>	<u>Prior Year(s) Expenditures (Memo Only)</u>
Passed through Michigan Department of Education				
Federal Adult Education ABE Instruction	84.002	151130	\$ 450,000	\$ 433,996
Federal Adult Education ABE Instruction	84.002	161130	585,000	-
Federal Adult Education ABE Instruction	84.002	161190	12,650	-
			<u>1,047,650</u>	<u>433,996</u>
Title I, Part A-Improving Basic Programs	84.010	151530	1,329,774	1,145,599
Title I, Part A-Improving Basic Programs	84.010	161530	1,282,750	-
			<u>2,612,524</u>	<u>1,145,599</u>
Title III, Limited English	84.365	150580	12,688	3,003
Title III, Limited English	84.365	160580	22,787	-
			<u>35,475</u>	<u>3,003</u>
Title II, Part A -Teacher/Principal Training	84.367	150520	264,617	137,172
Title II, Part A -Teacher/Principal Training	84.367	160520	306,796	-
			<u>571,413</u>	<u>137,172</u>
Total Passed through Michigan Department of Education			<u>4,267,062</u>	<u>1,719,770</u>
Passed through Berrien RESA:				
IDEA 2014-2015	84.027		1,090,059	1,090,059
IDEA 2015-2016	84.027		1,141,405	-
			<u>2,231,464</u>	<u>1,090,059</u>
IDEA - Preschool Grants 2015-2016	84.173		80,102	-
CTE - Perkins Reimbursement 2015-2016	84.048		39,441	-
Total passed through Berrien RESA			<u>2,351,007</u>	<u>1,090,059</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 6,618,069</u>	<u>\$ 2,809,829</u>

See notes to Schedule of Expenditures of Federal Awards

<u>Accrued Revenue June 30, 2015</u>	<u>Adjustments</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts</u>	<u>Accrued Revenue June 30, 2016</u>
\$ 103,827	\$ -	\$ -	\$ 103,827	\$ -
-	-	400,831	286,637	114,194
-	-	12,180	5,943	6,237
<u>103,827</u>	<u>-</u>	<u>413,011</u>	<u>396,407</u>	<u>120,431</u>
90,805	-	-	90,805	-
-	-	1,186,709	1,066,778	119,931
<u>90,805</u>	<u>-</u>	<u>1,186,709</u>	<u>1,157,583</u>	<u>119,931</u>
1,243	-	-	1,243	-
-	-	4,901	4,594	307
<u>1,243</u>	<u>-</u>	<u>4,901</u>	<u>5,837</u>	<u>307</u>
38,964	-	-	38,964	-
-	-	178,229	164,491	13,738
<u>38,964</u>	<u>-</u>	<u>178,229</u>	<u>203,455</u>	<u>13,738</u>
<u>234,839</u>	<u>-</u>	<u>1,782,850</u>	<u>1,763,282</u>	<u>254,407</u>
374,412	-	-	374,412	-
-	-	1,141,405	898,292	243,113
<u>374,412</u>	<u>-</u>	<u>1,141,405</u>	<u>1,272,704</u>	<u>243,113</u>
-	-	80,102	80,102	-
-	-	39,441	39,441	-
<u>374,412</u>	<u>-</u>	<u>1,260,948</u>	<u>1,392,247</u>	<u>243,113</u>
\$ <u>609,251</u>	\$ <u>-</u>	\$ <u>3,043,798</u>	\$ <u>3,155,529</u>	\$ <u>497,520</u>

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONCLUDED

Year ended June 30, 2016

Federal Grantor Pass Through Grantor <u>Program Title and Grant Number</u>	Federal CFDA <u>Number</u>	Pass-Through Grantor's <u>Number</u>	Approved Grant Award <u>Amount</u>	Prior Year(s) Expenditures <u>(Memo Only)</u>
Passed through Berrien RESA:				
Medicaid Outreach 2015-2016	93.778		\$ <u>16,674</u>	\$ <u>-</u>
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			\$ <u>16,674</u>	\$ <u>-</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			\$ <u><u>8,871,132</u></u>	\$ <u><u>3,775,441</u></u>

See notes to Schedule of Expenditures of Federal Awards

<u>Accrued Revenue June 30, 2015</u>	<u>Adjustments</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts</u>	<u>Accrued Revenue June 30, 2016</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>16,674</u>	\$ <u>8,827</u>	\$ <u>7,847</u>
\$ <u>-</u>	\$ <u>-</u>	\$ <u>16,674</u>	\$ <u>8,827</u>	\$ <u>7,847</u>
\$ <u><u>787,960</u></u>	\$ <u><u>-</u></u>	\$ <u><u>4,331,249</u></u>	\$ <u><u>4,555,309</u></u>	\$ <u><u>563,900</u></u>

See notes to Schedule of Expenditures of Federal Awards

NILES COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS PROVIDED TO SUBRECIPIENTS

Year ended June 30, 2016

<u>Federal Program Title/Subrecipients Name</u>	<u>CFDA #</u>	<u>Current Year Cash Provided to Subrecipients</u>
ABE - Instruction		
Ferry Street Resource Center	84.002	\$ 15,050
Michigan Works	84.002	104,182
Brandywine Community Schools	84.002	37,799
Dowagiac Union Schools	84.002	37,141
Heartland Human Care	84.002	87,360
Cassopolis Public Schools	84.002	111,712
		<hr/>
Total CFDA # 84.002		\$ <u><u>393,244</u></u>

NILES COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2016

NOTE A - BASIS OF PRESENTATION:

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

NOTE C - GRANT AUDITOR REPORT:

Management has utilized the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. No unreconciled differences have been disclosed by management to the auditor.

NOTE D - NONCASH ASSISTANCE:

The value of noncash assistance received was determined in accordance with the provisions of the Uniform Guidance. The grantee received no noncash assistance during the year ended June 30, 2016 that is not included on the schedule of expenditures of federal awards.

NOTE F - FEDERAL EXPENDITURES:

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

General Fund	\$	3,060,472
Special Revenue Funds - Food Service		<u>1,270,777</u>
Total revenues per financial statements	\$	<u><u>4,331,249</u></u>

NILES COMMUNITY SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2016

**SECTION I - SUMMARY OF INDEPENDENT AUDITOR'S RESULTS:**

*Financial Statements:*

Type of auditor's report issued: Unmodified

Internal controls over financial reporting:

Material weakness(es) identified?	<u>          </u> yes	<u>      x</u> no
Significant deficiency(ies) identified?	<u>          </u> yes	<u>      x</u> none reported

Noncompliance material to financial statements noted?            yes       x no

*Federal Awards*

Internal controls over major programs:

Material weakness(es) identified?	<u>          </u> yes	<u>      x</u> no
Significant deficiency(ies) identified?	<u>          </u> yes	<u>      x</u> none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(2)            yes       x no

*Identification of Major Program*

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

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualifies as a low-risk auditee?       x yes            no

**SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS:**

None

**SECTION III - FEDERAL PROGRAM AUDIT FINDINGS:**

None





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

We have audited the financial statements of the governmental activities and the aggregate remaining fund information of Niles Community Schools for the year ended June 30, 2016, and issued our report thereon dated October 14, 2016. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America**

As stated in our engagement letter dated June 29, 2016, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities. Further, our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of misstatement.

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

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

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

## **Planned Scope and Timing of the Audit**

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

## **Significant Audit Findings**

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting principles and their application. The significant accounting policies used by Niles Community Schools are described in Note A to the financial statements. We noted no material transactions entered into by Niles Community Schools during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

- Management's estimate of the useful lives of depreciable assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of accrued compensated absences is based on balances of earned but unused sick time and personnel policies and employment contracts.

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

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

### ***Difficulties Encountered in Performing the Audit***

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

### ***Corrected and Uncorrected Misstatements***

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

### ***Disagreements with Management***

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

### ***Significant Findings or Issues***

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

### ***Management Responsibilities***

We have requested certain representations from management that are included in the management representation letter dated October 14, 2016.

### ***Management Consultations with Other Independent Accountants***

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

### ***Other Information in Documents Containing Audited Financial Statements***

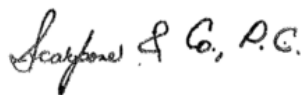
With respect to the supplemental information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method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

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

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

Sincerely,

SCARPONE & CO., P.C.



James F. Scarpone, CFP, CPA, CVA

14-Oct-16