River Valley School District

Financial Statements

June 30, 2016

Kruggel Lawton CPA
St. Joseph, MI

RIVER VALLEY SCHOOL DISTRICT
June 30, 2016

BOARD OF EDUCATION

Elected Member	Office	Term Expires
John Pawlik	President	December 31, 2020
Michael Ehlert	Vice President	December 31, 2016
David Whitlow	Secretary	December 31, 2018
J. C. German	Treasurer	December 31, 2016
Fred Knutel	Trustee	December 31, 2018
Phillip Bender	Trustee	December 31, 2020
Vickie Wagner	Trustee	December 31, 2020

SUPERINTENDENT

William J. Kearney

BUSINESS MANAGER

Brian Brown

Independent Auditor's Report

To the Board of Education of
River Valley School District
Three Oaks, 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 the River Valley School District (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 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the River Valley School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

Kruggel, Lawton & Company, LLC

Certified Public Accountants

St. Joseph, Michigan
October 24, 2016

River Valley School District (the "District"), a K-12 School District located in Berrien County, Michigan follows the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2016 of the management of River Valley School District.

Generally accepted accounting principles in the United States of America ("GAAP") and GASB 34 requires the reporting of two types of financial statements: District-Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Permanent Funds, Capital Projects Fund, and the School Service Fund.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District-Wide Financial Statements

The District-wide financial statements are full accrual basis statements. They report all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the District-wide financial statements.

The District as Trustee — Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its student activity funds. All of the District's fiduciary activities are reported in separate statements of fiduciary net position. These are excluded activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Summary of Net Position

The District had a deficit net position of $3,220,979 as of June 30, 2016, and is summarized in the table below:

	June 30, 2016	June 30, 2015
Assets		
Cash and cash equivalents	$ 3,814,171	$ 3,426,864
Investments	69,755	69,580
Due from other governmental units	272,669	302,911
Other assets	4,768	6,960
Net capital assets	5,147,466	4,952,225
Total Assets	$ 9,308,829	$ 8,758,540
Deferred Outflows of Resources		
Deferred outflows of resources from pensions	$ 1,319,632	$ 775,738
Total Assets and Deferred Outflows of Resources	$ 10,628,461	$ 9,534,278
Liabilities		
Accounts payable and other accrued liabilities	$ 855,398	$ 867,187
Bonds payable	1,468,000	1,601,000
Net Pension Liability	11,329,644	10,404,697
Total Liabilities	$ 13,653,042	$ 12,872,884
Deferred Inflows of Resources		
Deferred inflows of resources from pensions	$ 196,398	$ 766,535
Total Liabilities and Deferred Inflows of Resources	$ 13,849,440	$ 13,639,419
Net Position (Deficit)		
Net investment in capital assets	$ 3,679,466	$ 3,351,225
Restricted for:		
Scholarships	525,364	563,986
Debt Service	1,073	16
Sinking Fund	12,036	-
Unrestricted	(7,438,918)	(8,020,368)
Total Net Position (Deficit)	$ (3,220,979)	$ (4,105,141)

Analysis of Financial Position

During fiscal year ended June 30, 2016, the District's net position increased by $884,162. A few of the significant factors affecting net position during the year are discussed below:

A. General Fund Operations

The District's revenues in the General Fund operations exceeded expenditures by $292,260 for the fiscal year ended June 30, 2016. See the section entitled Results of Operations, on next page, for further discussion of General Fund operations.

B. Net Investment in Capital Assets

The District's net investment in capital assets increased by $195,241. The net activity for the year is summarized in the following table:

	Balance 7/1/2015	Additions	Disposals and Adjustments	Balance 6/30/2016
Capital Assets	$ 10,846,457	$ 482,107	$ (16,600)	$ 11,311,964
Less: accumulated depreciation	5,894,232	286,866	(16,600)	6,164,498
Net investment capital assets	$ 4,952,225	$ 195,241	$ -	$ 5,147,466

This year, the District completed the construction for capital replacement and improvements for $408,467 of which $73,315 was in progress at the end of the prior fiscal year; the other additions are primarily made up of $33,900 for a mower and appliances, and $39,740 for two vans. The $16,600 of deletions was from replacing a van. The District plans to maintain a comparable level of capital spending for the 2016-2017 fiscal year as a the capital replacement and improvement projects from the sinking fund millage continue. The District does not own any infrastructure assets.

C. Debt Activities

In prior years, the District approved a general bond obligation of $2,000,000 which was used to enhance and re-equip existing school facilities. The activity for the year is summarized as follows:

	Principal Balance June 30, 2015	Principal Additions	Principal Payments	Principal Balance June 30, 2016
2012 School Building Bond	$ 1,601,000	$ -	$ (133,000)	$ 1,468,000
Total	$ 1,601,000	$ -	$ (133,000)	$ 1,468,000

Results of Operations

The District-wide results of operations for the fiscal years ended June 30th, is summarized in the table below:

	June 30, 2016	June 30, 2015
Revenues:		
General Revenues:		
Property taxes levied for general operations	$ 7,596,936	$ 7,048,180
Other general revenues	77,361	105,917
Total general revenues	$ 7,674,297	$ 7,154,097
Charges for Services:		
Food service	$ 88,151	$ 72,672
Other charges for services	22,582	34,342
Total charges for services	$ 110,733	$ 107,014
Operating Grants:		
Federal	$ 481,037	$ 487,042
State of Michigan	932,162	907,468
Other contributions	106,355	227,809
Total operating grants	$ 1,519,554	$ 1,622,319
Capital Grants/ Contributions:		
Federal interest subsidy	$ 60,417	$ 65,153
Local capital contribution	-	200,481
Total capital grants/contributions	$ 60,417	$ 265,634
Total revenues	$ 9,365,001	$ 9,149,064
Expenses:		
Instruction	$ 4,175,626	$ 4,094,509
Pupil services	481,125	395,575
Support services	2,918,366	3,133,886
Food service	297,372	287,383
Athletics	256,594	228,568
Interest on long-term debt	64,890	70,356
Depreciation (unallocated)	286,866	281,606
Total expenses	$ 8,480,839	$ 8,491,883
Change in Net Position	$ 884,162	$ 657,181
Beginning Net Position (Deficit)	(4,105,141)	(4,762,322)
Ending Net Position (Deficit)	$ (3,220,979)	$ (4,105,141)

State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following variables:

a. State of Michigan State Aid Act per student foundation allowance,

b. Student Enrollment - Blended at 90 percent of current year fall count and 10 percent of prior year winter count, and

c. The District's non-homestead levy.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The District's net foundation allowance was $7,644 per student for 2015-2016 and $7,517 for 2014-2015 fiscal school years. The District is out of formula with the State of Michigan and receives an amount higher than the allocated foundation allowance.

Student Enrollment

The District's student enrollment for the fall count of 2015-2016 was 562.50 students. The District's enrollment decreased from the prior year count by 37 students. The following summarizes fall student enrollments in the past five years:

Fiscal Year	Student FTE	FTE Change from Prior Year
2015 - 2016	562.50	(36.82)
2014 - 2015	599.32	(8.65)
2013 - 2014	607.97	(51.68)
2012 - 2013	659.65	(23.15)
2011 - 2012	682.80	3.96

Subsequent to year ended June 30, 2016, preliminary student enrollments for 2016-2017 indicate that enrollments will primarily remain unchanged from 2015-2016.

Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)

The District levies approximately 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property levy for the 2015-2016 fiscal year was $7,596,936. The non-homestead tax levy has increased by 7.8 percent over the prior year.

Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes), Concluded

The increase in the District's non-homestead levy over the past five years is due to the make-up of the housing market, and that an increasing number of homes are becoming second homes. This is primarily due to the amount of lakefront property located within the District.

The following summarizes the District's non-homestead levy over the past five years:

Fiscal Year	Non-Homestead Tax Levy	% Change from Prior Year
2015 - 2016	$ 7,596,936	7.8%
2014 - 2015	7,048,180	5.3%
2013 - 2014	6,695,305	3.6%
2012 - 2013	6,465,766	0.5%
2011 - 2012	6,433,954	-0.9%

Debt Fund Property

The District had no debt fund levy during the current fiscal year. The future payments for the 2012 School Building Bond will be paid by the General Fund.

Food Sales to Students & Adults (School Lunch Program)

Compared to the prior school year, the District's food and milk sales to students and adults increased from $72,672 to $88,151.

The total expenditures from Food Service operations exceed total revenues for the year by $2,205.

General Fund Expenditures Budget vs. Actual Five Year History

	Expenditures Preliminary Budget	Expenditures Final Budget	Expenditures Final Audit	Variance Audit vs. Prelim Budget	Variance Audit vs. Final Budget
2015 - 2016	$ 8,449,995	$ 8,707,643	$ 8,341,097	-1.29%	-4.21%
2014 - 2015	8,665,047	8,583,291	8,208,432	-5.27%	-4.37%
2013 - 2014	7,960,435	8,784,585	8,550,080	7.41%	-2.67%
2012 - 2013	7,857,326	8,047,705	7,885,404	0.36%	-2.02%
2011 - 2012	7,961,899	7,929,677	8,215,324	3.18%	3.60%
	Five Year Average Over (Under) Budget			0.88%	-1.93%

General Fund Revenues Budget vs. Actual Five Year History

	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Variance: Audit vs. Prelim. Budget	Variance: Audit vs. Final Budget
2015 - 2016	$ 8,408,729	$ 8,613,072	$ 8,633,357	2.67%	0.24%
2014 - 2015	8,581,891	8,714,006	8,763,291	2.11%	0.57%
2013 - 2014	7,263,152	8,413,369	7,421,117	2.17%	-11.79%
2012 - 2013	7,435,062	7,732,110	7,740,866	4.11%	0.11%
2011 - 2012	7,180,078	7,483,042	7,710,166	10.73%	6.25%
Five Year Average: Over (Under) Budget				4.36%	-0.93%

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget during the school year. For fiscal year June 30, 2016, the budget was amended in October of 2015 and January, April and June of 2016. The June 2016 budget amendment was the final budget for the fiscal year.

Change from Original Budget:		
General Fund Revenues:		
Total Revenues Original Budget	$ 8,408,729	100.00%
Total Revenues Final Amended Budget	8,613,072	102.43%
	$ 204,343	2.43%

The District's original budget of general fund revenues differed from the final budget by $204,343 a variance of approximately 2% from final budget. This was primarily due to the increase in state aid than originally expected.

Change from Original Budget:		
General Fund Expenditures:		
Total Expenditures Original Budget	$ 8,449,995	100.00%
Total Expenditures Final Amended Budget	8,707,643	103.05%
	$ (257,648)	-3.05%

The final expenditures budget was increased due to changes in expectations from what was originally budgeted, primarily for capital outlay and minor changes in other expenditure functions.

Factors Bearing on the School District's Future

With a beginning of year General Fund balance of $2,432,153 as of June 30, 2015, the District had a solid financial foundation going into the 2015-16 school year.

In the 2015-2016 school year, the District received several grants from The Pokagon Fund totaling $11,896. These grants allowed our students to take exciting Field Trips and provided our band with new drums.

We would like to thank The Pokagon Fund for their generous contributions and being our "partners in education!"

In addition, through grants, we were able to improve upon our culinary arts classroom to better enhance students' learning.

In November of 2014, River Valley Voters approved a 5 year 0.5 sinking fund millage that will allow the district to provide much needed upgrades to our campuses. Starting in the Summer of 2016, we will be upgrading Three Oaks Elementary's cafeteria/gym flooring and the boys/girls restrooms. Future projects will be evaluated to improve our existing schools.

The Board of Education is committed to maintaining the fund balance at 20% or more to ensure that the District remains financially viable in the coming years.

It is a very exciting time to be a part of the River Valley School District!

Contacting the District's Financial Management

The financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Business Office at River Valley School District.

STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2016

	Governmental Activities	
Assets		
Current assets		
Cash and cash equivalents	$	3,814,171
Investments		69,755
Due from other governmental units		272,669
Inventories		4,768
Total current assets	$	4,161,363
Noncurrent assets		
Capital assets, not being depreciated	$	38,766
Capital assets, depreciated		11,273,198
Less: accumulated depreciation		(6,164,498)
Total noncurrent assets	$	5,147,466
Total Assets	$	9,308,829
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	$	1,319,632
Total Assets and Deferred Outflows of Resources	$	10,628,461
Liabilities		
Current liabilities		
Accounts payable	$	30,052
Accrued payroll and other liabilities		815,290
Accrued interest		10,056
Bonds payable, due within one year		133,000
Total current liabilities	$	988,398
Noncurrent liabilities		
Bonds payable, due in more than one year	$	1,335,000
Net pension liability		11,329,644
Total noncurrent liabilities	$	12,664,644
Total Liabilities	$	13,653,042
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	$	196,398
Total Liabilities and Deferred Inflows of Resources	$	13,849,440
Net Position (Deficit)		
Net investment in capital assets	$	3,679,466
Restricted for:		
Scholarships		525,364
Debt service		1,073
Sinking fund		12,036
Unrestricted		(7,438,918)
Total Net Position (Deficit)	$	(3,220,979)

See accompanying notes to the financial statements.

	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions	Net (Expense) Revenue and Changes in Net Position
Functions/Programs					
Primary government -					
Governmental activities:					
Instruction	$ 4,175,626	$ -	$ 1,295,727	$ -	$ (2,879,899)
Pupil services	481,125	-	-	-	(481,125)
Support services	2,918,366	-	10,193	-	(2,908,173)
Food services	297,372	88,151	213,634	-	4,413
Athletics	256,594	22,582	-	-	(234,012)
Interest on long-term debt	64,890	-	-	60,417	(4,473)
Depreciation (unallocated)	286,866	-	-	-	(286,866)
	$ 8,480,839	$ 110,733	$ 1,519,554	$ 60,417	$ (6,790,135)

General revenues:	
Taxes:	
Property taxes, levied for general purposes	$ 7,596,936
Interest and investment earnings	36,802
Other	40,559
Total general revenues	$ 7,674,297
Change in Net Position	$ 884,162
Net Position (Deficit) - beginning of year	(4,105,141)
Net Position (Deficit) - end of year	$ (3,220,979)

See accompanying notes to the financial statements.

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Capital Projects Sinking Fund	Non-major Governmental Funds	Total
Assets				
Cash and cash equivalents	$ 3,000,043	$ 247,036	$ 567,092	$ 3,814,171
Investments	69,755	-	-	69,755
Due from other governmental units	260,341	-	2,272	262,613
Due from other governmental funds	235,000	-	-	235,000
Inventories	-	-	4,768	4,768
Total Assets	$ 3,565,139	$ 247,036	$ 574,132	$ 4,386,307
Liabilities and Fund Balances				
Liabilities				
Accounts payable	$ 30,052	$ -	$ -	$ 30,052
Accrued salaries and withholdings	810,674	-	4,616	815,290
Due to other governmental funds	-	235,000	-	235,000
Total Liabilities	$ 840,726	$ 235,000	$ 4,616	$ 1,080,342
Fund Balances				
Non-spendable:				
Used for inventories	$ -	$ -	$ 4,768	$ 4,768
Restricted:				
Scholarships	-	-	525,364	525,364
Food service	-	-	38,311	38,311
Debt service	-	-	1,073	1,073
Sinking fund	-	12,036	-	12,036
Assigned:				
2016/2017 budget deficit	242,017	-	-	242,017
Facility improvements	350,000	-	-	350,000
Unassigned	2,132,396	-	-	2,132,396
Total Fund Balances	$ 2,724,413	$ 12,036	$ 569,516	$ 3,305,965
Total Liabilities and Fund Balances	$ 3,565,139	$ 247,036	$ 574,132	$ 4,386,307

See accompanying notes to the financial statements.

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION

JUNE 30, 2016

Total Fund Balances - Governmental Funds	$ 3,305,965
Deferred outflows of resources related to pensions	1,319,632
Accrual of federal receivable for interest payments related to the 2012 School Building Bonds	10,056
Amounts reported for governmental activities in the Statement of Net Position are different because, capital assets used in governmental activities are not financial resources and are not reported in the funds	
Cost of the capital assets	11,311,964
Accumulated depreciation	(6,164,498)
Long-term liabilities are not due and payable in the current period and are not reported in the funds:	
Bonds payable	(1,468,000)
Net pension liability	(11,329,644)
Deferred inflows of resources related to differences between expected and actual experience and changes in proportion and differences between employer contributions and proportionate share of contributions	(196,398)
Accrued interest payable is not included as a liability in the funds	(10,056)
Total Net Position - Governmental Activities	$ (3,220,979)

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	Capital Projects Sinking Fund	Non-major Governmental Funds	Total
Revenues				
Property taxes	$ 7,253,617	$ 343,319	$ -	$ 7,596,936
Local sources	48,559	-	90,344	138,903
State sources	920,887	-	11,275	932,162
Federal sources	277,767	-	263,687	541,454
Athletic sources	22,582	-	-	22,582
Interdistrict sources	97,073	-	-	97,073
Earnings on investments	12,872	495	23,435	36,802
Total Revenues	$ 8,633,357	$ 343,814	$ 388,741	$ 9,365,912
Expenditures				
Instruction	$ 4,304,636	$ -	$ -	$ 4,304,636
Pupil services	490,390	-	-	490,390
Supporting services	2,966,658	-	368,235	3,334,893
Athletics	261,888	-	-	261,888
Capital outlay	-	408,467	-	408,467
Debt service				
Principal	-	-	133,000	133,000
Interest	-	-	65,801	65,801
Total Expenditures	$ 8,023,572	$ 408,467	$ 567,036	$ 8,999,075
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 609,785	$ (64,653)	$ (178,295)	$ 366,837
Other Financing Sources (Uses)				
Operating transfers in	$ -	$ 150,000	$ 167,525	$ 317,525
Operating transfers out	(317,525)	-	-	(317,525)
Total Other Financing Sources (Uses)	$ (317,525)	$ 150,000	$ 167,525	$ -
Net Change in Fund Balances	$ 292,260	$ 85,347	$ (10,770)	$ 366,837
Fund Balances - Beginning of year	2,432,153	(73,311)	580,286	2,939,128
Fund Balances - End of year	$ 2,724,413	$ 12,036	$ 569,516	$ 3,305,965

See accompanying notes to the financial statements.

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	$ 366,837
Amounts reported for governmental activities in the Statement of Activities are different because: Governmental funds report capital outlays as expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balance, these costs are allocated over their estimated useful lives as depreciation in the Statement of Activities	
Depreciation expense	(286,866)
Capital outlay	482,107
Current year decrease in accrued federal receivable for interest payments related to the 2012 School Building Bonds that will be received after 60 days, but earned by June 30, 2016	(911)
Change in accrued interest	911
Change in pension expense related to pension	189,084
Repayment of bond principal is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces long-term debt)	133,000
Change in Net Position of Governmental Activities	$ 884,162

See accompanying notes to the financial statements.

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Agency Fund-Student Activities
Assets:	
Cash and cash equivalents	$ 150,498
Liabilities:	
Due to student groups	$ 150,498
Total Liabilities	$ 150,498

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the River Valley School District (the "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. The following is a summary of the significant accounting policies used by the District:

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 Districts' reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District contains no component units.

District-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements - The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District-Wide Statements (concluded) - Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

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

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

Capital Projects Funds are used to account for financial resources that are restricted for capital outlays, including the acquisition or construction of capital facilities and other capital assets. As of June 30, 2016, the capital projects fund maintained by the District is the Capital Projects Sinking Fund.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for specific revenue sources that are restricted or committed expenditures for specific purposes other than debt service or capital projects. As of June 30, 2016, the special revenue maintained by the District is the Food Service Fund.

Debt Service Funds are used to account for and report financial resources that are restricted for principal and interest. As of June 30, 2016, the debt service fund maintained by the District is the 2012 Debt Service Fund.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Based Statements (Concluded)

Permanent Funds are used to account for the District's non-expendable scholarship where only the earnings are used to issue scholarships. As of June 30, 2016, the permanent fund maintained by the District is the Scholarship Fund.

Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The District presently maintains a Student Activities 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 students and parents.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

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

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

Property Taxes - Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For District taxpayers, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls.

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 revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity (Continued)

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used.

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

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

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

Deferred Outflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred outflows related to the pension plan.

Compensated Absences - the liability for compensated absences, if any, reported in the district-wide statements consists of unpaid, accumulated annual and vacation balances. The liability is calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. There was no liability for compensated absences at June 30, 2016.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Obligations - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of financial position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures in the year of issuance. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Deferred Inflows of Resources - In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of sources (revenue) until that time. The governmental funds report unavailable revenues, which arise only under a modified accrual basis of accounting, for long-term receivables. These amounts are deferred and recognized as an inflow of resources in the period that amounts become available. The District only has one item that qualifies for reporting in this category. It is the deferred inflows related to the pension plan.

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

Fund Equity - The District follows GASB Statement No. 54*, Fund Balance Reporting and Governmental Fund Type Definitions*.

The following are the District's fund balance break-outs:

Non-Spendable - This includes those amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact. As of June 30, 2016, the following fund balances were classified as non-spendable: $4,768 for inventories.

Restricted - This includes amounts that can be spent only for specific purposes stipulated by what the external resources provide (for example grant providers, constitutionally, or through enabling legislation.) These restrictions may be changed or lifted only with the consent of resource providers. As of June 30, 2016, the following fund balances have been restricted: $525,364 for scholarships, $38,311 for food service, $1,073 for debt service, and $12,036 for the sinking fund.

Committed - This includes amounts that can be used only for specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally. As of June 30, 2016, none of the District's governmental fund balances were committed.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Fund Equity - Concluded

Assigned - This includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. As of June 30, 2016, $242,017 of the District's governmental fund balances was assigned for a 2016/2017 budget deficit and $350,000 was assigned for facility improvements.

Unassigned - This represents the residual classification for the fund balance that has not met any of the previous classifications. As of June 30, 2016, $2,132,396 of the District's governmental fund balances is unassigned.

Fund Equity Flow Assumptions - Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Net Position Flow Assumption - Sometimes the District will fund outlays for particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the district-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Estimates - The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenditures.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and major special revenue funds. All annual appropriations lapse at fiscal year-end.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONCLUDED)

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the District to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were four amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year-end; the commitments will be re-appropriated and honored during the subsequent year.

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

	Budget	Actual	Variance
Instruction-High School	$ 965,426	$ 1,016,123	$ (50,697)
Instruction-Special Education	511,247	525,852	(14,605)
Instruction-Technical education	38,141	44,494	(6,353)

Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and had no impact on the financial results of the District.

Fund Deficit - Under Michigan Law, school districts are required to maintain positive fund balance in each fund. The District had no fund balances that were in deficit.

Net Position (Deficit) - As of June 30, 2016, the District-wide Statement of Net Position had a cumulative net position deficit of $3,220,979.

NOTE 3. DEPOSITS AND INVESTMENTS

As of June 30, 2016, the District deposits and investments include the following:

	Balance Sheet Classification			
	Cash and Cash Equivalents	Investments	Total	Fiduciary Funds
Deposits	$ 3,814,171	$ -	$ 3,814,171	$ 150,498
Investments	-	69,755	69,755	-
	$ 3,814,171	$ 69,755	$ 3,883,926	$ 150,498

Bank Deposits: All cash of the District is on deposit with financial institutions which provide FDIC insurance coverage or in highly liquid pooled money funds.

NOTE 3. DEPOSITS AND INVESTMENTS (CONCLUDED)

Custodial Credit Risk—Deposits: In the case of deposits, this 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, approximately $1.2 million of the District's bank balance of $3.9 million was exposed to custodial credit risk, because it was uninsured and collateralized with securities held by the pledging financial institution's trust depart or agent, but not in the District's name.

Investments: Michigan law permits investments in: 1)Bonds and other obligations of the United States Governments, 2) Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively, 3) Certain commercial paper, 4) United States Government repurchase agreements, 5) Banker's acceptance of the United States Bank, and 6) Certain mutual funds. The District has put further restrictions on those investments through its current policy, and the following investment is permitted by law and policy.

		Investment Maturities			
Investment Type	Fair Value	Current	1-5 years	6-10 years	More than 10
Investment Pools	$ 69,755	$ 69,755	$ -	$ -	$ -

Interest Rate Risk: In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by: structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit Risk: State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by Nationally Recognized Statistical Rating Organizations ("NRSRO's"). As of June 30, 2016, the District's investment in the investment pool was rated AAAm by Standard's & Poor's.

Concentration of Credit Risk: The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. All of the District's investments are in investment pools which represent 100% of the District's total investments.

Custodial Credit Risk - Investments: For an Investment, this is the risk that in the event of bank failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investments in the investment pool of $69,755 The District has a custodial credit risk exposure of $69,755 because the related securities are uninsured, unregistered, and held by the District's brokerage firm which is also the counterparty for these particular securities.

NOTE 4. CAPITAL ASSETS

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

	July 1, 2015	Additions	Disposals and Adjustments	June 30, 2016
Assets not being Depreciated				
Construction in progress	$ 73,315	$ -	$ (73,315)	$ -
Land	38,766	-	-	38,766
Subtotal	$ 112,081	$ -	$ (73,315)	$ 38,766
Capital Assets being Depreciated				
Building and building improvements	$ 7,982,883	$ 408,467	$ 73,315	$ 8,464,665
Land improvements	619,219	-	-	619,219
Buses and other vehicles	859,144	39,740	(16,600)	882,284
Furniture and equipment	1,273,130	33,900	-	1,307,030
Subtotal	$ 10,734,376	$ 482,107	$ 56,715	11,273,198
Accumulated depreciation				
Building and building improvements	$ 4,391,958	$ 109,780	$ -	$ 4,501,738
Land improvements	467,876	6,658	-	474,534
Buses and other vehicles	565,897	82,755	(16,600)	632,052
Furniture and equipment	468,501	87,673	-	556,174
Subtotal	$ 5,894,232	$ 286,866	$ (16,600)	$ 6,164,498
Net capital assets being depreciated	$ 4,840,144	$ 195,241	$ 73,315	$ 5,108,700
Net capital assets	$ 4,952,225			$ 5,147,466

Depreciation expense of $286,866 was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other governmental funds:

Receivable fund	Payable fund	Amount
General Fund	Capital Projects Sinking Fund	$ 235,000

The Capital Projects Sinking Fund owes the General Fund for covering initial costs of capital outlay.

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (CONCLUDED)

During the year, the following transfers were made between funds:

Interfund transfers:

Transfer In:	Transfer Out:	Amount
Non-major Fund - Food Service Fund	General Fund	$ 29,000
Non-major Fund - 2012 Debt Service Fund	General Fund	138,525
Capital Projects Sinking Fund	General Fund	150,000

The current year transfers consisted of transfers from the General Fund to the Food Service Fund to subsidize costs, a transfer from the General Fund to the 2012 Debt Service Fund for payment of the bond principal and a portion of interest payment, and a transfer from the General Fund to the Capital Projects Sinking Fund to cover initial capital outlay that occurred in the previous fiscal year.

NOTE 6. LONG-TERM DEBT

The District issues bonds to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds	$ 1,601,000	$ -	$ (133,000)	$ 1,468,000	$ 133,000
Total bonds payable	$ 1,601,000	$ -	$ (133,000)	$ 1,468,000	$ 133,000

Annual debt service requirements to maturity for the above Governmental bond and note obligations are as follows:

Governmental Activities:

	Principal	Interest	Total
2017	$ 133,000	$ 60,334	$ 193,334
2018	133,000	54,868	187,868
2019	133,000	49,402	182,402
2020	133,000	43,936	176,936
2021	133,000	38,469	171,469
2022-2026	669,000	110,107	779,107
2027	134,000	5,507	139,507
	$ 1,468,000	$ 362,623	$ 1,830,623

Interest expense of $64,890 was not charged to activities as the District considers its debt and related assets to impact multiple activities and allocation was not practical.

NOTE 6. LONG-TERM DEBT (CONCLUDED)

Governmental Activities:

General obligation bonds consist of:

$2,000,000 2012 School Building Bonds - Limited Tax; payable in annual installments of $133,000 to $134,000 beginning 5/1/13 through 5/1/2027; interest at 4.11%.	$ 1,468,000

NOTE 7. RISK MANAGEMENT

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

The shared-risk pool is a program in which the District participates and operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 8. RECEIVABLES AND PAYABLES

Receivables as of year-end for the District's individual major funds and the non-major funds and in the aggregate, including any allowance for uncollectible amounts are as follows:

	General Fund	Non-major Governmental Funds	Total
Receivables:			
Intergovernmental	$ 260,341	$ 2,272	$ 262,613

Payables as of year-end for the District's individual major funds and non-major funds in the aggregate, are as follows:

	General Fund	Non-major Governmental Funds	Total
Payables:			
Trade	$ 30,052	$ -	$ 30,052

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM

Plan Description – The District is a participating employer in the Michigan Public School Employees' Retirement System ("MPSERS" or "System"), a cost-sharing multi-employer plan, of which substantially all of school district's employees are covered. MPSERS's pension plan was established by the State of Michigan to provide retirement, survivor and disability benefits to public school employees. In addition, MPSERS's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act. Financial statements, required supplementary information, and full actuarial assumptions of the MPSERS plan are included in the MPSERS's comprehensive annual financial report. Copies of the report can be obtained by writing to 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

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.

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

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

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

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

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

Contributions – The majority of the members currently participate on a contributory basis, as described above under "Benefits Provided." Reporting units are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of members and retiree Other Post-Employment Benefits ("OPEB"). Contribution provisions are specified by State statute and may be amended only by action of the State Legislature. Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability.

Normal cost is funded on a current basis. For retirement and OPEB benefits, the unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period for the 2015 fiscal year. The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

Pension Contribution Rates

Benefit Structure	Member	Employer
Basic	0.0-4.0%	22.52-23.07%
Member Investment Plan	3.0-7.0%	22.52-23.07%
Pension Plus	3.0-6.4%	21.99%
Defined Contribution	0.00%	17.72-18.76%

Proportionate Share of Reporting Unit's Net Pension Liability – At June 30, 2016, the District reported a liability of $11,329,644 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period. At September 30, 2015, the District's proportion was 0.04639 percent, which was a decrease of 0.00085 percent from its proportion measured as of September 30, 2014.

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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

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

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

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

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

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 the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (Non-Hybrid/Hybrid) 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid) 9.0% / 8.0%
$ 14,606,815	$ 11,329,644	$ 8,566,854

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

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

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Additional information as of the latest actuarial valuation follows:

Summary of Actuarial Assumptions	
Valuation Date:	September 30, 2014, rolled forward
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% 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, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158
- Recognition period for assets in years is 5.0000
- Full actuarial assumptions are available in the 2015 MPSERS Comprehensive Annual Financial Report (www.michigan.gov/mpsers-cafr)

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONTINUED)

Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – For the year ended June 30, 2016, the District recognized total pension expense of $920,783. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 37,527
Changes of assumptions	278,960	-
Net difference between projected and actual earnings on pension plan investments	57,829	-
Changes in proportion and differences between District contributions and proportionate share of contributions	22,119	158,871
District contributions subsequent to the measurement date*	960,724	-
Total	$ 1,319,632	$ 196,398

*This amount, reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other 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 June 30	Amount:
2017	$ (5,023)
2018	(5,023)
2019	(20,139)
2020	192,695
	$ 162,510

Payables to the Pension Plan – As of June 30, 2016, the District has payables to the MPSERS pension plan of $113,439 for the outstanding amount of contributions due to the pension plan required for the year ended June 30, 2016.

MPSERS Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR.

NOTE 9. MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM (CONCLUDED)

Post-Employment Benefits Other than Pensions - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 20 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above. The District's contribution rates vary depending on which plan the employee is enrolled in. For the period of July 1, 2014 to September 30, 2014 the contribution rates ranged from 5.52% to 6.45% of covered payroll. For the period of October 1, 2014 to September 30, 2015, the contribution rates ranged from 2.20% to 2.71% of covered payroll. The District's contributions to the MPSERS plan for retiree healthcare benefits for the years ended June 30, 2016, 2015, and 2014 were $230,181, $166,300, and $320,525, respectively.

NOTE 10. CAPITAL PROJECTS SINKING FUND

The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the District has complied with the applicable provisions of Section 1212 of the Revised School Code.

NOTE 11. UPCOMING PRONOUNCEMENTS

In March 2016, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The District is currently evaluating the impact this standard will have on the financial statements when adopted for the year ended June 30, 2018.

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

NOTE 12. SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 24, 2016, the date the financial statements were available to be issued. No events or transactions occurred during this period which requires recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE — GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Amended Budget	Actual	Variance (Negative) Positive
Revenues				
Property taxes	$ 7,213,867	$ 7,209,206	$ 7,253,617	$ 44,411
Local sources	34,000	46,753	48,559	1,806
State sources	793,697	930,469	920,887	(9,582)
Federal sources	245,065	297,871	277,767	(20,104)
Athletic sources	20,000	21,800	22,582	782
Interdistrict sources	90,100	96,973	97,073	100
Earnings on investments	12,000	10,000	12,872	2,872
Total Revenues	$ 8,408,729	$ 8,613,072	$ 8,633,357	$ 20,285
Expenditures				
Instruction:				
Elementary	$ 1,654,931	$ 1,681,456	$ 1,672,054	$ 9,402
Middle school	781,753	840,745	728,916	111,829
High school	1,121,104	965,426	1,016,123	(50,697)
Preschool	79,492	101,170	95,465	5,705
Summer school	26,450	11,753	2,959	8,794
Special education	533,999	511,247	525,852	(14,605)
Compensatory education	299,712	307,322	218,773	88,549
Technical education	20,144	38,141	44,494	(6,353)
Pupil Services	386,248	496,522	490,390	6,132
Supporting services:				
Improvement of instruction	70,609	99,626	87,140	12,486
Media services/audiovisual	75,687	80,261	73,391	6,870
Technology assistance	63,150	61,899	55,303	6,596
Board of Education	84,900	82,411	64,551	17,860
Executive	280,715	269,203	264,363	4,840
Principal	531,028	579,398	536,846	42,552
Business	204,310	216,425	211,569	4,856
Operations	872,763	850,013	806,389	43,624
Pupil transportation	617,984	560,636	512,047	48,589
Personnel services	36,688	34,315	33,305	1,010
Information management services	227,578	309,906	305,300	4,606
Pupil accounting	20,456	18,293	16,454	1,839
Athletics	270,425	273,950	261,888	12,062
Total Expenditures	$ 8,260,126	$ 8,390,118	$ 8,023,572	$ 366,546
Excess of Revenues over Expenditures	$ 148,603	$ 222,954	$ 609,785	$ 386,831
Other Financing Sources (Uses)				
Operating transfers in	$ -	$ -	$ -	$ -
Operating transfers out	(189,869)	(317,525)	(317,525)	-
Total Other Financing Sources (Uses)	$ (189,869)	$ (317,525)	$ (317,525)	$ -
Net Change in Fund Balances	$ (41,266)	$ (94,571)	$ 292,260	$ 386,831
Fund Balances - Beginning of year	2,432,153	2,432,153	2,432,153	-
Fund Balances - End of year	$ 2,390,887	$ 2,337,582	$ 2,724,413	$ 386,831

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF RIVER VALLEY SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
AMOUNTS WERE DETERMINED AS OF THE PLAN YEAR ENDED SEPTEMBER 30

	2015	2014
District's proportion of net pension liability	0.04639%	0.04724%
District's proportionate share of net pension liability	$ 11,329,644	$ 10,404,697
District's covered-employee payroll	$ 3,950,053	$ 4,146,586
District's proportionate share of net pension liability as a percentage of its covered-employee payroll	286.82%	250.92%
Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF RIVER VALLEY SCHOOL DISTRICT'S CONTRIBUTIONS
MICHIGAN PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM
AMOUNTS WERE DETERMINED AS OF THE YEAR ENDED JUNE 30

	2016	2015
Statutorily required contributions	$ 1,074,217	$ 846,986
Contributions in relation to statutorily required contributions	1,074,217	846,986
Contribution deficiency (excess)	$ -	$ -
District's covered-employee payroll	$ 4,005,495	$ 3,974,293
Contributions as a percentage of covered-employee payroll	26.82%	21.31%

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

Changes of assumptions: There were no changes of benefit assumptions for the plan year ended September 30, 2015.

OTHER SUPPLEMENTARY INFORMATION

	Special Revenue Fund	Debt Service Fund	Permanent Fund	
	Food Service Fund	**2012 Debt Service Fund**	**Scholarship Fund**	**Total Non-major Governmental Funds**
Assets				
Cash and investments	$ 40,655	$ 1,073	$ 525,364	$ 567,092
Due from other governmental units	2,272	-	-	2,272
Inventories	4,768	-	-	4,768
Total Assets	$ 47,695	$ 1,073	$ 525,364	$ 574,132
Liabilities and Fund Balances				
Liabilities				
Accrued payroll and withholdings	$ 4,616	$ -	$ -	$ 4,616
Total Liabilities	$ 4,616	$ -	$ -	$ 4,616
Fund Balances				
Non-spendable:				
Used for inventories	$ 4,768	$ -	$ -	$ 4,768
Restricted:				
Scholarships	-	-	525,364	525,364
Food service	38,311	-	-	38,311
Debt service	-	1,073	-	1,073
Total Fund Balances	$ 43,079	$ 1,073	$ 525,364	$ 569,516
Total Liabilities and Fund Balances	$ 47,695	$ 1,073	$ 525,364	$ 574,132

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	Special Revenue Fund	Debt Service Fund	Permanent Fund	
	Food Service Fund	**2012 Debt Service Fund**	**Scholarship Fund**	**Total Non-major Governmental Funds**
Revenues				
Local sources	$ 88,151	$ -	$ 2,193	$ 90,344
State sources	11,275	-	-	11,275
Federal sources	202,359	61,328	-	263,687
Earnings on investments	-	5	23,430	23,435
Total Revenues	$ 301,785	$ 61,333	$ 25,623	$ 388,741
Expenditures				
Supporting services	$ 303,990	$ -	$ 64,245	$ 368,235
Debt service				
Principal	-	133,000	-	133,000
Interest	-	65,801	-	65,801
Total Expenditures	$ 303,990	$ 198,801	$ 64,245	$ 567,036
Deficiency of Revenues under Expenditures	$ (2,205)	$ (137,468)	$ (38,622)	$ (178,295)
Other Financing Sources (Uses)				
Operating transfers in	$ 29,000	$ 138,525	$ -	$ 167,525
Operating transfers out	-	-	-	-
Total Other Financing Sources	$ 29,000	$ 138,525	$ -	$ 167,525
Net Change in Fund Balances	$ 26,795	$ 1,057	$ (38,622)	$ (10,770)
Fund Balances - Beginning of year	16,284	16	563,986	580,286
Fund Balances - End of year	$ 43,079	$ 1,073	$ 525,364	$ 569,516

MANAGEMENT COMPLIANCE LETTER

KRUGGEL LAWTON CPA

Independent Auditor's 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*

To the Board of Education of
River Valley School District
Three Oaks, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of River Valley School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise River Valley School District's basic financial statements and have issued our report thereon dated October 24, 2016.

Internal Control over Financial Reporting

In planning and performing our audit, we considered River Valley School District's 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 River Valley School District's internal control. Accordingly, we do not express an opinion on the effectiveness of River Valley School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness (Finding 2016-001).

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. We consider the deficiency described in the accompany schedule of findings and responses to be a significant deficiency (Finding 2016-002).

Compliance and Other Matters

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

River Valley School District's Response to Findings

River Valley School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. River Valley School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Independent Auditor's 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, Concluded*

Purpose of this Report

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

Respectfully submitted,

Kruggel, Lawton & Company, LLC

Certified Public Accountants

St. Joseph, Michigan
October 24, 2016

SECTION I - STATUS OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Finding 2015-001 – Segregation of Incompatible Duties

Finding Type - Material weakness in internal control over financial reporting.

Criteria - Management is responsible for establishing and maintaining effective internal control over financial reporting and for the safeguarding of the District's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept given the government's unique circumstances.

Condition - As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it. Events of recent years have given rise to heightened awareness of the risks of fraud and abuse, especially in a school district environment, where public accountability is the highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitation on the effectiveness of the District's internal controls carries with it a greater risk of fraud and abuse.

Cause - This condition is a result of the District's limited resources and the small size of its accounting staff.

Effect - As a result of this condition, the District is exposed to an increased risk that material misstatements or misappropriations might occur and not be detected by management on a timely basis.

Recommendation - While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

Views of Responsible Officials and Planned Corrective Actions - We are aware of this deficiency; however, given the size of our entity and our available resources, it is difficult to provide for appropriate segregation of incompatible duties for all accounting functions. However, we will evaluate available options to administer limited segregation of duties for key accounting functions given our current resources.

Status of Prior Year Finding - The District has taken the steps necessary to enhance its segregation of duties by moving the payroll process to an independent third party as was verified during the review of payroll information during the audit. Finding will not be reported.

SECTION I - STATUS OF PRIOR YEAR FINANCIAL STATEMENT FINDINGS (CONCLUDED)

Finding: 2015-002 – Deficit Fund Balance

Finding Type - Noncompliance with laws and regulations.

Criteria – Under Michigan Law, school districts are required to maintain positive fund balance in each fund.

Condition - The District entered into a deficit in the Capital Projects Sinking Fund during the 2015-2016 fiscal year.

Context - The District's fund balance deficit in the Capital Projects Sinking Fund is approximately $73,300.

Cause - The Capital Projects Sinking Fund incurred initial planning costs for capital projects prior to receiving the property tax revenues under the millage established for the fund.

Effect - The District has a deficit fund balance in the Capital Projects Sinking Fund of approximately $73,300 at June 30, 2016.

Recommendation – The District will use the 2016-2017 property taxes that are collected under this millage to eliminate this fund's deficit.

Views of Responsible Officials and Planned Corrective Actions – The District had initial planning costs for capital projects in this fund before the District collected the original millage that has been established for this fund. The Capital Projects Sinking Fund will be out of deficit in the 2016-2017 fiscal year.

Status of Prior Year Finding – The District collected sufficient funds related to the millage levied for capital projects in excess of expenditures. This excess created a positive fund balance in the Capital Projects Sinking Fund in the fiscal year ended June 30, 2016. Finding will not be repeated.

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding: 2016-001 – Material Weakness – Material Audit Adjustments

Criteria – School districts are responsible for reporting reliable financial data in accordance with Generally Accepted Accounting Principles.

Condition – During the audit, it was discovered that there were material audit adjustments required to reflect accurate ending balances in the General Fund for payroll accruals.

Cause – During the 2016 fiscal year, the District did not recognize expenditures related to the hourly wages and benefits that were not accrued at year end. This was mainly from the District outsourcing the payroll function and the change of personnel in the Business Office.

Effect – Without the proposed audit adjustments, the financial statements would have been materially misstated.

Recommendation – The District has already reviewed and approved the necessary correcting journal entries, and their effect is properly included in the audited financial statements. Accordingly, no further corrective action is necessary.

Views of Responsible Officials and Planned Corrective Actions – The District understands that the hourly wages and benefits incurred during the fiscal year should be recognized in the proper period and will accrue such items in the future. We feel that this was a misunderstanding with the new outside entity that is handling the District's payroll function and the changes of staff in our Business Office. We are confident this will not occur in future audit years.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONCLUDED)

Finding: 2016-002 – Significant Deficiency – Financial Statement Preparation

Criteria – All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records, and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting) and schedules.

Condition – As in the case with many smaller and medium-sized entities, the District has relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the District's internal controls.

Cause – Due to the lack of knowledge, expertise and education relative preparing GAAP financial statements possessed by the finance department, management has made the decision that it their best interest to outsource the preparation of its annual financial statements and other schedules to the auditors rather than to incur the time and expense of obtaining the necessary and expertise required for the District to perform this task internally.

Effect – As a result of this condition, the District lacks internal controls over the preparation of financial statements and other schedules in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation – The District should review and implement the necessary education and procedural activities to monitor and report annual financial activity.

Views of Responsible Officials and Planned Corrective Actions – We are aware of this deficiency we feel with future training and education that we will have the ability to prepare the financial statements for our auditors.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The District has spent under the $750,000 threshold for federal expenditures and is not required to have a Single Audit under the Uniform Guidance.