Walden Green Montessori

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2016

WALDEN GREEN MONTESSORI

Walden Green Montessori

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BRICKLEY DELONG
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

October 10, 2016

Board of Education
Walden Green Montessori
Spring Lake, 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 Walden Green Montessori (the School), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School'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.

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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 Walden Green Montessori as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 3 through 7 and 35 through 38 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016, on our consideration of Walden Green Montessori'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 Walden Green Montessori's internal control over financial reporting and compliance.

Brickley DeLong, P.C.

Muskegon, Michigan

This section of Walden Green Montessori's annual financial report presents our discussion and analysis of the School's financial performance during the year ended June 30, 2016. Please read it in conjunction with the School's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Walden Green Montessori financially as a whole. The School-wide financial statements provide information about the activities of the whole School, presenting both an aggregate view of the School's finances and a longer-term view of those finances. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School's operations in more detail than the School-wide financial statements. The basic financial statements are comprised of the following elements:

- **Management's Discussion and Analysis (MD&A)**
- **Basic Financial Statements**
  - School-wide Financial Statements
  - Fund Financial Statements
  - Notes to Financial Statements
- **Required Supplementary Information**
  - Budgetary Information for the General Fund

Reporting the School as a Whole—School-wide Financial Statements

Operating profit or loss for the fiscal year is one of the most important questions asked about the School. The Statement of Activities reports information on the School as a whole and its activities in a way that helps answer this question. We prepare this statement using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Net Position and Statement of Activities report the governmental activities for the School, which encompass all of the School's services, including instruction and support services. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the School's Most Significant Funds—Fund Financial Statements

The School's fund financial statements provide detailed information about the most significant funds—not the School as a whole. Walden Green Montessori used two funds in the current year – the General Fund and the Debt Service Fund. The funds use the following accounting approach:

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

The School as a Whole

Recall that the Statement of Net Position provides the perspective of the School as a whole. The following table provides a summary of the School's net position as of June 30, 2016 and 2015.

Statement of Net Position	2016	2015
Assets		
Current Assets and Other Assets	$ 1,426,168	$ 1,382,526
Capital Assets	2,971,810	3,068,930
Total Assets	4,397,978	4,451,456
Deferred Outflows of Resources		
Related to Pensions	38,912	26,804
Total Assets and Deferred Outflows of Resources	4,436,890	4,478,260
Liabilities		
Current Liabilities	248,813	179,293
Noncurrent Liabilities	3,827,704	3,882,278
Total Liabilities	4,076,517	4,061,571
Deferred Inflows of Resources		
Related to Pensions	9,389	30,063
Total Liabilities and Deferred Inflows of Resources	4,085,906	4,091,634
Net Position		
Net investment in capital assets	(330,085)	(319,821)
Restricted for debt service	492,234	486,140
Unrestricted	188,835	220,307
Total Net Position	$ 350,984	$ 386,626

The above analysis focuses on net position, which can be used as an indicator of the School’s financial health. Current assets, defined as assets available for the School's use within one year, increased by $43,642 primarily due to the increase in cash and investments as well as an increase in dues from other governmental units. Capital assets decreased by $97,120 due to the current year’s depreciation exceeding current year additions. Overall, total assets and deferred outflows of resources decreased by $41,370. Total liabilities and deferred inflows of resources decreased by $5,728; a change of less than 1 percent. The impact on the net investment in capital assets (which represents the School’s net position invested in buildings and equipment less accumulated depreciation and related debt) was a decrease of $10,264. The unrestricted net position balance of $188,835 is used to provide working capital and cash flow requirements as well as providing for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

The results of this year’s operations for the School as a whole are reported in the Statement of Activities, which shows the changes in net position for fiscal year 2016.

Statement of Activities

	2016	2015
Functions/Programs		
Program Revenue		
Charges for Services	$ 23,463	$ 32,535
Operating Grants	189,400	233,459
Capital Grants	-	23,514
General Revenues		
Grants and Contributions Not Restricted to Specific Programs	1,342,207	1,247,704
Investment Earnings	944	1,110
Gain on sale of asset	-	2,100
Total Revenues	1,556,014	1,540,422
Expenses		
Instruction	774,092	864,516
Support Services	512,501	612,904
Community Services	-	1,125
Interest of Long-term Debt	305,063	222,894
Total Governmental Activities	1,591,656	1,701,439
Change in Net Position	(35,642)	(161,017)
Net Position - Beginning of Year	386,626	547,643
Net Position - End of Year	$ 350,984	$ 386,626

Change in Net Position

The School experienced a decrease in net position of $35,642. The total revenues were up $15,592 largely due to grants and state aid contributions. Total expenses are down by $109,783 largely due to a decrease in instruction and support services.

As discussed above, the net cost shows the financial burden that was placed on the School by each of these functions. Since unrestricted state aid constitutes the vast majority of district operating revenue sources, the Board of Directors and Administration must annually evaluate the needs of the School and balance those needs with state-prescribed available unrestricted resources.

The School's Funds

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

In the General Fund, our principal operating fund, the fund balance decreased $26,972 during the year and ended the year with a positive fund balance of $785,121.

General Fund Budgetary Highlights

Over the course of the year, the School revises its budget as it attempts to deal with the unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. (A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements).

There were revisions made to the 2015-2016 General Fund original budget. Costs for instruction (both basic programs and added needs) were decreased by a total of $97,486 due to lower costs related to staffing and lower program costs. Pupil support services costs were decreased by $12,945 based on program need. Administration costs were decreased by $18,610 due to lower costs in legal services, fees, staffing costs and overall budgeted expenses. Operations and Maintenance costs were decreased by $30,250 due to lower costs in labor, supplies and maintenance of the equipment and repairs. Other categories were adjusted to match anticipated expenditures as the year progressed.

Local and state revenues were less than budget, because monies received from the intermediate school district and State of Michigan were less than anticipated.

Actual results for expenditures for the year ended June 30, 2016 were close to budgeted amounts.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2016, the School had $2,971,810 (net of accumulated depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment. This amount represents a net decrease (including additions, deductions, and depreciation) of $97,120 from last year.

	2016	2015
Land	$ 319,638	$ 319,638
Building and improvements	2,577,530	2,641,108
Furniture and equipment	74,642	108,184
	$ 2,971,810	$ 3,068,930

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

Long-term Obligations
At June 30, 2016, the School had $3,618,483 in bonds relating to building construction. The School made its scheduled debt payments during the current year. In addition, the School incurred no new debt.

Economic Factors and Next Year’s Budget
Our appointed officials and administration considered many factors when setting the School’s 2017 fiscal year budget. One of the most important factors affecting the budget is our student count. The fiscal year 2017 budget anticipates an increase in enrollment of approximately 15 students. The State foundation allowance is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year is 90 percent and 10 percent of the October 2016 and February 2016 student counts, respectively. The original 2017 budget was adopted in June 2016 and anticipated a decrease in fund balance of $209,152.

Approximately 88 percent of total General Fund revenue comes from the state foundation grant. As a result, direct funding is heavily dependent on the state’s ability to fund local school operations. Based on early enrollment data at the start of the 2017 school year, we anticipate that the fall student count will be below the estimates used in creating the fiscal 2017 budget. Once the final student count and related per pupil funding is validated, state law requires the School to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School’s revenue is heavily dependent on state funding and the health of the state’s School Aid Fund, the actual revenue received depends on the state’s ability to collect revenues to fund its appropriation to schools. The state periodically holds a revenue-estimating conference to estimate revenues.

Contacting the School Financial Management
The financial report is designed to provide a general overview of the School's finances for all those interested in the School's finances. If you have any questions about this report or need additional information, contact Walden Green Montessori, 17339 Roosevelt Road, Spring Lake, Michigan 49456.

Walden Green Montessori
STATEMENT OF NET POSITION
June 30, 2016

	Governmental activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 622,801
Investments	486,953
Receivables	2,670
Due from other governmental units	277,338
Prepaid items	36,406
Total current assets	1,426,168
Noncurrent assets	
Capital assets, net	
Nondepreciable	319,638
Depreciable	2,652,172
Total noncurrent assets	2,971,810
Total assets	4,397,978
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions	38,912
Total assets and deferred outflows of resources	4,436,890
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	86,023
Due to other governmental units	32,834
Unearned revenue	29,956
Bonds and other obligations, due within one year	100,000
Total current liabilities	248,813
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	3,518,483
Net pension liability	309,221
Total noncurrent liabilities	3,827,704
Total liabilities	4,076,517
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	9,389
Total liabilities and deferred inflows of resources	4,085,906
NET POSITION	
Net investment in capital assets	(330,085)
Restricted for debt service	492,234
Unrestricted	188,835
Total net position	**$ 350,984**

The accompanying notes are an integral part of this statement.

Walden Green Montessori

STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

		Program Revenue		Net (Expense) Revenue and Changes in Net Position
Functions/Programs	**Expenses**	**Charges for services**	**Operating grants and contributions**	**Governmental activities**
Governmental activities				
Instruction	$ 774,092	$ 23,463	$ 189,400	$ (561,229)
Support services	512,501	-	-	(512,501)
Interest on long-term debt	305,063	-	-	(305,063)
Total governmental activities	**$ 1,591,656**	**$ 23,463**	**$ 189,400**	(1,378,793)
General revenues				
Grants and contributions not restricted to specific programs				1,342,207
Investment earnings				944
Total general revenues				1,343,151
Change in net position				(35,642)
Net position at beginning of year				386,626
Net position at end of year				**$ 350,984**

The accompanying notes are an integral part of this statement.

Walden Green Montessori
BALANCE SHEET
Governmental Funds
June 30, 2016

	General Fund	Debt Service Fund	Total governmental funds
ASSETS			
Cash and cash equivalents	$ 622,801	$ -	$ 622,801
Investments	-	486,953	486,953
Receivables	2,670	-	2,670
Due from other governmental units	277,338	-	277,338
Due from other funds	-	57,500	57,500
Prepaid items	36,406	-	36,406
Total assets	**$ 939,215**	**$ 544,453**	**$ 1,483,668**
LIABILITIES			
Accounts payable	$ 10,171	$ -	$ 10,171
Accrued liabilities	23,633	-	23,633
Due to other governmental units	32,834	-	32,834
Due to other funds	57,500	-	57,500
Unearned revenue	29,956	-	29,956
Total liabilities	154,094	-	154,094
FUND BALANCES			
Nonspendable - prepaid items	36,406	-	36,406
Restricted for debt service	-	544,453	544,453
Assigned to subsequent year's budget appropriation of fund balance	209,152	-	209,152
Unassigned	539,563	-	539,563
Total fund balances	785,121	544,453	1,329,574
Total liabilities and fund balances	**$ 939,215**	**$ 544,453**	**$ 1,483,668**

The accompanying notes are an integral part of this statement.

Walden Green Montessori

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

June 30, 2016

Total fund balance—governmental funds		$ 1,329,574
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and are not reported in the governmental funds.		
Cost of capital assets	$ 3,919,995	
Accumulated depreciation	(948,185)	2,971,810
Deferred inflows and outflows of resources related to pensions are not reported in the governmental funds.		
Deferred outflows of resources - related to pensions	38,912	
Deferred inflows of resources - related to pensions	(9,389)	29,523
Accrued interest in governmental activities is not reported in the governmental funds.		(52,219)
Long-term obligations in governmental activities are not due and payable in the current period and are not reported in the governmental funds.		(3,927,704)
Net position of governmental activities		**$ 350,984**

The accompanying notes are an integral part of this statement.

Walden Green Montessori
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2016

	General Fund	Debt Service Fund	Total governmental funds
REVENUES			
Local sources			
Investment earnings	$ 614	$ 330	$ 944
Fees and charges	22,375	-	22,375
Other	76,216	-	76,216
Total local sources	99,205	330	99,535
State sources	1,392,899	-	1,392,899
Federal sources	71,945	-	71,945
Total revenues	1,564,049	330	1,564,379
EXPENDITURES			
Current			
Instruction	687,525	-	687,525
Supporting services	574,496	-	574,496
Debt service			
Principal repayment	-	95,000	95,000
Interest and other charges	-	216,673	216,673
Capital outlay	12,750	-	12,750
Total expenditures	1,274,771	311,673	1,586,444
Excess (deficiency) of revenues over (under) expenditures	289,278	(311,343)	(22,065)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	316,250	316,250
Transfers out	(316,250)	-	(316,250)
Total other financing sources (uses)	(316,250)	316,250	-
Net change in fund balances	(26,972)	4,907	(22,065)
Fund balances at beginning of year	812,093	539,546	1,351,639
Fund balances at end of year	**$ 785,121**	**$ 544,453**	**$ 1,329,574**

The accompanying notes are an integral part of this statement.

Walden Green Montessori

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURESAND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

Net change in fund balances—total governmental funds		$ (22,065)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities these costs are depreciated over their estimated useful lives.		
Depreciation expense	$ (105,535)	
Capital outlay	8,415	(97,120)
Repayment of principal on long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term obligations in the Statement of Net Position.		86,856
Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in governmental funds until paid.		1,187
Some pension related expenses reported in the Statement of Activites do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(4,500)
Change in net position of governmental activities		**$ (35,642)**

The accompanying notes are an integral part of this statement.

Walden Green Montessori
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2016

		Agency funds
ASSETS		
Cash and cash equivalents	**$**	**100**
LIABILITIES		
Deposits held for others	**$**	**100**

The accompanying notes are an integral part of this statement.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Walden Green Montessori (School) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

Reporting Entity
The School is governed by an appointed five member Board of Directors (Board), which has responsibility and control over all activities related to public school education within the School. The School receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities.

Generally accepted accounting principles require that if the School is considered to be financially accountable for other organizations, those organizations should be included as component units in the School's financial statements. Since no organizations met this criterion, none are included in the financial statements.

Basis of Presentation—Government-wide and Fund Financial Statements
The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the School. All fiduciary activities are reported only in the fund financial statements. Governmental activities normally are supported by intergovernmental revenues and other nonexchange transactions.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

The fund financial statements provide information about the School's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The School reports the following major governmental funds:

> The General Fund is the government's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.
>
> The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued

During the course of operations the School has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School 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 claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

State and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end).

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to Schools based on information supplied by the Schools. For the current fiscal year, the foundation allowance was based on pupil membership counts taken in October and February.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as due from other governmental units.

The School 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 governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received and accrued, which are not expended by the close of the fiscal year are recorded as unearned revenue.

All other revenue items are considered to be measurable and available only when cash is received by the government. The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Investments

The School's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the School are reported at fair value (generally based on quoted market prices). Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School intends to hold the investment until maturity.

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

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out method. The cost of such inventories is recorded as expenses when consumed rather than when purchased in the business-type activities.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Capital Assets
Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of one year.

As the School constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and construction in progress are not depreciated. The other property, plant, and equipment, of the School are depreciated using the straight-line method over the following estimated useful lives:

Capital Asset Classes	Years
Buildings and improvements	10-50
Furniture and equipment	3-10

Long-term Obligations
In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the year in which they are incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

Deferred Outflows/Inflows of Resources
In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, 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/expenditures) until then.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Deferred Outflows/Inflows of Resources—Continued
In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption
Sometimes the government will fund outlays for a 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 government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

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

Fund Balance Flow Assumptions
Sometimes the School 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 School's policy to consider restricted fund balance to have been depleted before using any of the 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.

Fund Balance Policies
Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the School's highest level of decision-making authority. The Board of Directors is the highest level of decision-making authority for the School that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the School for specific purposes but do not meet the criteria to be classified as committed. The Board of Directors may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted state aid, interest and other internally dedicated resources are reported as general revenues rather than as program revenues.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund. All annual appropriations lapse at year end.

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

1. The Director submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Public hearings are conducted to obtain comments.

3. Prior to July 1, the budget is legally adopted by Board of Directors resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the General Fund are noted in the required supplementary information section.

4. Formal budgetary integration is employed as a management control device during the year.

5. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2016.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2016, the School had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
Money Market Fund	$ 486,953	46	AAAm	100%

Interest rate risk
The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk
State law limits investments in commercial paper and corporate bonds to the three highest classifications issued by nationally recognized statistical rating organizations. The School has no investment policy that would further limit its investment choices.

Concentration of credit risk
The School does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School 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.

Custodial credit risk - deposits
In the case of deposits, this is the risk that in the event of a bank failure, the School's deposits may not be returned to it. As of June 30, 2016, $65,555 of the School's bank balance of $660,272 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments
The School does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk
The School is not authorized to invest in investments which have this type of risk.

NOTE D—FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School has ability to access.

Level 2 Inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Money market fund: Valued at amortized cost which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the School believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE D—FAIR VALUE MEASUREMENTS–Continued

The following table sets forth by level, within the fair value hierarchy, the School's assets at fair value on a recurring basis as of June 30, 2016:

	Assets at Fair Value as of June 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Money market	$ -	$ 486,953	$ -	$ 486,953

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	**Additions**	**Deductions**	**Balance June 30, 2016**
Capital assets, not being depreciated:				
Land	$ 319,638	$ -	$ -	$ 319,638
Capital assets, being depreciated:				
Buildings and improvements	3,176,545	-	-	3,176,545
Furniture and equipment	422,766	8,415	7,369	423,812
Total capital assets, being depreciated	3,599,311	8,415	7,369	3,600,357
Less accumulated depreciation:				
Buildings and improvements	535,437	63,578	-	599,015
Furniture and equipment	314,582	41,957	7,369	349,170
Total accumulated depreciation	850,019	105,535	7,369	948,185
Total capital assets, being depreciated, net	2,749,292	(97,120)	-	2,652,172
Capital assets, net	**$ 3,068,930**	**$ (97,120)**	**$ -**	**$ 2,971,810**

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	$ 94,982
Support services	10,553
	$ 105,535

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2016 is as follows:

Due to/from other funds:

Receivable fund	Payable fund	Amount
Debt Service Fund	General Fund	**$ 57,500**

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers
The General Fund transferred $316,250 to the Debt Service Fund to finance operations.

NOTE G—LONG-TERM OBLIGATIONS

The School issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School.

The following is a summary of long-term obligations activity for the School for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due within one year
Governmental activities					
Bonds	$ 3,875,000	$ -	$ 95,000	$ 3,780,000	$ 100,000
Discount	(169,661)	-	(8,144)	(161,517)	-
	$ 3,705,339	**$ -**	**$ 86,856**	**$ 3,618,483**	**$ 100,000**

General obligation bonds consist of the following:

	Interest Rate	Date of Maturity	Balance
General obligation bonds			
2006 Limited Obligation Revenue Bond	5-5.625%	October 2036	**$ 3,780,000**

NOTE G—LONG-TERM OBLIGATIONS—Continued

The annual requirements of principal and interest to amortize the bonded debt outstanding as of June 30, 2016 follow:

Year ending June 30,	Principal	Interest	Total
2017	100,000	208,875	308,875
2018	105,000	203,875	308,875
2019	110,000	198,363	308,363
2020	115,000	192,588	307,588
2021	120,000	186,550	306,550
2022-2026	720,000	827,475	1,547,475
2027-2031	950,000	604,475	1,554,475
2032-2036	1,255,000	305,437	1,560,437
2037	305,000	8,578	313,578
	$ 3,780,000	**$ 2,736,216**	**$ 6,516,216**

NOTE G—EMPLOYEE BENEFITS

Employee Retirement System

Plan Description

The Michigan Public School Employees' Retirement System (MPSERS) is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. MPSERS issues a publicly available Comprehensive Annual Financial Report that can be obtained at http://michigan.gov/orsschools/0,1607,7-206-36585---,00.html.

Benefits Provided

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

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

NOTE H—EMPLOYEE BENEFITS—Continued

Pension Reform 2010
On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public School Employees' Retirement System who became a member after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012
On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus plan described above and a DC plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period, as reported to ORS, to elect to opt out of the Pension Plus plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus plan. If they elect to opt out of the Pension Plus plan, their participation in the DC plan will be retroactive to their date of hire.

Employees in the Pension Plus and DC plans are immediately vested in their own contributions and earnings on those contributions. The employee becomes vested in the employer match contribution at the following rates: 50% after two years of service, 75% after three years of service, and 100% after four years of service. Non-vested contributions are forfeited upon termination of employment. Forfeitures during a plan year are credited to a forfeitures account. Forfeitures are first applied to restore any forfeited amounts that are required to be restored. The remaining amounts in the forfeitures account may be maintained in reserve, used to cover a portion of the plan's administrative expenses or offset future employer contributions, as determined by the plan administrator.

Regular Retirement
The pension benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation (FAC). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period. For a Member Investment Plan member, who became a member of MPSERS prior to July 1, 2010, the averaging period is 36 consecutive months. For a Pension Plus member, who became a member of MPSERS after June 30, 2010, the averaging period is 60 consecutive months. For a Basic Plan member, this period is the 60 consecutive months yielding the highest total wages. The annual pension is paid monthly for the lifetime of a retiree. The calculation of a member's pension is determined by their pension election under PA 300 of 2012.

NOTE H—EMPLOYEE BENEFITS—Continued

Post-Retirement Adjustments

A retiree who became a Member Investment Plan member prior to July 1, 2010, receives an annual post-retirement non-compounded increase of three percent of the initial pension in the October following twelve months of retirement. Basic Plan members do not receive an annual post-retirement increase, but are eligible to receive a supplemental payment in those years when investment earnings exceed actuarial assumptions. Pension Plus members do not receive an annual post-retirement increase.

Contributions

The majority of the members currently participate on a contributory basis. Schools 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. 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.

The schedule below summarizes pension contribution rates in effect for the System's fiscal year ended September 30, 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	0.0	17.72 - 18.76

The School's pension contributions for the year ended June 30, 2016 were equal to the required contribution total. Pension contributions were approximately $21,000, including Section 147c contributions.

NOTE H—EMPLOYEE BENEFITS—Continued

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

At June 30, 2016, the School reported a liability of $309,221 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation date of September 30, 2014, and rolled-forward using generally accepted actuarial procedures. The School's proportionate share of the net pension liability was based on its statutorily required contributions in relation to all participating schools' statutorily required contributions for the measurement period. At September 30, 2015, the School's proportion was 0.00127 percent.

For the year ended June 30, 2016, the School recognized pension expense of $27,711.

At June 30, 2016, the School 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	$ 1,578	$ -
Changes of assumptions	7,614	-
Net difference between projected and actual earnings on pension plan investments	-	1,024
Changes in proportion and differences between School District contributions and proportionate share of contributions	5,851	-
State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date	-	8,365
School contributions subsequent to the measurement date	23,869	-
Total	**$ 38,912**	**$ 9,389**

NOTE H—EMPLOYEE BENEFITS—Continued

The School contributions subsequent to the measurement date of $23,869, reported as deferred outflows of resources related to pensions above, will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. The State of Michigan Section 147c UAAL rate stabilization state aid payments subsequent to the measurement date of $8,365 reported as deferred inflows of resources related to pensions above, will be recognized as revenue 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	$ 2,443
2018	2,443
2019	2,030
2020	7,103

Actuarial assumptions
Valuation Assumptions

Investment rate of return –	8% a year for the MIP and Basic plans and 7% a year for the Pension Plus plan, both rates are compounded annually net of investment and administrative expenses.
Salary increases –	3.5%
Inflation –	2.1%
Cost-of-living adjustments –	3% annual non-compounded for MIP members

Mortality Assumptions
The healthy life post-retirement mortality table used in this valuation of the System was the RP-2000 Combined Healthy Life Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA.

Experience Study
The annual actuarial valuation report of the System used for these statements is dated September 30, 2014. 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.

NOTE H—EMPLOYEE BENEFITS—Continued

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

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

Investment Category	**Target Allocation**	**Long-term Expected Real Rate of Return***
Domestic Equity Pools	28.0 %	5.9 %
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 rates of return are net of administrative expenses and 2.1% inflation.

Discount rate
The discount rate used to measure the total pension liability was 8 percent (7 percent for the Pension Plus Plan). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate
The following presents the School's proportionate share of the net pension liability calculated using the discount rate of 8 percent (7 percent for Pension Plus Plan), as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (7.0 percent) or 1 percentage point higher (9.0 percent) than the current rate:

	1% Lower (7%)	**Discount Rate (8%)**	**1% Higher (9%)**
School's proportionate share of the net pension liability	$ 398,665	$ 309,221	$ 233,816

NOTE H—EMPLOYEE BENEFITS—Continued

Pension Plan Fiduciary Net Position
Detailed information about the pension plan's fiduciary net position is available in the separately issued Michigan Public School Employees Retirement System 2015 Comprehensive Annual Financial Report.

Other Post-employment Benefits
Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, was funded on a cash disbursement basis. Beginning fiscal year 2013, it is funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, prescription drug, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members) the subsidy is the maximum allowed by statute. To limit future liabilities of Other Post-employment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus plan members) have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80 percent beginning January 1, 2013; 90 percent for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3 percent of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012
Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's transition date, which is defined as the first day of the pay period that begins on or after February 1, 2013.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

Employer Contributions
The School District is required to contribute the full actuarial funding contribution amount to fund retiree health care benefits. The contribution requirements of the School District are established and may be amended by the MPSERS Board of Trustees. The employer contribution rate ranged from 5.52% - 6.45% of covered payroll for the period October 1, 2013 to March 9, 2015, 2.2% - 2.71% of covered payroll for the period March 10, 2015 to September 30, 2015, and from 6.4% - 6.83% of covered payroll for the period October 1, 2015 to June 30, 2016. The School District post-employment healthcare contributions to MPSERS for the years ended June 30, 2016, 2015 and 2014 were approximately $6,000, $3,000 and $6,000 respectively, and were equal to the required contribution for those years.

NOTE I—COMMITMENTS AND CONTINGENCIES

Commitments

Operating Leases
The School has a lease agreement expiring August 2019. Rental expense for the year ended June 30, 2016 was $13,464. The following is a schedule of future minimum rental payments required under operating leases for the School's double wide modular classroom:

Year ending June 30,	Amount
2017	$ 13,464
2018	13,464
2019	13,464
2020	2,244
	$ 42,636

Contingencies

Grant Programs
The School participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

NOTE J—OTHER INFORMATION

Risk Management
The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School carries commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2016 or any of the prior three years.

Employee Services Agreement
The School leases its employees, with the exception of one employee, from an employee leasing company (Company) and is not required to have these School employees covered by MPSERS. Expenditures for employee costs such as salaries and wages, payroll taxes, and benefits under the management services agreements have been recorded and reported in conformance with the State of Michigan's standard chart of accounts.

NOTE K—UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement 75—*Accounting and Financial Reporting for Postemployment Benefits other than Pensions* was issued by the GASB in June 2015 and will be effective for the School's 2018 fiscal year. The statement requires governments that participate in postemployment benefits other than pensions (OPEB) to report in their Statement of Net Position a net OPEB liability. The net OPEB liability is the difference between the total OPEB liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Cost-sharing employers will be required to record a liability and expense equal to their proportionate share of the collective net OPEB liability and expense for the cost-sharing plan. The net OPEB liability recorded in the Statement of Net Position on July 1, 2017 will be very significant.

REQUIRED SUPPLEMENTARY INFORMATION

Walden Green Montessori
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2016

	Budgeted amounts			Variance with final budget- positive
	Original	**Final**	**Actual**	**(negative)**
REVENUES				
Local sources	$ 162,500	$ 139,804	$ 99,205	$ (40,599)
State sources	1,471,897	1,431,651	1,392,899	(38,752)
Federal sources	83,006	76,059	71,945	(4,114)
Total revenues	1,717,403	1,647,514	1,564,049	(83,465)
EXPENDITURES				
Instruction				
Basic programs	621,303	572,800	571,308	1,492
Added needs	167,235	118,252	116,217	2,035
Support services				
Pupil	57,408	44,463	44,462	1
General administration	105,620	92,510	90,246	2,264
School administration	289,990	284,490	284,105	385
Business	17,000	16,560	16,560	-
Operations and maintenance	138,950	108,700	108,625	75
Pupil transportation services	8,000	500	498	2
Central	30,800	30,000	30,000	-
Outgoing transfers and other transactions	330,964	330,122	329,000	1,122
Total expenditures	1,767,270	1,598,397	1,591,021	7,376
Excess (deficiency) of revenues over (under) expenditures	**$ (49,867)**	**$ 49,117**	(26,972)	**$ (76,089)**
Fund balance at beginning of year			812,093	
Fund balance at end of year			**$ 785,121**	

Walden Green Montessori
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of the School District's Proportionate Share of the Net Pension Liability
Michigan Public School Employees Retirement System
Last 10 Fiscal Years (Amounts were determined as of 9/30 of each fiscal year)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
School District's proportion of the net pension liability (%)	0.00127%	0.00123%	-	-	-	-	-	-	-	-
School District's proportionate share of the net pension liability	$ 309,221	$ 271,939	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School District's covered-employee payroll	$ 96,230	$ 93,006	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
School District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	321.34%	292.39%	-	-	-	-	-	-	-	-
Plan fiduciary net position as a percentage of the total pension liability	63.17%	66.20%	-	-	-	-	-	-	-	-

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Walden Green Montessori

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of School District's Contributions

Last 10 Fiscal Years (Amounts were determined as of 6/30 of each year)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contributions	$ 20,934	$ 20,770	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the statutorily required contributions	20,934	20,770	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
School District's covered-employee payroll	$ 105,354	$ 94,500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered-employee payroll	19.87%	21.98%	-	-	-	-	-	-	-	-

Note: For years prior to 2015 the information is not available. Until a full 10-year trend is compiled, information will only be presented for those years for which information is available.

Walden Green Montessori
REQUIRED SUPPLEMENTARY INFORMATION
Notes to Required Supplementary Information
For the year ended June 30, 2016

Changes of benefit terms: There were no changes of benefit terms in 2016.

Changes of assumptions: There were no changes of benefit assumptions in 2016.