

East Jackson  
Community  
Schools



Year Ended  
June 30, 2015

Financial  
Statements and  
Single Audit  
Compliance Act

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# EAST JACKSON COMMUNITY SCHOOLS

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# EAST JACKSON COMMUNITY SCHOOLS

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**INDEPENDENT AUDITORS' REPORT**

November 2, 2015

Board of Education  
East Jackson Community Schools  
Jackson, 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 *East Jackson Community Schools* (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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.

***Independent Auditors' Responsibility***

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

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

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

### *Opinions*

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

### *Implementation of GASB Statement No. 68*

As described in Note 18, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, in the current year. Accordingly, beginning net position of governmental activities was restated. Our opinion is not modified with respect to this matter.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension plan, listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 November 2, 2015, 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.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

# EAST JACKSON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

As management of East Jackson Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year that ended June 30, 2015.

### Financial Highlights

- The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. In addition to expanded disclosure requirements, the District is required to report its proportionate share of the MPSERS net pension liability on the statement of net position. This change has resulted in a negative total net position of governmental activities of \$10,564,567. Of this amount, \$(13,606,714) is unrestricted net position (deficit) and \$166,948 is restricted for other purposes.
- The District's total net position decreased by \$367,407.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,638,360, of which \$5,201,090 was restricted for future use.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$349,255 or 3.2% of total general fund expenditures.
- Investments for the future were made by the spending of \$8,542,764 on school improvements and equipment.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components:

1. *Government-wide Financial Statements*
2. *Fund Financial Statements*
3. *Notes to the Financial Statements*

This report also contains other supplementary information in addition to the basic financial statements.

### Government-wide Financial Statements

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

The *statement of net position* presents information on all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual balance reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

# EAST JACKSON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, community services, athletics, and food service. The District has no business-type activities as of and for the year ending June 30, 2015.

### Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: *governmental funds* and *fiduciary funds*.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may better understand the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of fund revenues, expenditures, and changes in fund balances for the general fund, debt retirement fund, and capital projects fund, which are the District's major funds. Data from the one other governmental fund, the food service fund, is presented separately as well.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the general fund budget.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

### Notes to the Financial Statements

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

# EAST JACKSON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this management's discussion and analysis and the schedules for the MPERS pension plan immediately following the notes to the financial statements.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$10,564,567 at the close of the most recent fiscal year.

A portion of the District's net position reflects its investment in capital assets (e.g. land, buildings and improvements, equipment and furniture, and vehicles); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Net Position	
	2015	2014
<b>Assets</b>		
Current and other assets	\$ 9,779,188	\$ 17,378,419
Capital assets, net	20,871,671	13,179,310
<b>Total assets</b>	<u>30,650,859</u>	<u>30,557,729</u>
<b>Deferred outflows of resources</b>	<u>2,236,328</u>	<u>227,135</u>
<b>Liabilities</b>		
Long-term liabilities	23,762,754	24,361,227
Other liabilities	18,155,470	2,966,633
<b>Total liabilities</b>	<u>41,918,224</u>	<u>27,327,860</u>
<b>Deferred inflows of resources</b>	<u>1,533,530</u>	<u>-</u>
<b>Net position:</b>		
Net investment in capital assets	2,875,199	2,438,889
Restricted	166,948	520,936
Unrestricted (deficit)	(13,606,714)	497,179
<b>Total net position</b>	<u>\$ (10,564,567)</u>	<u>\$ 3,457,004</u>

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position, which has a negative balance.

The results of this year's operations for the District as a whole are reported in the statement of activities, which shows the change in net position for the fiscal year 2015.

# EAST JACKSON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Governmental Activities

Net position decreased \$367,407. The key elements of this decrease included:

- An impairment loss due to the closing of one of the elementary schools of approximately \$314,000

	Change in Net Position	
	2015	2014
<b>Revenues</b>		
Program revenues:		
Charges for services	\$ 127,949	\$ 148,520
Operating grants and contributions	997,667	1,868,430
General revenues:		
Property taxes	3,158,597	3,218,097
Unrestricted state aid	7,803,601	7,359,651
Grants and contributions not restricted to specific programs	715,068	279,206
Unrestricted investment earnings	30,674	1,505
<b>Total revenues</b>	<u>12,833,556</u>	<u>12,875,409</u>
<b>Expenses</b>		
Instruction	7,143,675	7,403,469
Supporting services	3,285,855	2,714,204
Community services	5,152	84,509
Athletics	284,351	318,675
Food service	628,143	517,578
Interest on long-term debt	1,003,384	487,428
Unallocated depreciation	536,741	573,590
<b>Total expenses</b>	<u>12,887,301</u>	<u>12,099,453</u>
Change in net position before special item	(53,745)	775,956
Special item - impairment loss	<u>(313,662)</u>	<u>-</u>
Change in net position	(367,407)	775,956
Net position, beginning of year	3,457,004	2,681,048
Restatement for implementation of GASB 68	<u>(13,654,164)</u>	<u>-</u>
<b>Net position, end of year</b>	<u>\$ (10,564,567)</u>	<u>\$ 3,457,004</u>

### Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

# EAST JACKSON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,638,360. Approximately 6.19% of this total amount (\$349,255) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, to indicate that it is not available for new spending because the underlying assets are included in inventory or receivables and are not available for current expenditure, or it is constrained by externally imposed restrictions, or it is constrained by the intent of the Board.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the total fund balance of the general fund was \$349,255, all of which is unassigned. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents approximately 3.2% of total general fund expenditures.

The fund balance of the District's general fund decreased \$211,606 during the current fiscal year. This is attributable to total revenues coming in 0.6% below the final budget, and total expenditures coming in 1.2% above the final budget. The slightly lower revenues combined with slightly higher expenditures resulted in this use of fund balance during the past fiscal year. Within the total revenues and total expenditures, there were several line items that had small favorable variances and others that had small unfavorable variances. The most significant items that resulted in the revenue variance were less than budgeted local property tax revenue and federal grant revenue. The most significant items that resulted in the expenditure variance were higher than budgeted salaries, including special retirement payouts, and higher health insurance costs.

The fund balance of the District's debt retirement fund decreased \$91,629 during the current fiscal year. This is attributable to the principal and interest payments made during the year exceeding the property taxes revenues collected.

The capital projects fund has total fund balance of \$5,037,890, which is considered to be entirely restricted. The capital projects fund incurred \$8,432,439 in improvement projects during the year.

### General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted at year end. A statement showing the District's original and final budget amounts for the general fund compared with amounts actually paid and received is provided with the governmental fund section in these financial statements.

The original budget is adopted by the school board before the start of the District's fiscal year and the final amended budget is adopted at the end of the fiscal year. The difference between the two relates to adjustments made in salaries, benefits, and general expenditures throughout the course of the year. Once the adjustments are known, the budget is adjusted accordingly.

# EAST JACKSON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Capital Assets and Debt Administration

*Capital Assets.* The District's investment in capital assets for its governmental activities as of June 30, 2015, amounted to \$20,871,671 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and furniture, and vehicles.

The major capital asset expenditures during the current fiscal year were the following:

- \$8,204,238 of CIP
- \$138,136 of equipment and furniture
- \$200,390 of vehicles

	Capital Assets (Net of Depreciation)	
	2015	2014
Land	\$ 329,527	\$ 329,527
CIP	8,204,238	-
Buildings and improvements	11,056,095	11,690,148
Equipment and furniture	1,014,405	1,060,409
Vehicles	267,406	99,226
Total capital assets, net	<u>\$ 20,871,671</u>	<u>\$ 13,179,310</u>

Additional information regarding the District's capital assets can be found in Note 6 to the financial statements.

### Long-term Debt

At the end of the current fiscal year, the District had total long term debt outstanding of \$23,762,754.

	Long-term Debt	
	2015	2014
General obligation bonds	\$ 22,420,000	\$ 24,230,000
School Loan Revolving Fund	397,650	-
Unamortized premium	786,487	-
Compensated absences	158,617	131,227
Total	<u>\$ 23,762,754</u>	<u>\$ 24,361,227</u>

The District's total long-term debt decreased by \$598,473. The key factor in this decrease was the principal payments of general obligation bond debt during the year and the refunding bonds.

Additional information regarding the District's long-term debt can be found in Note 10 to the financial statements.

# EAST JACKSON COMMUNITY SCHOOLS

## Management's Discussion and Analysis

### Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2015-2016 fiscal year:

- The foundation allowance is budgeted at \$7,391 per full-time student
- A MPSEs credit of \$64 per full-time student
- An anticipated increase of 0.5% in health insurance costs
- Step increases for teachers in 2015-2016

### Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, 1566 N. Sutton Road, Jackson, MI 49202.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

# EAST JACKSON COMMUNITY SCHOOLS

## Statement of Net Position

June 30, 2015

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 7,690,694
Receivables	2,000,479
Inventory	88,015
Capital assets not being depreciated	8,533,765
Capital assets being depreciated, net	<u>12,337,906</u>
<b>Total assets</b>	<u>30,650,859</u>
<b>Deferred outflows of resources</b>	
Deferred loss on refunding	172,125
Deferred pension amounts	<u>2,064,203</u>
<b>Total deferred outflows of resources</b>	<u>2,236,328</u>
<b>Liabilities</b>	
Accounts payable, accrued liabilities and notes payable	4,283,698
Long-term debt:	
Due within one year	769,173
Due in more than one year	22,993,581
Net pension liability	<u>13,871,772</u>
<b>Total liabilities</b>	<u>41,918,224</u>
<b>Deferred inflows of resources</b>	
Deferred pension amounts	<u>1,533,530</u>
<b>Net position</b>	
Net investment in capital assets	2,875,199
Restricted for:	
Food service	166,948
Unrestricted	<u>(13,606,714)</u>
<b>Total net position</b>	<u><u>\$ (10,564,567)</u></u>

The accompanying notes are an integral part of these financial statements.

# EAST JACKSON COMMUNITY SCHOOLS

## Statement of Activities

For the Year Ended June 30, 2015

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities</b>				
Instruction	\$ 7,143,675	\$ -	\$ -	\$ (7,143,675)
Supporting services	3,285,855	-	511,290	(2,774,565)
Community services	5,152	-	-	(5,152)
Athletics	284,351	67,863	-	(216,488)
Food service	628,143	60,086	486,377	(81,680)
Interest on long-term debt	1,003,384	-	-	(1,003,384)
Unallocated depreciation	536,741	-	-	(536,741)
<b>Total governmental activities</b>	<u>\$ 12,887,301</u>	<u>\$ 127,949</u>	<u>\$ 997,667</u>	<u>(11,761,685)</u>
<b>General revenues</b>				
Property taxes				3,158,597
Unrestricted state aid				7,803,601
Grants and contributions not restricted to specific programs				715,068
Unrestricted investment earnings				<u>30,674</u>
<b>Total general revenues</b>				<u>11,707,940</u>
Change in net position before special item				(53,745)
Special item - impairment loss (Note 7)				<u>(313,662)</u>
<b>Change in net position</b>				(367,407)
Net position, beginning of year, as restated				<u>(10,197,160)</u>
<b>Net position, end of year</b>				<u>\$ (10,564,567)</u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

# EAST JACKSON COMMUNITY SCHOOLS

## Balance Sheet

Governmental Funds

June 30, 2015

	General Fund	Debt Retirement Fund	Capital Projects Fund	Nonmajor Governmental Fund - Food Service	Totals
<b>Assets</b>					
Cash and cash equivalents	\$ 573,191	\$ 82,087	\$ 6,855,000	\$ 180,416	\$ 7,690,694
Accounts receivable	374,266	-	-	-	374,266
Due from other governments	1,622,847	-	-	3,366	1,626,213
Due from other funds	2,532,681	2,020,604	49,979	456,170	5,059,434
Inventory	-	-	-	88,015	88,015
<b>Total assets</b>	<b>\$ 5,102,985</b>	<b>\$ 2,102,691</b>	<b>\$ 6,904,979</b>	<b>\$ 727,967</b>	<b>\$ 14,838,622</b>
<b>Liabilities</b>					
Accounts payable	\$ 29,854	\$ -	\$ 1,867,089	\$ 5,027	\$ 1,901,970
Salaries and retirement payable	1,014,083	-	-	11,176	1,025,259
Due to other funds	2,496,194	2,018,424	-	544,816	5,059,434
State aid note payable	1,213,599	-	-	-	1,213,599
<b>Total liabilities</b>	<b>4,753,730</b>	<b>2,018,424</b>	<b>1,867,089</b>	<b>561,019</b>	<b>9,200,262</b>
<b>Fund balances</b>					
Nonspendable-					
Inventory	-	-	-	88,015	88,015
Restricted:					
Food service	-	-	-	78,933	78,933
Capital projects	-	-	5,037,890	-	5,037,890
Debt service	-	84,267	-	-	84,267
Unassigned	349,255	-	-	-	349,255
<b>Total fund balances</b>	<b>349,255</b>	<b>84,267</b>	<b>5,037,890</b>	<b>166,948</b>	<b>5,638,360</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,102,985</b>	<b>\$ 2,102,691</b>	<b>\$ 6,904,979</b>	<b>\$ 727,967</b>	<b>\$ 14,838,622</b>

The accompanying notes are an integral part of these financial statements.

# EAST JACKSON COMMUNITY SCHOOLS

## Reconciliation

Fund Balances of Governmental Funds  
to Net Position of Governmental Activities  
June 30, 2015

Fund balances - total governmental funds	\$ 5,638,360
Amounts reported for <i>governmental activities</i> in the statement of net position are because:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	
Capital assets not being depreciated	8,533,765
Capital assets being depreciated	25,338,430
Accumulated depreciation	(13,000,524)
Certain liabilities, such as bonds payable, are not due and payable in the current period therefore are not reported in the funds.	
Bonds payable and notes payable	(22,817,650)
Unamortized bond premium	(786,487)
Unamortized deferred loss on bond refunding	172,125
Accrued interest on bonds payable and notes payable	(142,870)
Compensated absences	(158,617)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are no reported in the funds.	
Net pension liability	(13,871,772)
Deferred outflows related to the net pension liability	2,064,203
Deferred inflows related to the net pension liability	(1,533,530)
Net position of governmental activities	<u>\$ (10,564,567)</u>

The accompanying notes are an integral part of these financial statements.

# EAST JACKSON COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2015

	General Fund	Debt Retirement Fund	Capital Projects Fund	Nonmajor Governmental Fund - Food Service	Totals
<b>Revenues</b>					
Local sources:					
Property taxes	\$ 1,636,959	\$ 1,521,638	\$ -	\$ -	\$ 3,158,597
Interest	-	-	30,674	5	30,679
Other local revenues	169,267	-	-	60,086	229,353
Transfers from other governments	613,664	-	-	-	613,664
State sources	7,803,601	-	-	18,198	7,821,799
Federal sources	511,290	-	-	468,174	979,464
<b>Total revenues</b>	<b>10,734,781</b>	<b>1,521,638</b>	<b>30,674</b>	<b>546,463</b>	<b>12,833,556</b>
<b>Expenditures</b>					
Current:					
Instruction:					
Basic programs	5,424,849	-	-	-	5,424,849
Added needs	1,924,989	-	-	-	1,924,989
Supporting services	3,302,623	-	-	-	3,302,623
Community services	5,152	-	-	-	5,152
Athletics	288,774	-	-	-	288,774
Food service	-	-	-	636,540	636,540
Capital outlay	-	110,325	8,432,439	-	8,542,764
Debt service:					
Principal	-	1,265,000	-	-	1,265,000
Interest and fiscal charges	-	743,361	-	-	743,361
Bond issuance costs	-	-	49,924	-	49,924
<b>Total expenditures</b>	<b>10,946,387</b>	<b>2,118,686</b>	<b>8,482,363</b>	<b>636,540</b>	<b>22,183,976</b>
Revenues under expenditures	(211,606)	(597,048)	(8,451,689)	(90,077)	(9,350,420)
<b>Other financing sources (uses)</b>					
Issuance of long-term debt	-	8,245,094	-	-	8,245,094
Payment to escrow agent	-	(8,567,125)	-	-	(8,567,125)
Premium on issuance of long-term debt	-	827,450	-	-	827,450
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>505,419</b>	<b>-</b>	<b>-</b>	<b>505,419</b>
<b>Net change in fund balances</b>	<b>(211,606)</b>	<b>(91,629)</b>	<b>(8,451,689)</b>	<b>(90,077)</b>	<b>(8,845,001)</b>
Fund balances, beginning of year	560,861	175,896	13,489,579	257,025	14,483,361
<b>Fund balances, end of year</b>	<b>\$ 349,255</b>	<b>\$ 84,267</b>	<b>\$ 5,037,890</b>	<b>\$ 166,948</b>	<b>\$ 5,638,360</b>

The accompanying notes are an integral part of these financial statements.

# EAST JACKSON COMMUNITY SCHOOLS

## Reconciliation

Net Change in Fund Balances of Governmental Funds  
to Change in Net Position of Governmental Activities  
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ (8,845,001)

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported depreciation expense.

Capital assets purchased	8,542,764
Depreciation expense	(536,741)
Impairment loss on school building	(313,662)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Issuance of long-term debt	(8,245,094)
Payment to escrow agent	8,567,125
Principal payments on long-term liabilities	1,265,000
Premium on issuance of long-term debt	(827,450)
Amortization of loss on bond refunding	(227,135)
Amortization of premium on bond refunding	40,963

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Change in net pension liability and related deferred amounts	313,065
Change in accrued interest payable on bonds and notes	(73,851)
Change in the accrual for compensated absences	(27,390)

Change in net position of governmental activities \$ (367,407)

The accompanying notes are an integral part of these financial statements.

# EAST JACKSON COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>Revenues</b>				
Local revenue:				
Property taxes	\$ 1,724,360	\$ 1,709,201	\$ 1,636,959	\$ (72,242)
Other local revenues	112,090	92,193	169,267	77,074
Transfers from other governments	621,344	603,664	613,664	10,000
Total revenues from local sources	<u>2,457,794</u>	<u>2,405,058</u>	<u>2,419,890</u>	<u>14,832</u>
State revenue	7,068,278	7,804,013	7,803,601	(412)
Federal revenue	710,418	585,654	511,290	(74,364)
<b>Total revenues</b>	<u>10,236,490</u>	<u>10,794,725</u>	<u>10,734,781</u>	<u>(59,944)</u>
<b>Expenditures</b>				
Instruction:				
Basic programs	4,756,261	5,323,231	5,424,849	101,618
Added needs	2,126,879	1,872,231	1,924,989	52,758
Total instruction	<u>6,883,140</u>	<u>7,195,462</u>	<u>7,349,838</u>	<u>154,376</u>
Supporting services:				
Pupil	210,868	389,400	374,527	(14,873)
Instructional staff	144,547	155,871	148,805	(7,066)
General administration	307,505	306,880	268,923	(37,957)
School administration	590,637	701,940	682,947	(18,993)
Business services	250,883	160,570	178,833	18,263
Operations and maintenance	1,283,410	1,269,427	1,257,785	(11,642)
Pupil transportation	372,675	363,498	353,214	(10,284)
Central services	-	37,689	37,589	(100)
Total supporting services	<u>3,160,525</u>	<u>3,385,275</u>	<u>3,302,623</u>	<u>(82,652)</u>
Community services	<u>11,000</u>	<u>4,514</u>	<u>5,152</u>	<u>638</u>
Athletics	<u>220,091</u>	<u>228,131</u>	<u>288,774</u>	<u>60,643</u>
<b>Total expenditures</b>	<u>10,274,756</u>	<u>10,813,382</u>	<u>10,946,387</u>	<u>133,005</u>
<b>Net change in fund balance</b>	<u>(38,266)</u>	<u>(18,657)</u>	<u>(211,606)</u>	<u>(192,949)</u>
Fund balance, beginning of year	<u>560,861</u>	<u>560,861</u>	<u>560,861</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 522,595</u>	<u>\$ 542,204</u>	<u>\$ 349,255</u>	<u>\$ (192,949)</u>

The accompanying notes are an integral part of these financial statements.



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## NOTES TO FINANCIAL STATEMENTS

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

East Jackson Community Schools (the "District") has followed the guidelines of the Governmental Accounting Standards Board and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### *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 non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2015.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-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*

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants that use one year. 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, are recorded only when payment is due.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is used to account for all financial resources not accounted for and reported in another fund.

The *debt retirement fund* is used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

The *capital projects fund* is used to account financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets. The District has complied with the applicable provisions of Section 1351 of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits and Bonded Construction Funds and of Sinking Funds in Michigan.

The District reports the following fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

### Cash and Cash Equivalents

The District'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.

### Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non current portion of interfund loans).

### Inventory

Inventory is valued at the lower of cost (first in, first out) or market. Inventory in the general fund and special revenue funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net position.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000, computer and associated computer equipment costing more than \$1,000, and electronic equipment costing more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The District does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Buildings and improvements	20-50
Equipment and furniture	5-20
Vehicles	8

### 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. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The District also reports deferred outflows of resources related to the net pension liability. A portion of these costs represent contributions to the plan subsequent to the plan measurement date. More detailed information on pension-related deferred outflows of resources can be found in Note 15.

### Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

### Long-term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

In the fund financial statements, governmental fund types generally 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, when incurred.

### 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District's deferred inflows of resources related to pension costs. More detailed information can be found in Note 15.

### Fund Equity

Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. Committed fund balance, if applicable, is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action if the government's highest level of decision making authority, the Board of Education. A formal resolution of the Board of Education is required to establish, modify or rescind a fund balance commitment. The District reports assigned fund balance, if applicable, for amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund. The District reported no committed or assigned fund balances.

When the District incurs an expenditure for purposes for which various fund balance classification can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

### Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

### Pensions

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 Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. 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.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## 2. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue fund. All annual appropriations lapse at fiscal year end.

The general and special revenue fund are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budgets for the general and special revenue funds are adopted on an activity basis.

## 3. EXCESS OF EXPENDITURES OVER BUDGET

During the year ended June 30, 2015, the District incurred certain expenditures in excess of the amounts appropriated as follows:

	Final Budget	Actual	Over Budget
<b>General fund</b>			
Instruction:			
Basic programs	\$ 5,323,231	\$ 5,424,849	\$ 101,618
Added needs	1,872,231	1,924,989	52,758
Supporting services-			
Business	160,570	178,833	18,263
Community services	4,514	5,152	638
Athletics	228,131	288,774	60,643

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 4. DEPOSITS AND INVESTMENTS

A reconciliation of cash and investments as shown on the Statement of Net Position and Statement of Fiduciary Assets and Liabilities follows:

<b>Statement of Net Position</b>	
Cash and cash equivalents	\$ 7,690,694
<b>Statement of Fiduciary Assets and Liabilities</b>	
Cash and cash equivalents	<u>83,517</u>
<b>Total</b>	<u><u>\$ 7,774,211</u></u>
<b>Deposits and investments</b>	
Bank deposits (checking accounts and savings accounts)	\$ 7,773,225
Cash on hand	<u>986</u>
<b>Total</b>	<u><u>\$ 7,774,211</u></u>

#### *Statutory Authority*

State statutes authorize the District to invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's investment policy allows for all of these types of investments.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### *Investment and Deposit Risk*

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the listing of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District has no investments at June 30, 2015.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The District has no investments at June 30, 2015.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$5,973,969 of the District's bank balance of \$7,977,268 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. The District has no investments at June 30, 2015.

## 5. RECEIVABLES

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

	General Fund	Nonmajor Governmental Fund - Food Service	Total
Accounts receivable	\$ 374,266	\$ -	\$ 374,266
Due from other governments	1,622,847	3,366	1,626,213
	<u>\$ 1,997,113</u>	<u>\$ 3,366</u>	<u>\$ 2,000,479</u>

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Disposals	Impairments	Ending Balance
<b>Governmental Activities</b>					
Capital assets not being depreciated:					
Land	\$ 329,527	\$ -	\$ -	\$ -	\$ 329,527
CIP	-	8,204,238	-	-	8,204,238
	<u>329,527</u>	<u>8,204,238</u>	<u>-</u>	<u>-</u>	<u>8,533,765</u>
Capital assets being depreciated:					
Buildings and improvements	19,458,470	-	-	-	19,458,470
Equipment and furniture	4,554,315	138,136	-	-	4,692,451
Vehicles	987,119	200,390	-	-	1,187,509
Total capital assets being depreciated	<u>24,999,904</u>	<u>338,526</u>	<u>-</u>	<u>-</u>	<u>25,338,430</u>
Less accumulated depreciation for:					
Buildings and improvements	(7,768,322)	(320,391)	-	(313,662)	(8,402,375)
Equipment and furniture	(3,493,906)	(184,140)	-	-	(3,678,046)
Vehicles	(887,893)	(32,210)	-	-	(920,103)
Total accumulated depreciation	<u>(12,150,121)</u>	<u>(536,741)</u>	<u>-</u>	<u>(313,662)</u>	<u>(13,000,524)</u>
Total capital assets being depreciated, net	<u>12,849,783</u>	<u>(198,215)</u>	<u>-</u>	<u>(313,662)</u>	<u>12,337,906</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 13,179,310</u>	<u>\$ 8,006,023</u>	<u>\$ -</u>	<u>\$ (313,662)</u>	<u>\$ 20,871,671</u>

Depreciation expense of \$536,741 was charged to the function "unallocated depreciation", and was not allocated to other functions.

### 7. SPECIAL ITEM - IMPAIRMENT LOSS

The District has closed Robinson Elementary and has the building listed for sale. In accordance with GASB Statement 42, *Accounting and Financial Reporting for Impairment for Capital Assets and for Insurance Recoveries*, an impairment loss of \$313,662 has been recognized in the statement of activities to adjust the carrying value of the Robinson building to the deflated depreciated fair value of the appraisal value.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 8. PAYABLES

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	General Fund	Capital Projects Fund	Nonmajor Governmental Fund - Food Service	Total
<b>Fund Financial Statements</b>				
Accounts payable	\$ 29,854	\$ 1,867,089	\$ 5,027	\$ 1,901,970
Salaries and retirement payable	1,014,083	-	11,176	1,025,259
State aid note payable	1,213,599	-	-	1,213,599
	<u>\$ 2,257,536</u>	<u>\$ 1,867,089</u>	<u>\$ 16,203</u>	4,140,828
<b>Government-wide Financial Statements</b>				
Accrued interest on long-term debt				<u>142,870</u>
				<u>\$ 4,283,698</u>

### 9. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

At June 30, 2015, interfund receivables and payables consisted of the following:

	Due From	Due To
General fund	\$ 2,532,681	\$ 2,496,194
Debt retirement fund	2,020,604	2,018,424
Capital projects fund	49,979	-
Nonmajor governmental fund - food service	<u>456,170</u>	<u>544,816</u>
	<u>\$ 5,059,434</u>	<u>\$ 5,059,434</u>

The District often reports interfund balances between many of its funds. These interfund balances result primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 10. LONG-TERM DEBT

The following is a summary of bond, note, and compensated absence transactions of the District for the year ended June 30, 2015:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
General obligation bonds	\$ 24,230,000	\$ 7,850,000	\$ (9,660,000)	\$ 22,420,000	\$ 655,000
School loan revolving fund	-	397,650	-	397,650	-
Unamortized bond premium	-	827,450	(40,963)	786,487	98,311
Compensated absences	131,227	49,588	(22,198)	158,617	15,862
<b>Total</b>	<b>\$ 24,361,227</b>	<b>\$ 9,124,688</b>	<b>\$ (9,723,161)</b>	<b>\$ 23,762,754</b>	<b>\$ 769,173</b>

Compensated absences are generally liquidated by the general fund.

Bonds payable consist of the following issues:

#### General Obligation Bonds

2005 Refunding Bonds, due in annual installments of \$50,000 to \$425,000 through 2016, interest at 3.00% - 3.90%	\$ 400,000
\$995,000 2009 Building and Site Bonds, due in annual installments of \$40,000 to \$125,000 through 2021, interest at 3.00% - 4.35%	710,000
\$13,610,000 2014 Building and Site Bonds, due in annual installments of \$150,000 to \$995,000 through 2039, interest at 2.00% - 5.00%	13,460,000
2015 Refunding Bonds, due in annual installments of \$930,000 to \$1,275,000 through 2023, interest at 3.00% - 4.00%	<u>7,850,000</u>
	<u>\$ 22,420,000</u>

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

Annual debt service requirements to maturity for bonds payable are as follows:

Year Ended June 30,	Principal	Interest	Total
2016	\$ 655,000	\$ 857,218	\$ 1,512,218
2017	1,380,000	834,943	2,214,943
2018	1,415,000	794,218	2,209,218
2019	1,460,000	736,238	2,196,238
2020	1,505,000	676,338	2,181,338
2021-2025	4,920,000	2,597,638	7,517,638
2026-2030	3,315,000	1,907,075	5,222,075
2031-2035	3,985,000	1,234,638	5,219,638
2036 -2037	3,785,000	385,200	4,170,200
	<u>\$ 22,420,000</u>	<u>\$ 10,023,506</u>	<u>\$ 32,443,506</u>

The State of Michigan School Loan Funds represent amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the debt service requirements on the general obligation bonds. Changes to the School Loan Funds for the year ended June 30, 2015, are as follows:

	School Loan Revolving Fund		
	Principal	Interest	Total
Beginning balance	\$ -	\$ -	\$ -
Additions	<u>395,094</u>	<u>2,556</u>	<u>397,650</u>
Ending balance	<u>395,094</u>	<u>2,556</u>	<u>397,650</u>

### Advance Refunding

The District issued \$7,850,000 in refunding bonds during the year to advance refund \$1,910,000 of 2005 refunding bonds and \$6,485,000 of 2005 general obligation bonds. The refunding resulted in a savings of \$169,330 and an economic gain of \$159,830. The refunded bonds were paid in full by the escrow agent on May 1, 2015.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 11. STATE AID ANTICIPATION NOTES

During the year, the District financed some of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly, are recorded as liabilities of the respective funds from which they were issued. At year end, notes consisted of \$666,930 and \$546,669, due on August 20, 2015, with interest at 1.050% and 1.235%, respectively. Short-term note activity for the year ended June 30, 2015, was as follows:

**General fund**

State Aid Anticipation Notes:

Beginning balance	\$ 1,500,000
Additions	1,213,599
Reductions	<u>(1,500,000)</u>
Ending balance	<u>\$ 1,213,599</u>

### 12. NET INVESTMENT IN CAPITAL ASSETS

As of June 30, 2015, the composition of net investment in capital assets was comprised of the following:

	<b>Governmental Activities</b>
Capital assets:	
Capital assets not being depreciated	\$ 8,533,765
Capital assets being depreciated, net	<u>12,337,906</u>
	<u>20,871,671</u>
Related debt:	
Bonds payable	22,420,000
Unamortized bond premium	786,487
Unamortized deferred loss on refunding	(172,125)
Unspent bond proceeds	<u>(5,037,890)</u>
	<u>17,996,472</u>
<b>Net Investment in capital assets</b>	<u><u>\$ 2,875,199</u></u>

### 13. 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 general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. 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 program in which the District participates 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.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

### 14. PROPERTY TAXES

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of December 1 of the following year. Taxes are levied on December 1 by township governments whose boundaries include property within the District and are due on February 14. Delinquent real taxes are advanced to the District by the Revolving Tax Funds of the counties involved.

### 15. RETIREMENT PLAN

#### *General Information about the Pension Plan*

*Plan Description.* The District contributes to the Michigan Public School Employees Retirement System ("MPSERS"), a cost-sharing multiple-employer pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems with oversight from a 12-member board. Benefit provisions are established and may be amended by state statute. The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report can be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling (517) 322-5103.

Participants are enrolled in one of multiple plans based on date of hire and certain voluntary elections. A summary of the pension plans offered by MPSERS is as follows:

Plan Name	Plan Type	Plan Status
Member Investment Plan (MIP)	Defined Benefit	Closed
Basic	Defined Benefit	Closed
Pension Plus	Hybrid	Open
Defined Contribution	Defined Contribution	Open

The *Member Investment Plan* (MIP) includes additional subgroups based on hire date. The *MIP Fixed* plan includes members hired prior to January 1, 1990. The *MIP Graded* plan includes members first hired from January 1, 1990 through June 30, 2008. The *MIP Plus* plan includes members first hired from July 1, 2008 through June 30, 2010. Members who initially enrolled in the MIP plan and made a voluntary election to contribute a higher rate are participants in the *MIP 7%* plan.

Members hired between July 1, 2010 and September 3, 2012 were enrolled in the *Pension Plus* plan. Members hired on or after September 4, 2012 are automatically enrolled in this plan unless an election is made to participate in the defined contribution plan. The plan includes a pension component as well as a savings component. Member contributions to the savings component are matched at a rate of 50% by the employer (up to a maximum of 1%) and invested in a 401(k) plan.

Effective February 1, 2013, members that initially enrolled in MIP were provided the option to convert to a defined contribution plan (*Basic 4%*). In these instances, any service credit accumulated under the defined benefit plan before February 1, 2013 is retained. For service performed after this date, the converted plan member receives 4% employer contributions to a personal 401(k) account.

A member first enrolling in MPSERS on or after September 4, 2012 may elect to enroll in the *defined contribution* plan. Employer and employee contribution rates and vesting requirements are consistent with the defined contribution component of the Pension Plus plan as described above.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

*Benefits Provided.* MPSERS provides retirement, death, disability and postemployment benefits to eligible participants. Retirement benefits are calculated as a percentage of the employee's final average compensation times the employee's years of service. All participants qualify for a benefit multiplier of 1.5% for the first 30 years of service. Certain benefit groups receive a reduced rate of 1.25% for service above 30 years. Disability benefits are calculated the same as regular service retirement. Participants are eligible to receive full retirement benefits upon reaching the age and years of service requirements below. Most plans offer additional options for early retirement if certain stipulations have been met. Voluntary contributions vest immediately.

Plan	Eligibility Based on Years of Service	Vesting
Member Investment Plan (MIP)	Age 46 with 30 years or age 60 with 10 years	10 years
Basic	Age 55 with 30 years or Age 60 with 10 years	10 years
Pension Plus	Age 60 with 10 years	4 years
Defined Contribution	Age 46 with 30 years or age 60 with 10 years	4 years

*Contributions.* Employer contributions to the plans are based on a percentage of covered payroll that has been actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Member contributions are determined based on date of hire and the plan selected. In addition, the District is invoiced monthly an amount that approximates 7.63% of covered payroll for "MPSERS UAAL Stabilization." This additional contribution is offset by monthly State aid payments equal to the amounts actually billed by the Office of Retirement Services. For the plan year ended September 30, 2015, an additional 1.13% MPSERS liability prepayment was invoiced as a one-time cost. Employer contribution requirements for pension, inclusive of the MPSERS UAAL Stabilization and onetime prepayment rates, range from 27.52% to 31.83% of covered payroll. Plan member contributions range from 0.0% to 7.0% of covered payroll.

The District's contribution to MPSERS under all plans for the year ended June 30, 2015, inclusive of the MPSERS UAAL Stabilization and one-time prepayment, was \$1,708,089.

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

At June 30, 2015, the District reported a liability of \$13,871,772 for its proportionate share of the net pension liability. The net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2013. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At September 30, 2014, the District's proportion (as calculated by MPSERS) was 0.06297%.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

For the year ended June 30, 2015, the District recognized pension expense of \$1,123,830. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Changes in assumptions	\$ 511,838	\$ -	\$ 511,838
Changes in proportionate share	684	-	684
Net difference between projected and actual earnings on pension plan investments	-	1,533,530	(1,533,530)
	<u>512,522</u>	<u>1,533,530</u>	<u>(1,021,008)</u>
District contributions subsequent to the measurement date	1,551,680	-	1,551,680
<b>Total</b>	<u>\$ 2,064,202</u>	<u>\$ 1,533,530</u>	<u>\$ 530,672</u>

The amount of deferred outflows of resources related to District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ (250,111)
2017	(250,111)
2018	(250,111)
2019	<u>(270,675)</u>
<b>Total</b>	<u>\$ (1,021,008)</u>

*Actuarial Assumptions.* The total pension liability in the September 30, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.5%
Salary increases	3.5% to 12.3%, including wage inflation of 3.5%
Investment rate of return	8.0% (7% for the Pension Plus plan)
Cost of living adjustments	3.0% annual, non-compounded for MIP members
Healthcare cost trend rate	8.5% year 1 graded to 3.5% year12

The mortality table used in this valuation was the 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.

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.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return	Expected Money-Weighted Rate of Return
Domestic equity pools	28.00%	4.80%	1.34%
Alternative investment pools	18.00%	8.50%	1.53%
International equity pools	16.00%	6.10%	0.98%
Fixed income pools	10.50%	1.50%	0.16%
Real estate and infrastructure pools	10.00%	5.30%	0.53%
Absolute return pools	15.50%	6.30%	0.98%
Short-term investment pools	2.00%	-0.20%	-0.02%
	<u>100.00%</u>		5.50%
Inflation			<u>2.50%</u>
Investment rate of return			<u>8.00%</u>

**Discount Rate.** The discount rate used to measure the total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that District contributions 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 net pension liability of the District, calculated using the discount rate of 8.0%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1 percent higher (9.0%) than the current rate:

1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.00%)
-----------------------	------------------------------------	------------------------

District's proportionate share of the net pension liability	\$ 18,288,723	\$ 13,871,772	\$ 10,150,425
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**Pension Plan Fiduciary Net Position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS financial statements available on the State of Michigan Office of Retirement Services website at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools).

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Financial Statements

*Payable to the Pension Plan.* At June 30, 2015, the District reported a payable of \$223,857 for the outstanding amount of contributions to the Plan required for the year ended June 30, 2015.

### *Other Postemployment Benefits*

Retirees enrolled in MPSERS before September 4, 2012 have the option of participating in the Premium Subsidy plan, a defined benefit postemployment healthcare plan, which is funded by employers on a cash disbursement basis. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension. Employer contributions range from 2.20% to 2.71% of covered payroll. Plan participants contribute 3% of covered payroll to the Retiree Healthcare Fund. At retirement, these individuals receive a subsidy for healthcare premiums that covers up to 80% of cost.

Plan members enrolled on or after September 4, 2012 participate in the *Personal Healthcare Fund*. This defined contribution other postemployment benefits plan includes a required 2% employee contribution into a personal tax-deferred account, which is matched by an additional 2% employer contribution. Employees are fully vested in these contributions which can be used, along with earnings thereon, to pay for postemployment healthcare expenses. Plan members working prior to September 4, 2012 were given the option to convert from the Premium Subsidy plan to the Personal Healthcare Fund option. Effective February 1, 2013, these members are no longer required to make the 3% employee contribution. Amounts paid into the Retiree Healthcare Fund between September 4, 2012 and February 1, 2013 were credited to each individual's Personal Healthcare Fund account. Any contributions made prior to September 4, 2012 are pending a Supreme Court resolution.

The District's contributions to MPSERS for other postemployment benefits amounted to \$168,013 for the year ended June 30, 2015.

## 16. SUBSEQUENT EVENTS

On August 20, 2015, the District borrowed \$514,117 and \$685,883 in State Aid Anticipation Notes. The notes bear interest at 1.0800% and 1.4625%, respectively, and are due August 22, 2016.

## 17. CONSTRUCTION COMMITMENTS

The District has an active construction project as of June 30, 2015. The project includes renovations to the East Jackson Elementary. At year-end, the District's remaining contractual commitments totaled approximately \$4.5 million. These projects are being funded with remaining bond funds.

## 18. RESTATEMENT

The District adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of governmental activities was decreased by \$13,654,164.



## REQUIRED SUPPLEMENTARY INFORMATION

# EAST JACKSON COMMUNITY SCHOOLS

## Required Supplementary Information MPSER Cost-Sharing Multiple-Employer Plan

### Schedule of the District's Proportionate Share of the Net Pension Liability

	Year Ended June 30, 2015
District's proportion of the net pension liability	0.06297%
District's proportionate share of the net pension liability	\$ 13,871,772
District's covered-employee payroll	4,875,576
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	284.52%
Plan fiduciary net position as a percentage of the total pension liability	66.20%

The amounts presented for each fiscal year were determined as of September 30 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

# EAST JACKSON COMMUNITY SCHOOLS

## Required Supplementary Information MPSER Cost-Sharing Multiple-Employer Plan

### Schedule of District Contributions

	Year Ended June 30, 2015
Contractually required contribution	\$ 1,708,089
Contributions in relation to the contractually required contribution	<u>(1,708,089)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 4,835,066
Contributions as a percentage of covered employee payroll	35.3%

Note: GASB 68 was implemented in fiscal year 2015. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

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## SINGLE AUDIT ACT COMPLIANCE

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**INDEPENDENT AUDITORS' REPORT ON THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY OMB CIRCULAR A-133**

November 2, 2015

Board of Education  
East Jackson Community Schools  
Jackson, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *East Jackson Community Schools* (the "District") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements. We issued our report thereon dated November 2, 2015, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Agency / Cluster / Program Title	CFDA Number	Passed Through	Pass-through / Grantor Number	Approved Awards Amount
<b>U.S. Department of Agriculture</b>				
Child Nutrition Cluster:				
Entitlement Commodities (noncash)	10.555	MDE	n/a	\$ 31,548
School Breakfast Program 2014-2015	10.553	MDE	151970	107,462
National School Lunch Program 2014-2015	10.555	MDE	151960	329,313
<b>Total U.S. Department of Agriculture</b>				
<b>U.S. Department of Education</b>				
Title I:				
Project 141530-1314 Regular 13-14	84.010	MDE	141530-1314	558,568
Project 151530-1415 Regular 14/15	84.010	MDE	151530-1415	470,723
Education for Homeless Children and Youth:				
Project 153230-1415 Flowthrough 14-15	84.196	JCISD	153230-1415	5,000
Title II, Part A:				
Project 140520-1314 Regular 13/14	84.367	MDE	140520-1314	116,286
Project 150520-1415 Regular 14/15	84.367	MDE	150520-1415	109,163
Title VI, Part B:				
Project 150660-1415 Regular 14/15	84.358	MDE	150660-1415	6,278
<b>Total U.S. Department of Education</b>				
<b>U.S. Department of Health and Human Services</b>				
Medical Assistance Program Title XI - 2014-15 Medical Outreach Grant	93.778	JCISD	n/a	1,051
<b>Total Federal Financial Assistance</b>				

See notes to schedule of expenditures of federal awards.

Accrued (Unearned) Revenue at July 1, 2014	Federal Funds / Payments In-Kind Received	Expenditures (Memo Only) Prior Year(s)	Expenditures Year Ended June 30, 2015	Accrued (Unearned) Revenue at June 30, 2015
\$ -	\$ 31,548	\$ -	\$ 31,548	\$ -
-	107,462	-	107,462	-
-	329,164	-	329,164	-
-	468,174	-	468,174	-
64,926	64,926	498,117	-	-
-	207,443	-	454,583	247,140
64,926	272,369	498,117	454,583	247,140
-	2,645	-	2,645	-
58,822	58,822	66,630	-	-
-	41,393	-	46,733	5,340
58,822	100,215	66,630	46,733	5,340
-	-	-	6,278	6,278
123,748	375,229	564,747	510,239	258,758
-	1,051	-	1,051	-
<u>\$ 123,748</u>	<u>\$ 844,454</u>	<u>\$ 564,747</u>	<u>\$ 979,464</u>	<u>\$ 258,758</u>

concluded.

# EAST JACKSON COMMUNITY SCHOOLS

## Notes to Schedule of Expenditures of Federal Awards

### 1. BASIS OF PRESENTATION

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been included and all grant requirements have been met.

The schedule has been arranged to provide information on both actual cash received and the revenue recognized. Accordingly, the effects of accruals of accounts receivable, unearned revenue and accounts payable items at both the beginning and end of the fiscal year have been reported.

Expenditures are in agreement with amounts reported in the financial statements and the financial reports. The amounts reported on the Grant Auditor Report reconcile with this schedule.

### 3. PASS-THROUGH AGENCIES

The District receives certain federal grant as subawards from non-federal entities. Pass-through entities, where applicable, have been identified in the schedule with an abbreviation, defined as follows:

Pass-through Agency Abbreviation	Pass-through Agency Name
MDE	Michigan Department of Education
JCISD	Jackson County Intermediate School District



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

November 2, 2015

Board of Education  
East Jackson Community Schools  
Jackson, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the *East Jackson Community Schools* (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 2, 2015.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 other deficiencies that we consider to be 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 questioned costs as item 2015-001 to be a material weakness.

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 deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-002, -003, -004, -005, and -006 to be significant deficiencies.

**Compliance and Other Matters**

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

**East Jackson Community Schools' Responses to Findings**

The District’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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



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

November 2, 2015

Board of Education  
East Jackson Community Schools  
Jackson, Michigan**Report on Compliance for the Major Federal Program**

We have audited the compliance of the *East Jackson Community Schools* (the "District") with the types of compliance requirements described in the *2 CFR 200 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Independent Auditors' Responsibility***

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each of its major federal programs. However, our audit does not provide a legal determination of the District's compliance.

### *Basis for Qualified Opinion on Title I Program*

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding allowable costs and cost provisions for the Title I Program as described in item 2015-008. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

### *Qualified Opinion on Title I Program*

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

### *Unmodified Opinion on the Other Major Federal Program*

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2015.

### *Other Matters*

The result of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2015-007. Our opinion on each major federal program is not modified with respect to this matter.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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

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

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-008 to be a material weakness.

A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-007 to be a significant deficiency.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

#### *Purpose of this Report*

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

*Rehmann Johnson LLC*

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# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  X  yes   no

Significant deficiency(ies) identified?  X  yes   none reported

Noncompliance material to financial statements noted?   yes  X  no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified?   yes  X  no

Significant deficiency(ies) identified?  X  yes   none reported

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?  X  yes   no

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion</u>
10.553 & 10.555 84.010	Child Nutrition Cluster Title I Grants to Local Educational Agencies	Unmodified Qualified

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   yes  X  no

# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2015-001 - Material Audit Adjustments

**Finding Type:** Material weakness in internal controls over financial reporting.

**Criteria:** Management is responsible for maintaining its accounting records in accordance with generally accepted accounting principles (GAAP).

**Condition:** During our audit, we identified and proposed several material adjustments (which were approved and posted by management) to adjust the District's general ledger to the appropriate balances. These adjustments include, but are not limited to, entries to reverse prior year accruals, reclassify back-dated checks into accounts payable, record State Aid receivables, record retainage payable, record the 1996 debt refunding, record the ORS overpayments from fiscal 2015, and record pension and retirement related accruals and expenses.

**Cause:** This condition was the result of dependence on external auditors, who by definition cannot be a part of the internal control, to make adjustments to the general ledger and reconcile certain balance sheet accounts to their underlying detail.

**Effect:** As a result of this condition, the accounting records were initially misstated by amounts material to the financial statements.

**Recommendation:** We recommend that the District reconcile all general ledgers to subsidiary detail in order to have a more accurate financial picture throughout the year.

**View of Responsible Official:** The District has reconciled the General Ledger to subsidiary detail for all accruals and balance sheet accounts and will continue to do so to have a more accurate financial picture throughout the year.

# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2015-002 - Internal Controls over Cash Collected at Various Locations

**Finding Type:** Significant deficiency in internal controls over financial reporting.

**Criteria:** Cash receipts procedures should provide reasonable assurance that all cash collected at decentralized locations is properly remitted to the business office for deposit in the bank and inclusion in the accounting records.

**Condition:** The District does not have a process in place to ascertain the amount of cash that should have been collected from patrons at athletic events of the District and from decentralized locations, and to provide reasonable assurance that all such cash collections are properly remitted to the business office.

**Cause:** Management has not previously considered admissions revenue a significant portion of the operations to warrant the extra expense necessary to mitigate the risks associated with this issue.

**Effect:** As a result of this condition, there is an increased risk that cash collections remitted to the business office could be incomplete.

**Recommendation:** The District should design and implement a process that could provide at least limited assurance that all cash collected at the various locations is properly remitted to the business office. One alternative could be to purchase some type of automated ticketing equipment that would track sales of admissions at the various locations.

**View of Responsible Official:** As indicated, District practice did not previously consider admissions revenue significant, but going forward the District will investigate options and implement a process to provide assurance that the cash collected at the various locations is accurate and is properly remitted to the business office.

# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2015-003 - Internal Controls over Student Activity Accounts, Use of Agency Fund Accounts, and Adjusted Fiduciary Funds Trial Balance

**Finding Type:** Significant deficiency in internal controls over financial reporting.

**Criteria:** The District maintains an agency fund to account for resources held for the benefit of parties outside the District, such as student groups. Because agency funds are not available to support the District's own programs, they are not reflected in the government-wide financial statements.

**Condition:** Over time, the District began accounting for some of its programs in the agency funds. These programs included general athletics accounts. Additionally, each student activity group advisor maintains their own individual check book to distribute monies out of their account, and these transactions are not recorded in the District's accounting system.

**Cause:** The condition above appears to be caused by an attempt to segregate these program revenues and expenditures from the general fund of the District in order to allow the related fees to directly off-set the related expenditures without closing the activity to fund balance each year.

**Effect:** As a result of this condition, the District excluded revenues and expenditures of the general fund from its financial and budgetary considerations and inappropriately included them in its agency funds. Current year revenue and expenditures were understated \$55,259 and \$61,498, respectively. Additionally, no trial balance was prepared for fiduciary funds as of June 30, 2015, as a result of the account activity not running through an accounting system.

**Recommendation:** We recommend that management monitor activities in the agency fund for appropriateness and that programs of the District be recorded in the District's governmental funds. If the District wishes to set aside fund balance for certain programs, fund balance can be committed by board action or assigned by management within the general fund. Additionally, we recommend that all fiduciary fund activity run through the District's accounting system and follow the District's procedures for disbursements.

**View of Responsible Official:** The District's previous practice, as outlined above, was supported by the District's previous audit firm. Going forward the District will set up separate student activity checking accounts and all agency fund activity will be maintained and monitored through the District's General Ledger.

# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2015-004 - Internal Controls over Financial Reporting and Recordkeeping of Payments to the Office of Retirement Services ("ORS")

**Finding Type:** Significant deficiency in internal controls over financial reporting.

**Criteria:** The District's is required to report correct and accurate data to the ORS.

**Condition:** Over the past two years, the District has been paying ORS more than the amount listed on the invoice due to the payroll system's improper reconciliations. These credits have not been applied to ORS invoices as of June 30, 2015, resulting in a receivable from ORS of approximately \$275,000.

**Cause:** The condition above appears to be caused by the improper calculation of retirement contributions by the payroll system and a lack of reconciliation between the ORS invoices and the payroll system.

**Effect:** As a result of this condition, the District recorded a receivable of approximately \$275,000.

**Recommendation:** We recommend that management monitor the payments to ORS, and reconcile the invoices to the payroll system. Additionally, we recommend that this credit be applied to ORS invoices immediately until used.

**View of Responsible Official:** The District's payments to ORS have been inaccurate since pension reforms were implemented in 2012. All payments to the ORS are currently being monitored and are now reconciled to the payroll system and the ORS invoices. The District has been and will continue to apply credits against ORS invoices until all credits are depleted during the 2016 fiscal year.

# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2015-005 - Segregation of Duties

**Finding Type:** Significant deficiency in internal controls over financial reporting.

**Criteria:** Management is responsible for establishing and maintaining effective internal controls in order to safeguard the assets of the District. A key element of internal control is the segregation of incompatible duties within the accounting function.

**Condition:** During our audit, we noted the following areas in which the District could improve internal controls through proper segregation of duties:

- All the District's bank reconciliations are prepared by the accounting staff and not reviewed by an employee independent of the preparer.
- We noted that all journal entries are prepared by the accounting staff, but the entries are not reviewed by an employee independent of the preparation.

**Cause:** This condition is the result of the assignment of staff responsibilities and staffing constraints typical of smaller governments.

**Effect:** As a result of this condition, the District is exposed to increased risk that misstatements, whether caused by error or fraud, could occur and not be detected by management on a timely basis.

**Recommendation:** To strengthen internal controls over preparation of bank reconciliations, we recommend the District implement a procedure whereby the bank reconciliations are prepared by one employee and reviewed and approved by someone independent of that function. We further recommend that all journal entries receive an independent review, which is evidenced in writing.

**View of Responsible Official:** The District has implemented a procedure in which all bank reconciliations are done by accounting personnel at the ISD and, after completion, they are reviewed and approved by the District's LEA Business Manager. All District journal entries are now created and signed by one person and reviewed and approved (signed) by another person.

# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs For the Year Ended June 30, 2015

### SECTION II - FINANCIAL STATEMENT FINDINGS

#### 2015-006 - Timely Year-end Closing, Workpaper Preparation, and Audit Completion.

**Finding Type:** Significant deficiency in internal controls over financial reporting.

**Criteria:** The timely preparation and issuance of financial statements in accordance with generally accepted accounting principles requires a coordinated effort between management and the external auditors, and places the burden on the auditee to properly prepare for the audit, including timely closing of the accounting records, preparation of workpapers to support the significant account balances and obtaining the necessary documents needed by the auditors to perform their work.

**Condition:** The District has certain balance sheet accounts that are adjusted and balanced only at year-end for external reporting purposes. Some of these balances are long-term in nature and not reported in the District's fund financial statements. For inclusion in the general ledger, the information necessary for properly reporting these items must be provided by management. These schedules include calculations for compensated absences, capital assets, and debt, which were not appropriately completed at the onset of audit fieldwork. Additionally, as of the scheduled dates of our audit fieldwork (approximately 3 months after the end of the fiscal year), the District had not yet fully reconciled its receivables, prepaids, accounts payable, or accrued liabilities. In addition, a significant number of adjusting entries were not yet posted by management.

**Cause:** The condition above appears to be caused by turnover in the business office.

**Effect:** As a result of this condition, the government was unable to provide clear reconciliations on many balances, and adjustments were required to properly state the balances, which delayed the preparation of the government-wide and fund financial statements and footnotes.

**Recommendation:** We recommend that the District subject all year-end schedules that are used in financial reporting to an independent review and approval process by an individual with a high level of understanding regarding financial reporting requirements. This review should be documented and retained as evidence of the control. Additionally, these reconciliations should be prepared and reviewed prior to the audit.

**View of Responsible Official:** All of the District's year-end schedules used for financial reporting purposes will be subjected to an independent review by the ISD accounting personnel. Documentation will be retained as evidence of this control review.

# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2015-007 - Internal Controls over Eligibility

**Finding Type:** Immaterial noncompliance / Significant deficiency in internal control over compliance (Eligibility)

**Program:** Child Nutrition Cluster; U.S. Department of Agriculture; CFDA Numbers 10.553 and 10.555; Passed through the Michigan Department of Education; Award Numbers 151970 and 151960.

**Criteria:** Recipients of federal awards are responsible for compliance with various requirements in accordance with the 2 CFR 200 Compliance Supplement and the award agreement. The Child Nutrition Cluster requires that students receiving free or reduced rate meals meet certain income guidelines, unless they are categorically eligible by being homeless, a migrant, or by meeting other specified conditions. Eligibility determinations should be supported by an application or other documentation.

**Condition:** In our sample of 40 applications from all students receiving free or reduced cost meals during the year, we noted one instance in which the student's eligibility for participation in the program was calculated incorrectly.

**Cause:** This condition was caused by an oversight by the food service staff when entering the household income into the food service system, which then calculates the student eligibility.

**Effect:** As a result of this condition, the District provided free meals to a student who did not qualify.

**Questioned Costs:** None, as the amount identified for the ineligible student was below the reporting threshold.

**Recommendation:** We recommend that the District review its existing procedures for obtaining and processing applications to determine whether procedures could be revised, in a cost-effective manner, to prevent similar errors in the future. Whenever possible, the eligibility determinations should be reviewed for accuracy by an independent individual or administrator.

**View of Responsible Official:** The District will implement a process to independently verify the accuracy of all calculations used in eligibility determinations.

**Responsible Official:** Food Service Coordinator.

**Estimated Completion Date:** January 2016.

# EAST JACKSON COMMUNITY SCHOOLS

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

### SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### 2015-008 - Documentation of Personnel Costs in Accordance with OMB Circular A-87

**Finding Type:** Material noncompliance / Material weakness in internal control over compliance (Allowable Costs / Cost Principles)

**Program:** Title I; U.S Department of Education; CFDA Number 84.010; Passed through the Michigan Department of Education; Award Numbers 141530-1314 and 151530-1415

**Criteria:** Per OMB Circular A-87, the District is required to support payroll charges to federal cost objectives with adequate documentation including a semi-annual certification or a personnel activity report for any employee charged to a single cost objective. The certification should be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

**Condition:** Personnel costs for seven of the twelve employees included in our selection were not supported by semi-annual certifications or personnel activity reports.

**Cause:** This appears to be the result of program management not having a process for ensuring all employees charged to the grant have the required semi-annual certification or PARs completed.

**Effect:** As a result of this condition, the District did not fully comply with the documentation requirements for personnel costs charged to this program.

**Questioned Costs:** Allocated compensation charged to the Title I program without appropriate supporting documentation amounted to \$19,621.

**Recommendation:** We recommend the District implement procedures to ensure the requirement for documentation of payroll costs is met.

**View of Responsible Official:** The District has a new Title Coordinator who is already collecting and monitoring all semi-annual certifications and PARS reports as required for all involved staff members.

**Responsible Official:** Title Coordinator.

**Estimated Completion Date:** July 1, 2015.



# EAST JACKSON COMMUNITY SCHOOLS

## Summary Schedule of Prior Audit Findings

For the Year Ended June 30, 2015

None reported.

