



**LAWTON COMMUNITY SCHOOLS  
STATE OF MICHIGAN, COUNTIES OF VAN BUREN AND KALAMAZOO**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

**For the Year Ended June 30, 2016**

## TABLE OF CONTENTS

	Page No.
Independent Auditors' Report	1
Administration's Discussion and Analysis	2-7
Basic Financial Statements	
District-Wide Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet – Governmental Funds and the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	12
Fiduciary Funds	
Statement of Fiduciary Net Position	13
Statement of Changes in Fiduciary Net Position	14
Notes to the Financial Statements	15-32
Required Supplementary Information	
Budget Comparison Schedule – General Fund	33
Schedule of the Reporting Unit's Proportionate Share of the Net Pension Liability	34
Schedule of the Reporting Unit's Contributions	35
Notes to the Required Supplementary Information	36
Other Supplementary Information	
Balance Sheet – Non-Major Governmental Funds	37
Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	38
Schedule of Revenues – General Fund	39
Schedule of Expenditures – General Fund	40-43
Schedule of Changes in Long-Term Debt	44
Schedule of Maturities of Bonded Debt	45-48
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 <i>Government Auditing Standards</i>	49-50
Schedule of Findings and Responses	51-52

# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Lawton Community Schools, State of Michigan, Counties of Van Buren and Kalamazoo

### 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 Lawton Community Schools (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 Lawton Community Schools as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information, as identified in the table of contents, is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Seber Tans, PLC  
Kalamazoo, Michigan  
October 4, 2016

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2016**

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**District-Wide Financial Statements**

The District-wide statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District-wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position combines and consolidates the governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless of whether they are currently available or not.

Consistent with the full accrual basis of accounting, the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

When analyzed together, the two statements help the reader determine whether the District is financially stronger or weaker as a result of the year's activities.

**Fund Financial Statements**

The fund financial statements focus on individual parts of the District, reporting the District's operation in more detail than the District-wide statements. The fund financial statements are reported on a *modified accrual basis*. Only those assets that are *measurable* and *currently available* are reported. Recognition of liabilities is limited to the extent that there is reasonable expectation that those obligations will be paid with current financial resources.

The fund financial statements are formatted to comply with the legal requirements of the Michigan Department of Education's *Public School Accounting Manual*. In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds. The funds used by Lawton Community Schools include fiduciary funds, debt funds, and a special revenue fund for food service.

Lawton Community Schools is the trustee, or fiduciary, for its student activity funds and for a number of scholarships established for the benefit of our students. These fiduciary activities are reported in separate statements of fiduciary net position. They are excluded from the other financial statements because the District may not use the assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2016**

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**Financial Analysis of the District as a Whole**

Summary of Net Position

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets	\$ 3,712,570	\$ 3,599,311
Capital assets, net book value	20,542,633	21,314,822
<b>TOTAL ASSETS</b>	<u>24,255,203</u>	<u>24,914,133</u>
DEFERRED OUTFLOWS OF RESOURCES	1,512,448	1,410,170
<b>TOTAL ASSETS AND DEFERRED     OUTFLOWS OF RESOURCES</b>	<u>25,767,651</u>	<u>26,324,303</u>
LIABILITIES		
Current liabilities	3,273,217	2,712,797
Long-term liabilities	35,038,257	34,913,996
<b>TOTAL LIABILITIES</b>	<u>38,311,474</u>	<u>37,626,793</u>
DEFERRED INFLOWS OF RESOURCES	43,784	1,313,150
<b>TOTAL LIABILITIES AND DEFERRED     INFLOWS OF RESOURCES</b>	<u>38,355,258</u>	<u>38,939,943</u>
NET POSITION		
Net investment in capital assets	(3,061,318)	(3,084,712)
Restricted	245,096	270,154
Unrestricted	(9,771,385)	(9,801,082)
<b>TOTAL NET POSITION</b>	<u>\$ (12,587,607)</u>	<u>\$ (12,615,640)</u>

The above table provides a summary of the District's net position as of June 30, 2016 and 2015. The net position of the District was \$(12,587,607) at year end June 30, 2016, which is a result of liabilities exceeding asset values.

Net investment in capital assets totaling \$(3,061,318), compares the original cost, less depreciation of the District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due, as well as additional borrowing from the Annual School Bond Qualification & Loan Program to cover bond payments.

The District's proportionate share of the net pension liability is \$13,218,668. The total net position increased by \$28,033 for the year.

The results of this year's operations for the District as a whole are reported in the table below and it shows what items changed between the fiscal years to change overall net position. Reconciliation of the difference between the decrease in net position and the decrease in fund balance is on page 12.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2016**

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Statement of Activities

	<u>2016</u>	<u>2015</u>
REVENUES		
Program revenues:		
Charges for services	\$ 232,042	\$ 229,511
Operating grants	1,424,247	1,181,196
General revenues:		
Property taxes	2,908,852	2,862,018
State foundation allowance	6,778,755	6,561,472
Other	3,488	2,967
TOTAL REVENUES	<u>11,347,384</u>	<u>10,837,164</u>
EXPENSES		
Instruction and instructional support	5,406,868	5,309,440
Support services	3,065,371	3,118,625
Food services	572,798	576,127
Interest	1,113,922	967,385
Capital Outlay	248,808	170,200
Depreciation (unallocated)	911,584	903,068
TOTAL EXPENSES	<u>11,319,351</u>	<u>11,044,845</u>
<b>CHANGE IN NET POSITION</b>	<b><u>\$ 28,033</u></b>	<b><u>\$ (207,681)</u></b>

In fiscal year 2016, the District received just over 85% of its general revenue from State School Aid and local property taxes, which is typical. The remaining revenue comes from the Athletic Program, Federal Title and Medicaid programs and the local Intermediate School District grant programs.

Most of the State of Michigan State School Aid is unrestricted and based on three variables:

1. State of Michigan State School Aid Act per student foundation allowance
2. Student enrollment calculated by blending 90% of the current year fall count and 10% of the prior school year's February count
3. The District's non-homestead property tax levy

*Per Student Foundation Allowance*

Annually as part of its budget process, the Michigan legislature announces a dollar amount for the foundation allowance for each public school student in the State. The per pupil foundation allowance increased again in fiscal year 2016 to \$7,391 from \$7,126 per student in fiscal year 2015. Many of the categorical funds such as Best Practice and Performance-based Incentives provided in the couple years prior to fiscal year 2016 were eliminated. There were some funds provided in fiscal year 2016 in smaller amounts for Early Literacy Instruction, Computer Adaptive Tests and Financial Analytic Tools.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2016**

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*Student Enrollment*

The District's student enrollment for the fall count of 2015-2016 was finalized at 995 students, which represented a slight increase in enrollment from the prior year. The actual fall 2015-2016 count was exactly what was projected during the spring budget process. The following table summarizes fall student enrollments in the past five years:

<b>September</b>	<b>K-5</b>	<b>6-8</b>	<b>9-12*</b>	<b>Total</b>
2011	398	271	344	1,013
2012	400	267	331	998
2013	421	232	345	998
2014	405	219	364	988
2015	412	216	367	995

Fall 2016-2017 student count is projected at 980, slightly lower than 2015-2016 because of an incoming Kindergarten class projected to be smaller than the 2016 graduating class.

\*Includes Lawton Accelerated Academic Center students.

*Property Taxes Levied for General Operations*

In fiscal year 2015-2016, the District levied 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the tax levy is based on the taxable valuation of properties. The annual taxable value increase in property is capped at the lesser of the rate of the prior year's Consumer Price Index increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, theoretically 50% of the market value. The following summarizes the local tax revenues in dollars, and as a percent of all General Fund revenues for the past five years:

<b>Fiscal Year</b>	<b>Non-Homestead Tax Levy</b>	<b>% of General Fund Revenue</b>
2011-2012	\$1,036,957	12.8
2012-2013	\$1,023,287	13.1
2013-2014	\$1,043,320	12.6
2014-2015	\$1,074,915	12.7
2015-2016	\$1,129,854	12.6

*Local Property Tax History*

In fiscal year 2015-2016, the non-homestead property tax levy value continued an increasing trend over the prior year. As Michigan's economic condition continues to improve, the taxable values are continuing to increase as well. Home sales and development in the area continue to improve and as that trend continues, the taxable values should continue to increase. There are also reclassifications of properties and tax tribunals each year that can affect the actual levies received.



**Lawton Community Schools  
 State of Michigan, Counties of Van Buren and Kalamazoo  
 Administration's Discussion and Analysis  
 For the Year Ended June 30, 2016**

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Capital Assets

As part of a solid financial plan, the District commits funds each year to the maintenance and repair of its capital assets. The general fund has committed \$273,158 of fund balance for capital expenditures as of June 30, 2016. The District also continues to maintain a complete inventory of physical assets to ensure that asset values are as current as possible. From this information, the District updates inventory records annually in order to continue to accurately report the value of physical assets.

Long-Term Debt

The District continued to make significant principal payments on its long-term obligations during the year. The principal balance continued to decrease to \$23.6 million from \$24.5 million at 2016 fiscal year-end, thus reducing debt by approximately \$900,000. The District will continue to borrow from the Annual School Bond Qualification & Loan Program to make bond payments, but continues to recognize long-term savings from the refunding of two bonds that took place in fiscal years 2015 and 2016.

Original versus Amended Budget

The Uniform Budget Act of the State of Michigan requires that a local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year. The projected budget for 2015-2016 was originally approved on June 11, 2015 and amended on May 16, 2016.

General Fund Revenues

Total revenues – final amended budget	\$ 8,959,821
Total revenues – original budget	<u>8,650,872</u>
	<u>\$ 308,949</u>

The increase in revenue from the original budget was largely due to the State Aid categorical of Unfunded Actuarial Accrued Liability (UAAL) funds and the Great Start Readiness Program (GSRP), where funds increased to accommodate the larger size of the program. Final Title I & II allocations were higher than budgeted as well. All of the aforementioned programs, where more revenue was received than budgeted, are restricted funds and can only be used for those programs.

General Fund Expenditures

Total expenditures/other financing uses – final amended budget	\$ 8,981,896
Total expenditures/other financing uses – original budget	<u>8,754,194</u>
	<u>\$ 227,702</u>

Fiscal year 2016 was typical of any budget year with various line item increases and decreases, but the result was an overall increase of \$227,702 from budgeted expenditures. There were corresponding increases to expenses to match the increases in revenues in the grant programs mentioned above but overall district-wide, net expenses decreased just over \$80,000 from budgeted amounts.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Administration's Discussion and Analysis  
For the Year Ended June 30, 2016**

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Economic Factors and Next Year's Budget and Rates

The economy in Michigan has stabilized and continues to improve. The main system for funding schools remains the receipt of State School Aid funds based on a per pupil foundation grant, times a blended number determined to be the district student count. Many factors, including political factors, often influence the per pupil amount that is determined by the State each year. The political climate in Michigan is fairly stable at this time with no new or controversial issues on the horizon. This can indicate that school funding will at least remain stable, if not include some regular percentage increase for the next fiscal year.

Maximizing our student count continues to be a goal we need to achieve in order to maximize district revenue. School of Choice is now a large factor influencing student enrollment. Online learning remains a way to get an education and public schools are being forced to compete in that business, or lose students. The District's Lawton Accelerated Academic Center continues to be a growing area of our student count. It is comprised of students that attended elsewhere in the District as well as those from outside our District. This educational option has assisted the District in keeping its high priority of being proactive in retaining students, as well as attracting new students in order to maximize State School Aid revenues.

On the expenditure side, there are always challenges with ever-increasing costs. The district continues to be diligent in monitoring for efficiency in operations to combat increases in expense. Affordable Care Act costs are beginning to emerge and may become more quantifiable within the coming months. During fiscal year 2017, the District will begin negotiations with the Lawton Education Association (LEA), while the Lawton Education Support Personnel Association (LESPPA) has another year on the contract.

Additionally, due to the Michigan Public School Employees Retirement System (MPERS) reform, several different plans with varying levels of employer contributions emerged. Employees who were in the retirement system made choices based on the best situation for them, while new employees to the retirement system are in a plan that is designed to be more employee contributory, thus saving the District retirement costs in the long run.

The District continues its financial diligence and conservative planning and purchasing in order to accomplish its goal of being fiscally responsible to taxpayers while providing quality education for its students, as well as maintaining its facilities. The District has developed a strategic plan that will guide it through several years of operations, further diligently planning the use of its resources.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, parents, students, staff, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Additional detail, including the required Budget and Salary Compensation Transparency Reporting, is available on the District's website ([www.lawtoncs.org](http://www.lawtoncs.org)). Questions concerning this report or requests for additional information should be addressed to Superintendent Chris Rice at [crice@lawtoncs.org](mailto:crice@lawtoncs.org).

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
District-Wide Statement of Net Position  
June 30, 2016**

<b>ASSETS</b>	<b>Governmental Activities</b>
Current Assets	
Cash	\$ 768,364
Investments	1,377,106
Due from other governments	1,512,580
Due from fiduciary fund	2,047
Other current assets	46,540
Inventory	5,933
Total Current Assets	<u>3,712,570</u>
Property and Equipment	
Capital assets, net of accumulated depreciation	<u>20,542,633</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amount related to pensions	1,471,842
Deferred amount on debt refunding	40,606
Total Deferred Outflows of Resources	<u>1,512,448</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 25,767,651</u></b>
<b>LIABILITIES</b>	
Current Liabilities	
Accounts payable	\$ 183,593
Salaries payable and related withholdings	705,923
Accrued interest	233,733
Current maturities of bonds payable	2,149,968
Total Current Liabilities	<u>3,273,217</u>
Bonds Payable, net of current maturities	21,494,589
Net Pension Liability	13,218,668
Compensated Absences	325,000
Total Liabilities	<u>38,311,474</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred amount related to pensions	<u>43,784</u>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b><u>\$ 38,355,258</u></b>
<b>NET POSITION</b>	
Net investment in capital assets	(3,061,318)
Restricted for:	
Athletics	40,000
Debt	146,295
Food service	58,801
Unrestricted	(9,771,385)
<b>Total Net Position</b>	<b><u>\$ (12,587,607)</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
District-Wide Statement of Activities  
For the Year Ended June 30, 2016**

	<u>Expenses</u>	<u>Program Revenue</u>		<u>Governmental Activities Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Service</u>	<u>Operating Grants</u>	
<b>Functions/Programs</b>				
Governmental activities:				
Instruction & instructional support	\$ (5,406,868)	\$ 410	\$ 1,016,313	\$ (4,390,145)
Support services	(3,065,371)	66,514	-	(2,998,857)
Food services	(572,798)	165,118	407,934	254
Interest on long-term debt	(1,113,922)	-	-	(1,113,922)
Capital outlay	(248,808)	-	-	(248,808)
Depreciation (unallocated)	(911,584)	-	-	(911,584)
<b>Total Governmental Activities</b>	<b>\$ (11,319,351)</b>	<b>\$ 232,042</b>	<b>\$ 1,424,247</b>	<b>\$ (9,663,062)</b>
GENERAL REVENUES:				
Taxes:				
Property taxes, levied for general obligations				\$ 1,084,913
Property taxes, levied for debt service				1,823,939
State of Michigan aid, unrestricted				6,778,755
Interest and investment earnings				3,488
Total General Revenues				<u>9,691,095</u>
<b>CHANGE IN NET POSITION</b>				<b>28,033</b>
Net Position, Beginning of Year				<u>(12,615,640)</u>
<b>Net Position, End of Year</b>				<b><u>\$ (12,587,607)</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Balance Sheet - Governmental Funds and the Reconciliation**  
**Of the Balance Sheet of Governmental Funds to**  
**The Statement of Net Position**  
**June 30, 2016**

	General	Nonmajor Govern- mental	Total Govern- mental
<b>ASSETS</b>			
Cash	\$ 547,259	\$ 221,105	\$ 768,364
Investments	1,377,106	-	1,377,106
Due from other governments	1,508,550	4,030	1,512,580
Inventory	-	5,933	5,933
Prepaid expenses	6,540	-	6,540
Due from fiduciary fund	2,047	-	2,047
Due from other funds	21,140	-	21,140
<b>Total Assets</b>	<b>\$ 3,462,642</b>	<b>\$ 231,068</b>	<b>\$ 3,693,710</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 178,761	\$ 399	\$ 179,160
Due to other funds	-	21,140	21,140
Salaries payable and related withholdings	705,923	-	705,923
Unearned revenue	-	4,433	4,433
Total Liabilities	884,684	25,972	910,656
Fund Balances			
Nonspendable	6,540	5,933	12,473
Restricted for:			
Debt	-	146,295	146,295
Food service	-	29,687	29,687
Committed for:			
Capital expenditures	273,158	-	273,158
Food service	-	23,181	23,181
Unassigned	2,298,260	-	2,298,260
Total Fund Balances	2,577,958	205,096	2,783,054
<b>Total Liabilities &amp; Fund Balances</b>	<b>\$ 3,462,642</b>	<b>\$ 231,068</b>	<b>\$ 3,693,710</b>
Reconciliation of the balance sheet - governmental funds to the statement of net position:			
Total governmental fund balances			\$ 2,783,054
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
The cost of the capital assets is	34,388,226		
Accumulated depreciation is	(13,845,593)		20,542,633
Deferred outflows of resources from resulting from debt refunding			40,606
Deferred inflows related to pension			(43,784)
Deferred outflows related to pension			1,471,842
Long term liabilities that are not due and payable in the current period and are not reported in the funds:			
Net pension liability			(13,218,668)
Bonds payable			(23,644,557)
Compensated absences			(325,000)
Promises to give recorded as receivables			40,000
Accrued interest is not included as a liability in governmental funds			(233,733)
<b>Net Position of Governmental Activities</b>			<b>\$ (12,587,607)</b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Statement of Revenues, Expenditures and Changes in  
Fund Balances - Governmental Funds  
For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Nonmajor Govern- mental</u>	<u>Total Govern- mental</u>
<b>REVENUES</b>			
Local sources	\$ 1,171,837	\$ 1,989,057	\$ 3,160,894
Intermediate sources	271,808	-	271,808
State sources	7,254,826	23,780	7,278,606
Federal sources	268,434	384,154	652,588
Interest	3,294	194	3,488
Total Revenues	<u>8,970,199</u>	<u>2,397,185</u>	<u>11,367,384</u>
<b>EXPENDITURES</b>			
Education			
Instruction	5,448,287	-	5,448,287
Support services	3,065,371	-	3,065,371
Food service	-	572,798	572,798
Capital outlay	388,203	-	388,203
Debt service			
Principal	-	1,781,755	1,781,755
Interest	-	497,386	497,386
Total Expenditures	<u>8,901,861</u>	<u>2,851,939</u>	<u>11,753,800</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u><b>68,338</b></u>	<u><b>(454,754)</b></u>	<u><b>(386,416)</b></u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from refunding bonds	-	9,080,000	9,080,000
Payment to refunding bond escrow agent	-	(9,080,000)	(9,080,000)
Transfers in	-	16,257	16,257
Transfers out	-	(16,257)	(16,257)
Proceeds from school bond loan fund	-	449,696	449,696
Total Other Financing Sources	<u>-</u>	<u>449,696</u>	<u>449,696</u>
<b>Net Change in Fund Balances</b>	68,338	(5,058)	63,280
Fund Balances, Beginning of Year	<u>2,509,620</u>	<u>210,154</u>	<u>2,719,774</u>
<b>Fund Balances, End of Year</b>	<u><b>\$ 2,577,958</b></u>	<u><b>\$ 205,096</b></u>	<u><b>\$ 2,783,054</b></u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances - Governmental Funds  
To the Statement of Activities  
For the Year Ended June 30, 2016**

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Net change in fund balance - total governmental funds \$ 63,280

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

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(911,584)	
Capital outlay	<u>139,395</u>	(772,189)

Amortization of discount on bonds payable. Bond obligations payable are not recognized in governmental funds until paid. Accordingly, discounts and the related amortization to interest expense is not recorded in the governmental funds but is reported as a reduction to interest expense in the statement of activities. (505,044)

Amortization of deferred loss on refunding of bonds. Deferred inflows or deferred outflows resulting from a refunding of bonds is not recorded on the governmental funds but is amortized as interest expense in the statement of activities. (10,151)

Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid. (55,060)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term bonds payable). 1,755,474

Repayment of long-term debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt payable). 4,587

Proceeds from the school bond loan fund is revenue in the governmental funds, but not in the statement of activities (where it increases long-term bonds payable). (449,696)

**Change in Net Position of Governmental Activities \$ 28,033**

The Accompanying Notes are an Integral Part of These Financial Statements.

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Statement of Fiduciary Net Position**  
**June 30, 2016**

	<u>Private Purpose – Scholarships</u>	<u>Agency – Student Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash	\$ 4,026	\$ 119,896	\$ 123,922
Investments	15,000	10,000	25,000
Total Assets	<u><b>19,026</b></u>	<u><b>129,896</b></u>	<u><b>148,922</b></u>
<b>LIABILITIES</b>			
Due to other funds	-	2,047	2,047
Due to student groups	-	127,849	127,849
Total Liabilities	<u>-</u>	<u><b>129,896</b></u>	<u><b>129,896</b></u>
<b>NET POSITION</b>			
Restricted for scholarships	<u><b>\$ 19,026</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 19,026</b></u>

The Accompanying Notes are an Integral Part of These Financial Statements.



**Lawton Community Schools  
 State of Michigan, Counties of Van Buren and Kalamazoo  
 Statement of Changes in Fiduciary Net Position  
 For the Year Ended June 30, 2016**

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	<u>Private Purpose – Scholarships</u>
<b>ADDITIONS</b>	
Interest	\$ 2
<b>DEDUCTIONS</b>	
Scholarship distribution	<u>280</u>
<b>CHANGE IN NET POSITION</b>	<b>(278)</b>
Net Position, Beginning of Year	<u>19,304</u>
<b>Net Position, End of Year</b>	<b><u>\$ 19,026</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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**NOTE A – Summary of Significant Accounting Policies**

The accounting policies of Lawton Community Schools (the District) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the District.

Reporting Entity

The District is an independent entity with an elected Board of Education. The Board has complete oversight responsibility and is responsible for all financial matters except property tax assessment and collection, which is handled by the cities and townships. The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, there are no component units that are included in this report.

District-Wide Financial Statements

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

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

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

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

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

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

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Fund Financial Statements

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

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

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

The District reports the following major governmental fund:

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

Additionally, the District reports the following fund types:

The 2006, 2010, 2013, 2015A and 2015B Debt Service Funds are used to record tax, interest, and other revenue, and for payment of principle, interest and other expenditures on long-term debt.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The District maintains full control of these funds. The School Service Fund maintained by the District is the Food Service Fund.

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

The District presently maintains one Agency Fund (Student Activities Fund) to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents. The District also maintains two Private Purpose Funds (Scholarship Funds) that is restricted to the payment of scholarships. These funds are segregated and held in trust for the payment of student scholarships.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

Assets, Liabilities, and Net Position or Equity

*Deposits and Investments*

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

*Receivables and Payables*

In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds.”

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Taxes are levied on December 1 and are collected through February 28 by various local units for the District. The local units then remit to the District any delinquent real property taxes by June 30.

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

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

*Capital Assets*

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The District does not have infrastructure type assets.

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

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

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

*Compensated Absences*

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual vacation 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.

*Deferred Outflows/Inflows of Resources*

In addition to assets and liabilities, the statement of financial position or balance sheet will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period and will not be recognized as an outflow of resources until then.

The District has several items that qualify for reporting in these categories and are reported in the district-wide financial statement of net position. These items correspond to the District's net pension liability and are related to differences between expected and actual experience, changes in assumptions, differences between projected and actual pension plan investment earnings, and contributions made subsequent to the measurement date. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

*Long-Term Obligations*

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

*Pension*

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

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE A – Summary of Significant Accounting Policies (Continued)**

*Fund Balance*

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

Non-spendable fund balance includes amounts either not in a spendable form or legally or contractually required to be maintained intact. The District has categorized prepaid expenses and inventories as non-spendable fund balance.

Restricted fund balance includes amounts that are restricted by externally imposed restrictions of creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. The District reports restricted funds in the debt and lunch funds.

Committed fund balance includes amounts that are committed for specific purposes by formal action of the District's Board. A fund balance commitment may be established, modified, or rescinded by the District's Board. The District has committed \$237,158 for capital expenditures.

Assigned fund balance includes amounts that are intended by the District to be used for specific purposes, but are neither restricted nor committed. Amounts may be assigned formal action of the District's Board or a Board Committees or by the Superintendent providing written notice to the Board or a Board Committee during a public meeting.

Unassigned fund balance includes the remaining fund balance after applying the above criteria.

Comparative Data/Reclassifications

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

**NOTE B – Stewardship, Compliance, and Accountability**

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

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

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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**NOTE B – Stewardship, Compliance, and Accountability (Continued)**

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The District's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the District for these budgeted funds were adopted on the function level.

The following expenditures have been made in excess of the budget classification shown:

Fund Type	Total Appropriated	Amount of Expenditures	Budget Variance
General Fund			
Instruction	\$ 5,395,877	\$ 5,448,287	\$ (52,410)
Capital outlay	383,873	388,203	(4,330)

**NOTE C – Deposits and Investments**

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. Government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase which mature not more than 270 days after the date of purchase, and mutual funds in investment pools that are composed of authorized investment vehicles. The District's deposits and investments are in accordance with statutory authority. The District utilizes one bank for the deposit of funds. The investment policy adopted by the board in accordance with state statutes has authorized investment in bonds and securities of the United States government, bank accounts and CD's, and the remainder of state statutory authority as listed above.

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 768,364	\$ 123,922	\$ 892,286
Investments	1,377,106	25,000	1,402,106
Total	<u>\$ 2,145,470</u>	<u>\$ 148,922</u>	<u>\$ 2,294,392</u>

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

Bank deposits (checking, savings and money market accounts)	\$ 892,286
Investments (certificates of deposit)	25,000
Investments in cash management funds	1,377,106
	<u>\$ 2,294,392</u>

The District's cash and investments are subject to several types of risk, which are examined in more detail below:

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE C – Deposits and Investments (Continued)**

*Custodial credit risk of bank deposits*

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits. Bank deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2016, \$568,021 of the District's bank balance of \$1,034,055, was exposed to custodial credit risk because they were uninsured.

The District believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the District evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

*Custodial credit risk of Investments*

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer or other investment holder), the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. State statutes and the District's investment policy do not contain requirements that would limit the exposure to custodial credit risk for investments.

*Credit risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Obligations of the U.S. Government are not considered to have credit risk. The District's investment policy does not further limit its investment choices.

*Interest rate risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District's policy does not address other ways to minimize interest rate risk.

*Concentration of credit risk*

State statutes and the District's investment policy place no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities) that represent 5% or more of the School's total investments are as follows. These investments are not insured by the Federal Deposit Insurance Corporation and are in addition to the uninsured cash deposits disclosed on page 21:

Issuer	Investment Type	Reported Amount	Rating by Standard & Poor's
Michigan CLASS	Cash Funds (short-term)	\$ 1,377,106	AAAm



**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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**NOTE C – Deposits and Investments (Continued)**

*Foreign Currency Risk*

Foreign currency risk is the risk that an investment denominated in the currency of a foreign county could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. State law and the District's policy prohibit investment in foreign currency.

*Fair Value Measurements*

The District is required to disclose amounts within a framework established for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three level of the fair value hierarchy are described as follows:

- Level 1 – Quoted prices in active markets for identical securities.
- Level 2 – Prices determined using other significant observable inputs. Observable inputs are inputs that reflect the assumptions market participants would use in pricing a security and are developed based on market data obtained from sources independent of the reporting entity. Securities that are categorized as Level 2 in the hierarchy include, but are not limited to, repurchase agreements, U.S government agency securities, corporate securities, and commercial paper.
- Level 3 – Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable or deemed less relevant (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs are inputs that reflect the reporting entities own assumptions about the factors market participants would use in pricing the security and would be based on the best information available under the circumstances.

The District's investments held with Michigan CLASS are level 2 investments.

**NOTE D – Receivables and Unearned Revenue**

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

<u>Type</u>	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Due from State of Michigan	\$ 1,320,409	\$ 4,030	\$ 1,324,439
Title I and Title II	139,184		139,184
GSRP	38,395	---	38,395
Project Lead the Way	5,657	---	5,657
Other	4,905	---	4,905
Totals	<u>\$ 1,508,550</u>	<u>\$ 4,030</u>	<u>\$ 1,512,580</u>

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At June 30, 2016, grant and categorical aid payments received prior to meeting all eligibility requirements totaled \$4,433.

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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**NOTE E – Capital Assets**

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

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
<b>Cost</b>				
Buildings and improvements	\$ 30,717,609	\$ ---	\$ ---	\$ 30,717,609
Outdoor equipment	775,616	---	---	775,616
Furnishings and equipment	1,577,073	4,195	---	1,581,268
Vehicles and tractors	1,178,533	135,200	---	1,313,733
	<u>34,248,831</u>	<u>139,395</u>	<u>---</u>	<u>34,388,226</u>
<b>Accumulated Depreciation</b>				
Buildings and improvements	10,232,603	721,934	---	10,954,537
Outdoor equipment	395,976	36,535	---	432,511
Furnishings and equipment	1,371,444	81,999	---	1,453,443
Vehicles and tractors	933,986	71,116	---	1,005,102
	<u>12,934,009</u>	<u>911,584</u>	<u>---</u>	<u>13,845,593</u>
Net capital assets	<u>\$ 21,314,822</u>	<u>\$ (772,189)</u>	<u>\$ ---</u>	<u>\$ 20,542,633</u>

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

**NOTE F – Interfund Receivable and Payable**

Interfund balances at June 30, 2016 consisted of the following individual fund receivable and payable:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 21,140	Food Service	\$ 21,140

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

An interfund transfer was made from the 2006 Debt Service Fund to the 2015B Debt Service Fund in the amount of \$16,257 to close out the 2006 Debt Fund.

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

**NOTE G – Long-Term Debt**

The District issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities. General obligation bonds and advance refunding bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include loans and compensated absences.

Long-term obligation activity is summarized as follows:

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amount due within one year
Government obligation bonds	\$ 22,795,000	\$9,080,000	\$(10,685,000)	\$ 21,190,000	\$ 2,170,000
Long-term debt	4,587	---	(4,587)	---	---
Bond issuance discount	(653,137)	505,044	(134,282)	(282,375)	(36,864)
Bond issuance premium	95,954	13,439	(16,832)	92,561	16,832
School bond loan fund	2,207,887	436,484	---	2,644,371	---
Compensated absences	300,000	25,000	---	325,000	---
	<u>\$ 24,750,291</u>	<u>\$10,059,967</u>	<u>\$(10,840,701)</u>	<u>\$ 23,969,557</u>	<u>\$ 2,149,968</u>

Long-term debt consisted of the following at June 30, 2016:

Bond issue of 2010 with annual principal payments ranging from \$0 to \$1,100,000 plus interest ranging from 2.0% to 4.0%	\$ 2,120,000
Advance refunding bond issue of 2015B with annual principal payments ranging from \$25,000 to \$1,130,000 plus interest ranging from 2.5% to 3.5%	9,080,000
Advance refunding bond issue of 2015A with annual principal payments ranging from \$730,000 to \$1,140,000 plus interest at 2.0%.	5,545,000
School bond fund loan payable with no fixed payment schedule plus interest ranging from 3.0% to 4.625%	2,644,371
Bond issue of 2013 with annual principal payments ranging from \$0 to \$1,155,000 plus interest ranging from 0.5% to 1.95%	4,445,000
Bond issuance discount	(282,375)
Bond issuance premium	92,561
Accumulated sick pay carried over to future years	325,000
Total principal payable	<u>23,969,557</u>
Interest payable	<u>4,180,095</u>
Total long term debt	<u>\$ 28,149,652</u>

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Notes to the Financial Statements**  
**For the Year Ended June 30, 2016**

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**NOTE G – Long-Term Debt (Continued)**

Future minimum payments of long-term debt for years ended June 30, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,170,000	\$ 525,843	\$ 2,695,843
2018	2,260,000	491,157	2,751,157
2019	2,230,000	451,855	2,751,855
2020	2,340,000	409,772	2,749,772
2021	1,180,000	363,125	1,543,125
2022-2026	5,720,000	1,290,500	7,010,500
2027-2031	5,220,000	500,550	5,720,550
Thereafter	<u>2,644,371</u>	<u>147,293</u>	<u>2,791,664</u>
Subtotal	23,834,371	4,180,095	28,014,466
Accumulated sick pay	<u>325,000</u>	<u>---</u>	<u>325,000</u>
	<u>\$ 24,159,371</u>	<u>\$ 4,180,095</u>	<u>\$ 28,339,466</u>

School Bond Fund Loan

The School Bond Loan Fund payable represents notes payable to the State of Michigan for loans made to the District, as authorized by the 1963 State of Michigan Constitution, as amended by Public Act 92 of 2005, for the purpose of paying principal and interest on general obligation bonds of the District issued for capital expenditures. Interest rates are determined annually by the State Administrative Board. Interest ranging from 3.3 % to 3.4% has been assessed for the year ended June 30, 2016. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7 mills. The District is required to levy mills and repay to the State any excess of the amount levied over the bonded debt service requirements.

Advance and Current Refundings

In August 2015, the District issued \$9,080,000 in 2015B refunding bonds with an average interest rate of 3%. The net proceeds of \$9,093,439 (which included of premium of \$13,439) and \$71,755 borrowed from the School Bond Loan Fund were used to pay off the 2006 Debt Fund principal of \$8,975,000 and related interest. The advanced refunding and early pay off of the 2006 Debt Fund represents an economic gain of approximately \$1,143,000 to the District.

Deferred Amount on Refunding

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt. The amount is reported in the accompanying statement of net position as a deferred outflow of resources and is being charged to activities through fiscal year 2020.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE H – Risk Management**

The District pays annual premiums to a provider for its property, comprehensive general liability, and school board legal liability insurance coverage.

The District carries commercial insurance for all other risks of loss, including workers' compensation, boiler, fleet, and excess liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through insurances during the past fiscal year.

**NOTE I – Michigan Public School Employees' Retirement System (MPERS) Pension Plan**

**Plan Description**

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

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

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

**Benefits Provided**

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Depending on the plan option selected, member retirement benefits for are determined by final average compensation, years of service, and a pension factor ranging from 1.25 percent to 1.50 percent. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

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

**Contributions and Funded Status**

The District is required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of pension benefits of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE 1 – Michigan Public School Employees' Retirement System (MPSERS) Pension Plan  
(Continued)**

District contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of the September 30, 2015 valuation will be amortized over a 21 year period.

The schedule below summarizes pension contribution rates in effect for fiscal year 2015.

**Pension Contribution Rates**

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

Required contributions to the pension plan from the District were \$1,044,033 for the Plan year ended September 30, 2015.

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

At June 30, 2016, the District reported a liability of \$13,218,668 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 2014. The District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employers during the measurement period. At September 30, 2015, the District's proportion was .05 percent, which is the same as its proportion measured as of September 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$1,144,836. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE 1 – Michigan Public School Employees' Retirement System (MPSERS) Pension Plan  
(Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Differences between actual and expected experience	\$ ---	\$ 43,784
Changes of Assumptions	325,472	---
Net difference between projected and actual earnings on pension plan investments	67,471	---
Changes in proportion and differences between Employer contributions and proportionate share of contributions	102,465	---
District contributions subsequent to the measurement date	<u>976,434</u>	<u>---</u>
Total	<u>\$ 1,471,842</u>	<u>\$ 43,784</u>

\$976,434 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Deferred (Inflow) and Deferred Outflow of  
Resources by Year (To Be Recognized in  
Future Pension Expenses)

<u>Plan Year Ending September 30,</u>	<u>Amount</u>
2016	\$ 64,669
2017	64,669
2018	47,022
2019	<u>275,264</u>
	<u>\$ 451,624</u>

**Actuarial Assumptions**

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

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE 1 – Michigan Public School Employees' Retirement System (MPERS) Pension Plan  
(Continued)**

Additional information as of the latest actuarial valuation follows:

**Summary of Actuarial Assumptions**

Valuation Date:	September 30, 2014
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
- MIP and Basic Plans (Non-Hybrid):	8.0%
- Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5 - 12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

*Notes:*

- *Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2015, is based on the results of an actuarial valuation date of September 30, 2014, and rolled forward using generally accepted actuarial procedures, including the experience study.*
- *Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.7158*
- *Recognition period for assets in years is 5.0000*
- *Full actuarial assumptions are available in the 2015 MPERS Comprehensive Annual Financial Report ([www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr)).*



**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE 1 – Michigan Public School Employees' Retirement System (MPSERS) Pension Plan  
(Continued)**

**Long-Term Expected Return on Plan Assets**

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return*
Domestic Equity Pools	28.0%	5.9%
% Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short Term Investment Pools	2.0	0.0
<b>TOTAL</b>	<b>100.0%</b>	

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

**Discount Rate**

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

**Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate**

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

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE I – Michigan Public School Employees' Retirement System (MPSERS) Pension Plan  
(Continued)**

1% Decrease (Non-Hybrid/Hybrid)* 7.0% / 6.0%	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid)* 8.0% / 7.0%	1% Increase (Non-Hybrid/Hybrid)* 9.0% / 8.0%
\$17,042,252	\$13,218,668	\$9,995,231

**Michigan Public School Employees' Retirement System (MPSERS) Fiduciary Net Position**

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPSERS CAFR. See the [2015 MPSERS CAFR](#) ([www.michigan.gov/documents/orsschools/MPSERS\\_CAFR\\_2015\\_Final\\_510211\\_7.pdf](http://www.michigan.gov/documents/orsschools/MPSERS_CAFR_2015_Final_510211_7.pdf))

**Payable to the Michigan Public School Employees' Retirement System (MPSERS)**

At June 30, 2016, there were reported payables to MPSERS of \$115,545.

**NOTE J – Other Post-Employment Benefits**

The Michigan Public School Employees' Retirement System (MPSERS) is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report is available on the web at [www.michigan.gov/orsschools](http://www.michigan.gov/orsschools) or may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental, and vision coverage through MPSERS. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10%, or 20% for those not Medicare eligible, of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate.

Contribution rates for the year ended June 30, 2016, are as follows:

	<u>Health Contribution Rate</u>	
	<u>Basic/MIP</u>	<u>Pension Plus</u>
July 1, 2015 – September 30, 2015	2.20 – 2.71%	2.20 – 2.71%
October 1, 2015 – June 30, 2016	6.40 – 6.83%	6.40 – 6.83%

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to the Financial Statements  
For the Year Ended June 30, 2016**

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**NOTE J – Other Post-Employment Benefits (Continued)**

The District's required and actual contributions to the plan for retiree healthcare benefits for the years ended June 30, 2016, 2015 and 2014 were approximately \$272,000, \$166,000 and \$324,000, respectively. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

**NOTE K – Commitments and Contingencies**

Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 may be impaired. In the opinion of the District's management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Unemployment

The District is a reimbursing employer to the Michigan Employment Security Agency (MESA) and as such is responsible to pay the MESA for those benefits paid and charged to its account. As of June 30, 2016, appropriate liabilities have been recorded for all claims paid or chargeable by the MESA. However, no provision has been made for future payments that might result from claims in process or unfilled.

**NOTE L – Upcoming Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The District is currently evaluating the impact this standard will have on the financial statement when adopted during the District's 2017-2018 fiscal year.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The District is currently evaluating the impact this standard will have on the financial statements when adopted during the District's 2016-2017 fiscal year.

**NOTE M – Subsequent Events**

Management has evaluated subsequent events through October 4, 2016, the date on which the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Budget Comparison Schedule - General Fund  
For the Year Ended June 30, 2016**

	Budgeted Amounts			Variance with Final Budget Fav (Unfav)
	Original	Final	Actual	
<b>REVENUES</b>				
Local sources				
Property taxes	\$ 1,085,057	\$ 1,129,854	\$ 1,084,913	\$ (44,941)
Earnings on investments	750	3,000	3,294	294
Other local revenue	83,000	86,567	86,924	357
Intermediate sources	166,009	262,110	271,808	9,698
State sources				
Unrestricted school aid	6,639,650	6,730,934	6,778,755	47,821
Restricted school aid	471,054	477,197	476,071	(1,126)
Federal sources	205,352	270,159	268,434	(1,725)
Total Revenues	<u>8,650,872</u>	<u>8,959,821</u>	<u>8,970,199</u>	<u>10,378</u>
<b>EXPENDITURES</b>				
Education				
Instruction	5,339,752	5,395,877	5,448,287	(52,410)
Supporting services	3,202,049	3,202,146	3,065,371	136,775
Capital outlay	212,393	383,873	388,203	(4,330)
Total Expenditures	<u>8,754,194</u>	<u>8,981,896</u>	<u>8,901,861</u>	<u>80,035</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>\$ (103,322)</u>	<u>\$ (22,075)</u>	<u>\$ 68,338</u>	<u>\$ 90,413</u>

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Schedule of the Reporting Unit's Proportionate  
Share of the Net Pension Liability  
Michigan Public School Employees Retirement Plan  
Last Two Years (ultimately ten fiscal years will be displayed)  
(Amounts were determined as of 9/30 of each fiscal year)**

	<u>2015</u>	<u>2014</u>
A. Reporting unit's proportion of net pension liability (%)	0.05412%	0.05393%
B. Reporting unit's proportionate share of net pension liability	\$ 13,218,668	\$ 11,878,292
C. Reporting unit's covered - employee payroll	\$ 4,378,787	\$ 4,597,223
D. Reporting unit's proportionate share of net pension liability as a percentage of its covered-employee payroll (%)	301.88%	258.38%
E. Plan fiduciary net position as a percentage of total pension liability	63.17%	66.20%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Schedule of the Reporting Unit's Contributions**  
**Michigan Public School Employees Retirement Plan**  
**Last Two Years (ultimately ten fiscal years will be displayed)**  
**(Amounts were determined as of 6/30 of each fiscal year)**

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	<u>2015</u>	<u>2014</u>
A. Statutorily required contributions	\$ 1,044,033	\$ 837,523
B. Contributions in relation to statutorily required contributions*	<u>\$ 1,044,033</u>	<u>\$ 837,523</u>
C. Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
D. Reporting unit's covered- employee payroll	\$ 4,673,239	\$ 4,587,549
E. Contributions as a percentage of covered-employee payroll	22.34%	18.26%

\* Contributions in relation to statutorily required contributions are the contributions a reporting unit actually made to MPSERS, which may differ from the statutorily required contributions.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the District presents information for those years which information is available.

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Notes to Required Supplementary Information – GASB 68  
For the Year Ended June 30, 2016**

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

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



**OTHER SUPPLEMENTARY INFORMATION**

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Balance Sheet - Non-Major Governmental Funds**  
**June 30, 2016**

	Food Service Fund	2006 Debt Service	2010 Debt Service	2013 Debt Service	2015A Debt Service	2015B Debt Service	Total
<b>ASSETS</b>							
Cash	\$ 74,810	-	\$ 4,232	\$ 63,053	\$ 62,753	\$ 16,257	\$ 221,105
Due from other governments	4,030	-	-	-	-	-	4,030
Inventory	5,933	-	-	-	-	-	5,933
<b>Total Assets</b>	<b>\$ 84,773</b>	<b>\$ -</b>	<b>\$ 4,232</b>	<b>\$ 63,053</b>	<b>\$ 62,753</b>	<b>\$ 16,257</b>	<b>\$ 231,068</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Accounts payable	\$ 399	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 399
Due to other funds	21,140	-	-	-	-	-	21,140
Unearned revenue	4,433	-	-	-	-	-	4,433
<b>Total Liabilities</b>	<b>25,972</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25,972</b>
<b>FUND BALANCES</b>							
Nonspendable	5,933	-	-	-	-	-	5,933
Restricted for:							
Debt	-	-	4,232	63,053	62,753	16,257	146,295
Food service	29,687	-	-	-	-	-	29,687
Committed for:							
Food service	23,181	-	-	-	-	-	23,181
	58,801	-	4,232	63,053	62,753	16,257	205,096
<b>Total Liabilities and Fund Balances</b>	<b>\$ 84,773</b>	<b>\$ -</b>	<b>\$ 4,232</b>	<b>\$ 63,053</b>	<b>\$ 62,753</b>	<b>\$ 16,257</b>	<b>\$ 231,068</b>

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Statement of Revenues, Expenditures and  
Changes in Fund Balances - Non-Major Governmental Funds  
For the Year Ended June 30, 2016**

	<b>Food Service Fund</b>	<b>2006 Debt Service</b>	<b>2010 Debt Service</b>	<b>2013 Debt Service</b>	<b>2015A Debt Service</b>	<b>2015B Debt Service</b>	<b>Total</b>
<b>REVENUES</b>							
Local sources	\$ 165,118	\$ 200,772	\$ 43,977	\$ 789,595	\$ 789,595	\$ -	\$ 1,989,057
State sources	23,780	-	-	-	-	-	23,780
Federal sources	384,154	-	-	-	-	-	384,154
Interest	26	19	6	71	72	-	194
Total Revenues	<u>573,078</u>	<u>200,791</u>	<u>43,983</u>	<u>789,666</u>	<u>789,667</u>	<u>-</u>	<u>2,397,185</u>
<b>EXPENDITURES</b>							
Food service	572,798	-	-	-	-	-	572,798
Debt service							
Principal	-	71,755	-	980,000	730,000	-	1,781,755
Interest	-	187,649	84,874	78,550	146,313	-	497,386
Total Expenditures	<u>572,798</u>	<u>259,404</u>	<u>84,874</u>	<u>1,058,550</u>	<u>876,313</u>	<u>-</u>	<u>2,851,939</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>280</u>	<u>(58,613)</u>	<u>(40,891)</u>	<u>(268,884)</u>	<u>(86,646)</u>	<u>-</u>	<u>(454,754)</u>
<b>OTHER FINANCING SOURCES (USES)</b>							
Proceeds from refunding bonds		-	-	-	-	9,080,000	9,080,000
Payment to refunding bond escrow agent		-	-	-	-	(9,080,000)	(9,080,000)
Transfers in		-	-	-	-	16,257	16,257
Transfers out	-	(16,257)	-	-	-	-	(16,257)
Proceeds from school bond loan fund	-	63,114	43,067	271,915	71,600	-	449,696
Total Other Financing Sources (Uses)	<u>-</u>	<u>46,857</u>	<u>43,067</u>	<u>271,915</u>	<u>71,600</u>	<u>16,257</u>	<u>449,696</u>
<b>Net Change in Fund Balances</b>	<u>280</u>	<u>(11,756)</u>	<u>2,176</u>	<u>3,031</u>	<u>(15,046)</u>	<u>16,257</u>	<u>(5,058)</u>
Fund Balances, Beginning of Year	<u>58,521</u>	<u>11,756</u>	<u>2,056</u>	<u>60,022</u>	<u>77,799</u>	<u>-</u>	<u>210,154</u>
<b>Fund Balances, End of Year</b>	<u>\$ 58,801</u>	<u>\$ -</u>	<u>\$ 4,232</u>	<u>\$ 63,053</u>	<u>\$ 62,753</u>	<u>\$ 16,257</u>	<u>\$ 205,096</u>

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Schedule of Revenues - General Fund  
For the Year Ended June 30, 2016**

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**REVENUES**

Revenue from local sources	
Property taxes	\$ 1,084,913
Other local revenue	86,924
Earnings on investments	3,294
Total revenue from local sources	<u>1,175,131</u>
Revenue from intermediate school district	<u>271,808</u>
Revenue from state sources	
Unrestricted	
State aid membership	6,778,755
Restricted	
At risk	312,364
Special education	151,276
Teacher technology	12,431
Total restricted	<u>476,071</u>
Total revenue from state sources	<u>7,254,826</u>
Revenue from federal sources	
Title I	196,790
Title II	69,570
Administrative Outreach	2,074
Total revenue from federal sources	<u>268,434</u>
<b>Total Revenues</b>	<b><u><u>\$ 8,970,199</u></u></b>

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Schedule of Expenditures - General Fund**  
**For the Year Ended June 30, 2016**

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**EXPENDITURES**

Instruction

Elementary

Salaries	\$ 1,198,329
Benefits	799,484
Purchased services	56,305
Other fees and dues	2,198
Supplies, materials, and other	32,773
Total elementary	<u>2,089,089</u>

Middle school

Salaries	554,251
Benefits	364,082
Purchased services	7,184
Supplies, materials, and other	14,695
Total middle school	<u>940,212</u>

High school

Salaries	751,416
Benefits	533,541
Purchased services	30,527
Other fees and dues	250
Supplies, materials, and other	46,785
Total high school	<u>1,362,519</u>

Pre-school

Salaries	84,336
Benefits	43,916
Purchased services	64,924
Total pre-school	<u>193,176</u>

Special education

Salaries	310,430
Benefits	160,605
Purchased services	2,534
Supplies, materials, and other	2,313
Total special education	<u>475,882</u>

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Schedule of Expenditures - General Fund (Continued)**  
**For the Year Ended June 30, 2016**

Title I and Title II programs	
Salaries	\$ 157,095
Benefits	82,379
Purchased services	22,686
Supplies, materials, and other	1,284
Total Title I programs	<u>263,444</u>
 Alternative education	
Salaries	66,057
Benefits	36,468
Purchased services	21,228
Total alternative education	<u>123,753</u>
 Adult education	
Supplies, materials, and other	<u>212</u>
 Total instruction	<u>5,448,287</u>
 Supporting services	
Pupil guidance services	
Salaries	154,773
Benefits	93,187
Purchased services	806
Supplies, materials, and other	3,040
Total pupil guidance services	<u>251,806</u>
 Improvement of instruction	
Salaries	3,557
Benefits	1,188
Supplies, materials, and other	1,524
Total improvement of instruction	<u>6,269</u>
 Library	
Salaries	41,824
Benefits	23,392
Supplies, materials, and other	4,159
Total library	<u>69,375</u>
 Curriculum coordinator	
Salaries	36,988
Benefits	20,139
Purchased services	1,561
Total curriculum coordinator	<u>58,688</u>

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Schedule of Expenditures - General Fund (Continued)**  
**For the Year Ended June 30, 2016**

Board of education	
Salaries	600
Purchased services	29,466
Supplies, materials, and other	6,729
Total board of education	<u>36,795</u>
Executive administration	
Salaries	147,419
Benefits	94,114
Purchased services	1,034
Supplies, materials, and other	2,998
Total executive administration	<u>245,565</u>
School administration	
Salaries	373,115
Benefits	230,777
Purchased services	1,720
Supplies, materials, and other	1,203
Total school administration	<u>606,815</u>
Other school administration	
Salaries	<u>28,505</u>
Business and fiscal management	
Salaries	99,995
Benefits	70,945
Purchased services	41,825
Supplies, materials, and other	20,151
Total business and fiscal management	<u>232,916</u>
Operation and maintenance	
Salaries	293,427
Benefits	165,397
Purchased services	445,869
Supplies, materials, and other	43,465
Total operation and maintenance	<u>948,158</u>
Pupil transportation	
Salaries	94,240
Benefits	43,379
Purchased services	49,751
Supplies, materials, and other	36,067
Total pupil transportation	<u>223,437</u>

**Lawton Community Schools  
State of Michigan, Counties of Van Buren and Kalamazoo  
Schedule of Expenditures - General Fund (Continued)  
For the Year Ended June 30, 2016**

Technologist		
Salaries	\$	49,131
Benefits		31,589
Purchased services		41,198
Supplies, materials, and other		20,976
Total technologist		<u>142,894</u>
Other business services		
Other fees and dues		<u>2,332</u>
Athletics		
Salaries		79,166
Benefits		35,983
Purchased services		74,559
Other fees and dues		11,144
Supplies, materials, and other		769
Equipment		10,195
Total athletics		<u>211,816</u>
Total supporting services		<u>3,065,371</u>
Capital outlay		
Instruction		320
Supporting services		387,883
Total capital outlay		<u>388,203</u>
<b>Total Expenditures</b>	<b>\$</b>	<b><u><u>8,901,861</u></u></b>



**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Schedule of Changes in Long-Term Debt**  
**June 30, 2016**

	<u>Balance at July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2016</u>
2013 refunding debt fund	\$ 5,425,000	\$ -	\$ (980,000)	\$ 4,445,000
Interest related to 2013 debt fund	268,725	-	(77,748)	190,977
2010 debt fund	2,120,000	-	-	2,120,000
Interest related to 2010 debt fund	635,800	-	(84,800)	551,000
2015A debt fund	6,275,000	-	(730,000)	5,545,000
Interest related to 2015A debt fund	476,619	-	(145,719)	330,900
2015B debt fund	-	9,080,000	-	9,080,000
Interest related to 2015B debt fund	-	3,147,502	(187,577)	2,959,925
2006 advance refunding debt fund	8,975,000	-	(8,975,000)	-
Interest related to 2006 debt fund	4,704,525	-	(4,704,525)	-
Copier capital lease	4,587	-	(4,587)	-
Interest related to copier capital lease	45	-	(45)	-
School bond loan fund	2,207,887	436,484	-	2,644,371
Interest related to school bond loan	65,469	81,824	-	147,293
Premium on bonds	95,954	13,439	(16,832)	92,561
Discount on bonds	(653,137)	505,044	(134,282)	(282,375)
Accumulated sick pay	300,000	25,000	-	325,000
<b>Total</b>	<b><u>\$ 30,901,474</u></b>	<b><u>\$ 13,289,293</u></b>	<b><u>\$ (16,041,115)</u></b>	<b><u>\$ 28,149,652</u></b>

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Schedule of Maturities of Bonded Debt**  
**June 30, 2016**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015B REFUNDING BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rate	2.5% to 3.5%			
Original issue	\$9,080,000			
Payments due for years ending June 30:				
2017		\$ 25,000	\$ 260,725	\$ 285,725
2018		25,000	260,100	285,100
2019		25,000	259,475	284,475
2020		85,000	258,850	343,850
2021		100,000	256,725	356,725
2022		125,000	254,225	379,225
2023		145,000	251,100	396,100
2024		1,130,000	247,475	1,377,475
2025		1,110,000	219,225	1,329,225
2026		1,090,000	191,475	1,281,475
2027		1,075,000	164,225	1,239,225
2028		1,060,000	131,975	1,191,975
2029		1,045,000	100,175	1,145,175
2030		1,030,000	68,825	1,098,825
2031		1,010,000	35,350	1,045,350
<b>Totals</b>		<b><u>\$ 9,080,000</u></b>	<b><u>\$ 2,959,925</u></b>	<b><u>\$ 12,039,925</u></b>

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Schedule of Maturities of Bonded Debt**  
**June 30, 2016**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015A REFUNDING BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rate	2.00%			
Original issue	\$6,275,000			
Payments due for years ending June 30:				
2017		\$ 1,105,000	\$ 110,900	\$ 1,215,900
2018		1,140,000	88,800	1,228,800
2019		1,120,000	66,000	1,186,000
2020		1,100,000	43,600	1,143,600
2021		1,080,000	21,600	1,101,600
<b>Totals</b>		<b><u>\$ 5,545,000</u></b>	<b><u>\$ 330,900</u></b>	<b><u>\$ 5,875,900</u></b>

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Schedule of Maturities of Bonded Debt**  
**June 30, 2016**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010 BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rate	2.0% to 4.0%			
Original issue	\$5,335,000			
Payments due for years ending June 30:				
2017		\$ -	\$ 84,800	\$ 84,800
2018		-	84,800	84,800
2019		-	84,800	84,800
2020		-	84,800	84,800
2021		-	84,800	84,800
2022		1,065,000	84,800	1,149,800
2023		1,055,000	42,200	1,097,200
<b>Totals</b>		<b><u>\$ 2,120,000</u></b>	<b><u>\$ 551,000</u></b>	<b><u>\$ 2,671,000</u></b>

**Lawton Community Schools**  
**State of Michigan, Counties of Van Buren and Kalamazoo**  
**Schedule of Maturities of Bonded Debt**  
**June 30, 2016**

		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013 REFUNDING BOND ISSUE				
Principal payment due	May 1			
Interest payments due	May 1 and November 1			
Interest rate	0.5% to 1.5%			
Original issue	\$6,990,000			
Payments due for years ending June 30:				
2017		\$ 1,040,000	\$ 69,418	\$ 1,109,418
2018		1,095,000	57,457	1,152,457
2019		1,155,000	41,580	1,196,580
2020		1,155,000	22,522	1,177,522
<b>Totals</b>		<b><u>\$ 4,445,000</u></b>	<b><u>\$ 190,977</u></b>	<b><u>\$ 4,635,977</u></b>

# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

**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**

To the Board of Education  
Lawton Community Schools, State of Michigan, Counties of Van Buren and Kalamazoo

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 Lawton Community Schools (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 4, 2016.

### **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 a material weakness.

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

### **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*.

### **District's Response to Findings**

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

### **Purpose of this Report**

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



Seber Tans, PLC  
Kalamazoo, Michigan

October 4, 2016

**Lawton Community Schools  
Schedule of Findings and Responses  
For the Year Ended June 30, 2016**

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**FINDINGS AND RESPONSES**

**2016-001**

**Statement of Condition:** The District's accounting functions are performed primarily by two individuals.

**Cause:** Due to the small size of the accounting department, certain receipt, disbursement and reconciliation activities are performed by one individual and are not reviewed by a party outside of the process.

**Criteria:** The District is responsible for establishing adequate segregation of duties to properly segregate the functions of authorizing transactions, recording transactions, controlling assets, and reviewing transactions.

**Effect of Condition:** Inadequate segregated duties create additional risk that transactions may be recorded incorrectly or that assets may be misappropriated.

**Recommendation:** The Board should actively review financial information and limit employees' access to assets. We recommend the Superintendent review bank reconciliations and review disbursement checks prior to them being mailed. We recommend that accounting policies and procedures be documented.

**Management's Response:** Management continues to be aware of this issue. Due to the size of the District, it is not possible to staff to a level that would satisfy this requirement. The staff continues to employ strategies and techniques that distribute some of the at-risk types of tasks to other personnel in order to create dual control situations.

Specific tasks being distributed are:

Purchase order review and approval:	Superintendent, weekly
Disbursed check review:	Superintendent, weekly
Checks/cash received at Central Office:	Superintendent Secretary, daily
Credit card purchases review:	Superintendent, monthly

Bank reconciliations for all accounts will be scheduled to be reviewed with the Superintendent on a quarterly basis, within a month after the end of the quarter. Additionally, Central Office staff meets bi-monthly to discuss any issues associated with office procedures, including any issues with the above-distributed tasks.



**Lawton Community Schools  
Schedule of Findings and Responses  
For the Year Ended June 30, 2016**

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**SECTION IV – PRIOR YEAR FINDINGS**

**2015-001**

**Statement of Condition:** The District's accounting functions are performed primarily by two individuals.

**Cause:** Due to the small size of the accounting department, certain receipt, disbursement and reconciliation activities are performed by one individual and are not reviewed by a party outside of the process.

**Criteria:** The District is responsible for establishing adequate segregation of duties to properly segregate the functions of authorizing transactions, recording transactions, controlling assets, and reviewing transactions.

**Effect of Condition:** Inadequate segregated duties create additional risk that transactions may be recorded incorrectly or that assets may be misappropriated.

**Recommendation:** The Board should actively review financial information and limit employees' access to assets. We recommend the Superintendent review bank reconciliations and review disbursement checks prior to them being mailed. We recommend that accounting policies and procedures be documented.

**Management's Response:** Management continues to be aware of this issue. Due to the size of the District, it is not possible to staff to a level that would satisfy this requirement. The staff continues to employ strategies and techniques that distribute some of the at-risk types of tasks to other personnel in order to create dual control situations.

Specific tasks being distributed are:

Bank reconciliation review:	Superintendent, monthly
Purchase order review and approval:	Superintendent, weekly
Disbursed check review:	Superintendent, weekly
Checks/cash received at Central Office:	Superintendent Secretary, daily
Credit card purchases review:	Superintendent, monthly

Additionally, Central Office staff meets monthly to discuss any issues associated with office procedures, including any issues with the above-distributed tasks.

**This finding has not been resolved and is included in the 2016 findings.**