

**PLYMOUTH EDUCATIONAL CENTER
CHARTER SCHOOL**

**FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION**

JUNE 30, 2016

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Plymouth Educational Center Charter School
Detroit, MI

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Plymouth Educational Center Charter School (the School) as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsible for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School'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 of the effectiveness of the School'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 opinion.

Independent Auditors' Report
(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School 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 Supplement Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2016 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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 School's internal control over financial reporting and compliance.

Alan C. Young, Assoc.

Detroit, Michigan
October 18, 2016

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Management's Discussion and Analysis June 30, 2016

As management of the Plymouth Educational Center (the School), we offer readers of the School's financial statements this narrative overview and analysis of the financial activities of the School for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- In recent years, the School's per pupil revenue has slightly increased resulting from increase in Pupil Foundation Allowance and the implementation of Best Practices. The School anticipates realizing a slight increase in state aid funding per pupil allocation.
- The School remains committed to maintaining competitive starting teacher salaries and fringe benefits. This strategy helps recruit and retain highly qualified teachers. Teacher salaries and fringe benefits account for approximately 36% of total expenditures.
- The School sold the building that was previously used for the high school. With the proceeds from this sale the School paid off the related debt from the purchase of the building.
- The General Fund received \$6,079,246 in revenue, which primarily consisted of the State Foundation grant, federal grants, fundraising proceeds, and bank interest. Excluding inter-fund transfers, and mortgage repayment made upon sale of the building there was \$5,638,736 in General Fund expenditures.
- The School continues to focus on improving its cash position. This is a focus of the administration and will be achieved by reducing expenses and seeking additional funding.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Plymouth Education Center Charter School's (the School) basic financial statements. The School's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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

The statement of net position presents information, using the accrual basis of accounting, on all of the School's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating.

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Management's Discussion and Analysis (Continued)

June 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

The statement of activities presents information showing how the School's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The government-wide financial statements outline functions of the School that are principally supported by State Aid and intergovernmental revenues (Federal grants). The governmental activities of the School include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are supported by State Aid and intergovernmental revenues.

The government-wide financial statements can be found on pages 1 - 2 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Michigan public school districts utilizing Bulletin 1022. The School uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The School does not maintain any proprietary funds.

The basic governmental fund financial statements can be found on pages 3 and 5 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8 - 18 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the School, liabilities exceeded assets and deferred outflows by \$115,124 as of June 30, 2016. This represents a decrease of \$298,274 over last year.

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

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Management's Discussion and Analysis (Continued) June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS – (Continued)

The School's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position as of June 30, 2016 and 2015

The following shows a comparison of the School's statements of net position as of June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Current Assets	\$ 3,065,846	\$ 3,223,245
Noncurrent Assets	8,422,578	11,970,494
Total Assets	<u>11,488,424</u>	<u>15,193,739</u>
Deferred Outflow:		
Deferred Loss on Bond Issuance	850,844	928,193
Current Liabilities	441,373	2,039,963
Noncurrent Liabilities	12,013,019	13,898,819
Total Liabilities	<u>12,454,392</u>	<u>15,938,782</u>
Net Position		
Net Investment in Capital Assets	(3,590,441)	(2,480,886)
Restricted	1,786,652	1,752,980
Unrestricted	1,688,665	911,056
Total Net Position	<u>\$ (115,124)</u>	<u>\$ 183,150</u>

Change in Net Position for the years ending June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
REVENUES		
Program Revenues:		
Charges for Services	\$ 23,856	\$ 35,100
Federal and State Categorical Grants	2,027,246	2,291,474
General Revenues:		
State Aid-Unrestricted	4,284,538	7,202,781
Other	626,611	380,849
Total Revenues	<u>6,962,251</u>	<u>9,910,204</u>
Expenses		
Instruction	2,736,714	4,152,422
Support Services	3,125,496	4,183,623
Food Services	460,250	641,199
Interest on Long-term Debt	608,414	630,005
Unallocated Depreciation	252,302	252,302
Refunding Bond Expenses	77,349	77,349
Total Expenses	<u>7,260,525</u>	<u>9,936,900</u>
Increase in Net Position	<u>\$ (298,274)</u>	<u>\$ (26,696)</u>

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Management's Discussion and Analysis (Continued)
June 30, 2016

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The performance of the School as a whole is reflected in its governmental funds. As the School completed its year, its governmental funds reported combined fund balances of \$2.7 million, including a fund balance in the General Fund of \$938,747. The General Fund balance experienced an increase of \$849,702 over last year.

The following table presents a summary of general fund revenue and expense for the fiscal years ended June 30, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
REVENUES		
Local Revenue Sources	\$ 227,078	\$ 415,427
State Revenue Sources	5,016,019	7,898,803
Federal Revenue	836,149	858,950
Total Revenues	<u>6,079,246</u>	<u>9,173,180</u>
EXPENSES		
Instruction	2,637,910	4,017,487
Pupil Support	350,724	346,513
Instructional Staff	239,864	249,554
General Administration	87,164	521,133
Executive Administration	509,807	-
School Administration	171,469	484,863
Business Services	303,130	427,232
Maintenance and Operations	869,112	1,383,572
Transportation	164,342	207,367
Other	305,214	665,195
Principal Payments	2,068,043	-
Total Expenses	<u>7,706,779</u>	<u>8,302,916</u>
Other Financing Sources (uses)		
Transfers Out	(939,120)	(934,464)
Proceeds from Sale of Building	3,643,572	-
Costs Related to Sale of Building	<u>(227,217)</u>	<u>-</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>\$ 849,702</u>	<u>\$ (64,200)</u>

Also, note that \$939,120 and \$934,464 were transferred to the debt service fund for funding of the School's bonded debt for the years ended June 30, 2016 and 2015 respectively.

General Fund Revenue

The majority of revenue was derived from state funding (82.5%) with federal funding making up 13.8% of total revenue. There was also local revenue from private grants and fundraising making up 3.7% of total revenue.

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Management's Discussion and Analysis (Continued)

June 30, 2016

FINANCIAL ANALYSIS OF SCHOOL'S FUNDS – (Continued)

Expenditure Allocation

Instruction accounted for \$2,637,910 or 34.2% of the general fund expenses. Other significant expense categories were maintenance and operations (\$869,112, 11.3%) and executive administration (\$509,807, 6.6%). Expenses also included \$2,068,043 in debt repayment related to the sale of the building that previously housed the high school.

Comments on Budget Comparisons

- The School's total revenues for the fiscal year ended June 30, 2016 including all funds and net of Inter-fund transfers and Other Financing Sources, were approximately \$6.6 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$57,387 more than budget or approximately 1.0%.
- The total cost of all programs and services within the general fund was \$5.6 million.
- Over the course of the year, the School revises its budget as unexpected changes in revenues and expenditures arise. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements. The School exceeded the budget for basic instruction, transportation, athletics and principal and interest payment.
- During the 2015-2016 year, the School's General Fund's fund balance increased by \$849,702. The School will continue to follow the procedures recently put in place to ensure that each year the School improves its financial position in the midst of an uncertain economic environment.

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Management's Discussion and Analysis (Continued)

June 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the School had \$8.4 million (net of depreciation) invested in a broad range of capital assets, including buildings, athletic field improvements, landscaping, playground equipment, furniture, and computer and audio visual equipment. Total depreciation for the year was \$531,094.

	<u>2016</u>	<u>2015</u>
Land	\$ 308,300	\$ 308,300
Building and Building Improvements	11,254,415	14,411,555
Furniture and Equipment	<u>2,466,453</u>	<u>2,466,453</u>
Total	<u>\$ 14,029,168</u>	<u>\$ 17,186,308</u>

Debt

At the end of this year, the School had \$12,013,019 in outstanding long-term debt versus \$14,999,343 in the previous year – a decrease of 14.4%.

\$371,959 of long-term debt is schedule to be retired in the 2016-2017 fiscal year.

BUDGETARY IMPLICATIONS

In Michigan the public school fiscal year is July 1-June 30; other programs, i.e. some federal, operate on a different fiscal calendar, but are reflected in the School overall budget.

Economic Factors and Next Year's Budgets and Rates

The School considers many factors when setting the School's 2016-2017 fiscal year budgets. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2017 fiscal year is 10 percent of the February 2016 student count and 90 percent of the October 2016 student count. The all inclusive budget was adopted in June 2016 based on an estimate of students that will be enrolled in September 2016. Approximately 89% of total General Fund revenue is from the foundation allowance. The State of Michigan 2016-2017 Foundation Allowance will be \$7,511 per student.

Under State law the School cannot assess property taxes for additional revenue for general operations. As a result, the School is heavily dependent on the State's ability to fund school operations. Based on early enrollment data at the start of the 2017 school year, we anticipate that the Fall count will be close to the estimates used in creating the 2016-2017 budgets. Once the final student count and related pupil funding are validated, State law requires the School to amend the budget if actual School resources are not sufficient to fund original appropriations.

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Management's Discussion and Analysis (Continued)

June 30, 2016

BUDGETARY IMPLICATIONS (Continued)

Since the School's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriations to public schools and public school Academies. The School will continue to diligently monitor its spending and budget closely.

Questions regarding this report should be directed to LaShanda Thomas the Chief Financial Administrative Officer, **(313) 831-3280** or by mail at **1460 East Forest, Detroit, Michigan 48207**.

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Statement of Net Position June 30, 2016

	<u>Governmental Activities</u>
Assets:	
Cash and Investments (Note 3)	\$ 1,821,611
Receivables (Note 4)	1,060,920
Prepaid Expenses	183,315
Capital Assets - Net (Note 5)	8,422,578
Total Assets	<u>11,488,424</u>
Deferred Outflow of Resources:	
Deferred Loss on Bond Issuance (Note 7)	850,844
Total Deferred Outflow of Resources	<u>850,844</u>
Liabilities:	
Accounts Payable	323,777
Accrued Payroll and Other Liabilities	117,596
Long-Term Liabilities (Note 7):	
Due within One Year	371,959
Due in More than One Year	11,641,060
Total Liabilities	<u>12,454,392</u>
Net Position:	
Net Investment in Capital Assets	(3,590,441)
Restricted:	
Debt Service Fund	1,406,571
Cafeteria Fund	380,081
Unrestricted	1,688,665
Total Net Position	<u>\$ (115,124)</u>

The notes to financial statements are an integral part of this statement.

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Statement of Activities Year Ended June 30, 2016

Functions/Programs	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/ Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary Government-Governmental Activities:				
Instruction	\$ 2,736,714	\$ -	\$ 1,144,370	\$ (1,592,344)
Support Services	3,125,496	-	423,260	(2,702,236)
Food Services	460,250	23,856	459,616	23,222
Interest on Long-Term Debt	608,414	-	-	(608,414)
Depreciation (Unallocated)	252,302	-	-	(252,302)
Refunding Bond Expenses	77,349	-	-	(77,349)
Total Primary Government-Governmental Activities	<u>7,260,525</u>	<u>23,856</u>	<u>2,027,246</u>	(5,209,423)
General Revenues:				
				4,284,538
State Aid not restricted to specific purposes				399,533
Gain on Sale of Building (Note 5)				227,078
Other				<u>4,911,149</u>
		Total General Revenues		
				(298,274)
				183,150
				<u>\$ (115,124)</u>

The notes to financial statements are an integral part of this statement.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Governmental Funds Balance Sheet June 30, 2016

	Major Funds		Non-Major Fund	Total Governmental Funds
	General Fund	Debt Service Fund	Cafeteria Fund	
ASSETS				
Cash and Investments (Note 3)	\$ 415,040	\$ 1,406,571	\$ -	\$ 1,821,611
Accounts Receivable (Note 4)	100,035	-	32,297	132,332
Due from Other Governmental Units (Note 4)	928,588	-	-	928,588
Due from Other Funds (Note 6)	-	-	386,470	386,470
Prepaid Expenses	183,315	-	-	183,315
Total Assets	\$ 1,626,978	\$ 1,406,571	\$ 418,767	\$ 3,452,316
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	285,091	-	38,686	323,777
Due to Other Funds (Note 6)	386,470	-	-	386,470
Accrued Payroll and Other Liabilities	16,670	-	-	16,670
Total Liabilities	688,231	-	38,686	\$ 726,917
 Fund Balances:				
Nonspendable	183,315	-	-	183,315
Restricted	-	1,406,571	380,081	1,786,652
Unassigned	755,432	-	-	755,432
Total Fund Balances	938,747	1,406,571	380,081	2,725,399
Total Liabilities and Fund Balances	\$ 1,626,978	\$ 1,406,571	\$ 418,767	\$ 3,452,316

The notes to financial statements are an integral part of this statement.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position Year Ended June 30, 2016

	<u>Amount</u>
Fund Balance-Total Governmental Funds	\$ 2,725,399
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different because:	
Capital Assets Used in Governmental Activities are not Financial Resources and are not Reported in the Governmental Funds:	
The Cost of Capital Assets is	14,029,168
Accumulated Depreciation is	<u>(5,606,590)</u>
	8,422,578
Long-Term Liabilities are not Due and Payable in the Current Period and are not Reported in the Governmental Funds:	
Bonds Payable 2006	(11,275,000)
Bonds Payable 2013	(300,000)
Other	(438,019)
Accrued Interest Payable is not included as a Liability in Governmental Funds	(100,926)
Loss on Bond Issuance is Amortized over the Life of the Bond Issues in the Governmental Activities	<u>850,844</u>
Net Position - Governmental Activities	<u>\$ (415,124)</u>

The notes to financial statements are an integral part of this statement.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balances Year Ended June 30, 2016

	Major funds	Non- Major Fund		Total Governmental Funds
	General Fund	Debt Service Fund	Cafeteria Fund	
Revenue:				
Local Sources	\$ 227,078	\$ -	\$ 23,856	\$ 250,934
State Sources	5,016,019	-	-	5,016,019
Federal Sources	836,149	-	459,616	1,295,765
Total Revenue	<u>6,079,246</u>	<u>-</u>	<u>483,472</u>	<u>6,562,718</u>
Expenditures:				
<u>Current:</u>				
Instruction	2,637,910	-	-	2,637,910
Support Services	3,000,826	-	-	3,000,826
Food Services	-	-	460,250	460,250
<u>Debt Service:</u>				
Principal	2,068,043	315,000	-	2,383,043
Interest	-	613,670	-	613,670
Total Expenditures	<u>7,706,779</u>	<u>928,670</u>	<u>460,250</u>	<u>9,095,699</u>
Excess (Deficiency) of Revenue Over Expenditures	<u>(1,627,533)</u>	<u>(928,670)</u>	<u>23,222</u>	<u>(2,532,981)</u>
Other Financing Sources (Uses)				
Proceeds From Sale of Building	3,643,572	-	-	3,643,572
Costs Related to Building Sale	(227,217)	-	-	(227,217)
Transfers In (Note 5)	-	939,120	-	939,120
Transfers Out (Note 5)	(939,120)	-	-	(939,120)
Total Other Financing Sources (Uses)	<u>2,477,235</u>	<u>939,120</u>	<u>-</u>	<u>3,416,355</u>
Net Changes in Fund Balances	849,702	10,450	23,222	883,374
Fund Balances-Beginning of Year	89,045	1,396,121	356,859	1,842,025
Fund Balances-End of Year	<u>\$ 938,747</u>	<u>\$ 1,406,571</u>	<u>\$ 380,081</u>	<u>\$ 2,725,399</u>

The notes to financial statements are an integral part of this statement.

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Reconciliation of the Statement of Revenue, Expenditures, And Changes in Fund Balances of Governmental Funds To the Statement of Activities Year Ended June 30, 2016

	<u>Amount</u>
Net Change in Fund Balance-Total Governmental Funds	\$ 883,374
Amounts Reported for Governmental Activities in the Statement of Activities are Different because:	
Governmental Funds Report Capital Outlay as expenditures; in the Statement of Activities, these Costs are Allocated Over their Estimated Useful Lives as Depreciation:	
Depreciation Expense	(531,094)
Accrued Interest is Recorded in the Statement of Activities when Incurred; it is not Reported in Governmental Funds until Paid.	5,256
Repayment of Bond Principal and Note Obligations are an Expenditures in the Governmental Funds, but not in Statement of Activities (where it reduces long-term debt).	2,438,361
Unamortized Loss on Bond Issuance is shown as Expenditure in the Governmental Funds, but is Allocated over the Life of the Issuance in the Statement of Activities.	(77,349)
Proceeds from Sale of Building Recorded as Other Financing Sources in Governmental Funds. In Statement of Activities, only the Gain is Recorded as Revenue.	<u>(3,016,822)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (298,274)</u></u>

The notes to financial statements are an integral part of this statement.

PLYMOUTH EDUCATION CENTER CHARTER SCHOOL

Fiduciary Fund Statement of Net Position June 30, 2016

	<u>Student Activities Agency Fund</u>
ASSETS	
Cash	\$ 30
Total Assets	<u>\$ 30</u>
LIABILITIES	
Due to General Fund	\$ 30
Total Liabilities	<u>\$ 30</u>

The notes to financial statements are an integral part of this statement.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements
June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Plymouth Educational Center Charter School (the School) conform to generally accepted accounting principles as applicable to charter schools. The following is a summary of the significant policies:

Reporting Entity

Plymouth Educational Center Charter School is a public school. The State of Michigan has delegated to Central Michigan University the responsibility of authorizing the establishment of public school academies and Central Michigan University approved the establishment of Plymouth Educational Center Charter School and Plymouth Educational Center Charter School was established pursuant to the Michigan School Code of 1976 ("Code"), as amended by Act No. 362 of the Public Acts of 1993, being Part 6A, Sections 380.501 to 380.507 of the Michigan Compiled Laws, and Act No. 416 of the Public Acts of 1994, being Part 6B, Sections 380.511 and 380.518 of the Michigan Compiled Laws.

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the School. Based on application of the criteria, the entity does not contain component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School'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. Intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)

June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements - The government-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. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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 School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments, are recorded only when payment is due.

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 School.

The School reports the following major governmental funds:

General Fund - This fund is used to account for all operational activities of the School. The General Fund includes the current operating expenditures of the School. Revenues are derived primarily from the State of Michigan.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)
June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation –
(Continued)

Fund Financial Statements (Continued)

Debt Service Fund - This fund is used to record activity related to the payment of interest, principal and other expenditures on long-term debt.

Additionally the School reports the following fund types:

Special Revenue Fund – Cafeteria Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes and transactions of the School's, cafeteria program. The School maintains full control of these funds.

Fiduciary Fund – Student Activities Fund - The Student Activity Fund is used to account for assets held by the School in a trustee capacity or as an agent. The fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. The fund is used to record the transactions of student groups for school and school related purposes.

Assets, Liabilities, and Net Position or Equity

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

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

Receivables are shown net of an allowance for uncollectible amounts. The School considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Capital Assets – Capital assets, which include land, buildings and equipment, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$5,000. 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 School does not have infrastructure-type assets.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)

June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Assets, Liabilities, and Net Assets or Equity – (Continued)

Capital Assets (Continued) - Buildings and equipment are depreciated using the straight-line method over the following useful lives:

Building and Building Additions	25-50 years
Furniture and Other Equipment	10 years
Automobiles	5 years

Deferred Outflow of Resources – In addition to assets, the statement of net position sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of the net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School's deferred loss on bond issuance is considered a deferred outflow of resources.

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.

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

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

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)

June 30, 2016

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Deferred Inflow of Resources – The statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not recognized as an inflow of resources (revenue) until that time. The School did not have any items classified as deferred inflow of resources at June 30, 2016.

Comparative Data – Comparative data is not included in the School's financial statements.

Use of Estimates – The presentation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statement, and the reported revenues and expenses during the reporting period. Actual results could differ from these estimates.

2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for the General, Special Revenue, and Debt Service Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund function and object. 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 object level. State law requires the School to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the School incurred expenditures in the General Fund, which were in excess of the amounts budgeted as follows:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Expenditures:				
Basic Instruction	\$ 2,054,445	\$ 1,869,117	\$ 1,961,715	\$ 92,598
<u>Support Services</u>				
Transportation	-	6,650	6,765	115
Athletics	124,135	158,673	164,342	5,669

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)
June 30, 2016

2) STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (Continued)

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, would become a liability of the General Fund. In the School's opinion, any disallowed claims will not have a material effect on the financial statements as of and for the year June 30, 2016.

3) DEPOSITS AND INVESTMENTS

State statutes and the School's investment policy authorize the School to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the School 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 that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School's deposits are in accordance with statutory authority.

The School has designated two banks for the deposit of its funds.

The investment policy adopted by the Board has authorized investments as listed in the State statutory authority as listed above.

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

All of the School's investments held by the debt service fund are cash and cash equivalents and do not fall under the guidance of GASB 72.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School's deposits for custodial credit risk. At year end, the School deposit balance of \$1,901,206 had \$1,231,081 of bank deposits (certificates of deposit, checking and saving accounts) that were uninsured and uncollateralized. The School believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the School evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law. The School does not have investments with custodial credit risk.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)

June 30, 2016

3) DEPOSITS AND INVESTMENTS – (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School's cash requirements.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School's investment policy does not further limit its investment choices. The School held no such investments at June 30, 2016.

Foreign Currency Risk

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

4) RECEIVABLES AND UNEARNED REVENUE

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

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:			
Intergovernmental	\$ 1,028,623	\$ 32,297	\$ 1,060,920

Governmental funds report deferred inflows in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the School had no unearned revenue or deferred inflows.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)

June 30, 2016

5) CAPITAL ASSETS

Capital assets activity of the School's governmental activities was as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2016</u>
Capital Assets not Being Depreciated:				
Land	\$ 308,300	\$ -	\$ -	\$ 308,300
Capital Assets Being Depreciated:				
Building and Building Improvements	13,711,505	-	(3,157,140)	10,554,365
Assets under Capital Lease	700,050	-	-	700,050
Furniture and Equipment	1,195,693	-	-	1,195,693
Site Improvements	1,247,281	-	-	1,247,281
Automobile	23,479	-	-	23,479
Subtotal	<u>17,186,308</u>	<u>-</u>	<u>(3,157,140)</u>	<u>14,029,168</u>
Accumulated Depreciation:				
Building and Building Improvements	2,781,265	252,302	(140,318)	2,893,249
Assets under Capital Lease	592,689	55,702	-	648,391
Furniture and Equipment	1,318,186	158,306	-	1,476,492
Site Improvements	509,574	60,084	-	569,658
Automobile	14,100	4,700	-	18,800
Subtotal	<u>5,215,814</u>	<u>531,094</u>	<u>(140,318)</u>	<u>5,606,590</u>
Net Governmental Capital Assets	<u>\$ 11,970,494</u>	<u>\$ (531,094)</u>	<u>\$ (3,016,822)</u>	<u>\$ 8,422,578</u>

Depreciation on the building and improvements is unallocated. All other depreciation is allocation between instruction, (\$98,804) and support services (\$179,988).

On September 30, 2015, the School sold the properties at 7375 Woodward Avenue, 7379 Woodward Avenue and 34 Lothrop Avenue. The contract sales price was \$4 million. The School's outstanding loan with Hantz Bank was paid off with a portion of the proceeds. A gain of \$399,533 is recorded in the Statement of Activities.

6) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of inter-fund balances is as follows:

<u>Fund Due to</u>	<u>Fund Due From General Fund</u>
Cafeteria Fund	\$ 386,470

Inter-fund receivables and payables occur during the normal course of business and are settled routinely during the year. The agency fund balance due to the general fund is a result of student activity fund expenditures being paid out of the general fund and subsequently reimbursed by the student activity fund.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)

June 30, 2016

6) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

Inter-fund Transfers

	<u>Transfers Out- General Fund</u>
Transfers in-Debt Service Fund	<u>\$ 939,120</u>

Inter-fund transfers provide General Fund support to the Debt Service Fund.

7) LONG-TERM DEBT

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

Long-term obligation activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
2006 Bond	\$ 11,590,000	\$ -	\$ 315,000	\$ 11,275,000	\$ 335,000
2013 Series Bond	2,388,101	-	2,088,101	300,000	-
Loan	473,279	-	35,260	438,019	36,959
Total Governmental Activities	<u>\$ 14,451,380</u>	<u>\$ -</u>	<u>\$ 2,438,361</u>	<u>\$ 12,013,019</u>	<u>\$ 371,959</u>

The School has issued \$13,850,000 in revenue and refunding bonds due in annual installments of \$225,000 to \$890,000 through November 2035, with interest ranging from 4% to 5.625%.

These bonds contain certain minimum fund balance covenants. The School must maintain an unrestricted fund balance in its general fund which equals not less than an amount calculated as a percentage of operating expenses for the prior school year. This percentage ranges from 5% to 10% depending upon various criteria. If the minimum fund balance falls below the required amount as of June 30, the School must retain on an annual basis a minimum of 50% of excess net revenues until the School is in compliance with the minimum fund balance requirement. The School was in compliance with this covenant at June 30, 2016.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)

June 30, 2016

7) LONG-TERM DEBT (Continued)

The annual requirements to service the long-term debt outstanding to maturity, including both principal and interest are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 371,959	\$ 621,795	\$ 993,754
2018	688,681	602,020	1,290,701
2019	405,483	576,396	981,879
2020	427,333	555,327	982,660
2021	454,342	532,946	987,288
2022-2026	2,600,221	2,286,781	4,887,002
2027-2031	3,065,000	1,541,828	4,606,828
2032-2036	4,000,000	580,438	4,580,438
Total	\$ 12,013,019	\$ 7,297,531	\$ 19,310,550

Public School Revenue Bond, Series 2013 – In 2013-14, The School issued \$2,400,000 in revenue bonds with an interest rate of 5.5%, due October 2018. This was paid off in fiscal 2016 at the time of the sale of the associated building.

Public School Subordinate Revenue Bond, Series 2013B – In 2013-14, The School issued \$300,000 in revenue bonds with interest rate of 2% and due November 2018.

The proceeds of these bonds were used to fund the purchase of real property and school facility.

Long-term Loan Payable – In 2010, The School entered into a \$605,000 capital improvement loan with City First Bank. The loan carries an interest rate of 4.50% and is due December 2025.

Defeased Debt – During 2006, the School issued \$13,850,000 in revenue and refunding bonds with interest rates ranging between 4.0% and 5.625%. The proceeds of these bonds were used to advance refund \$11,100,000 of outstanding certificate serial bonds with interest rates ranging between 7.0 % and 12.5%. The net proceeds of \$12,801,683 (after payment of \$797,245 in underwriting fees, insurance, and other issuance costs, as well as funds being utilized for capital projects) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the School's financial records. The outstanding balance on the defeased bonds at June 30, 2016 was \$7,915,000.

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Notes to Financial Statements (Continued)

June 30, 2016

7) LONG-TERM DEBT (Continued)

Loss on Bond Issuance – The loss on bond issuance of \$1,701,683 (proceeds of \$12,801,683 deposited with escrow agent less \$11,100,000 outstanding balance on defeased bonds) is being amortized over the weighted average life remaining on the defeased bonds. The unamortized balance at June 30, 2016 was \$850,844.

8) OUTSOURCED STAFFING

The School has entered into an agreement with Advantage Staffing to provide staffing and benefits. As such, Advantage Staffing is the employer of record for all of the School's employees.

9) SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 18, 2016 the date the financial statements were available to be issued. On August 2, 2016, the Academy entered into an agreement with the Michigan Public Educational Facilities Authorities on behalf of the School for a State Aid Note in the amount of \$450,000. The note bears interest at 4.25%, and the final payment is due August 21, 2017. This note was guaranteed by the Schools State Aid Payments.

REQUIRED SUPPLEMENTAL INFORMATION

PLYMOUTH EDUCATIONAL CENTER CHARTER SCHOOL

Required Supplemental Information Budgetary Comparison Schedule-General Fund Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue:				
Local Sources	\$ 347,000	\$ 244,104	\$ 227,078	\$ (17,026)
State Sources	5,171,687	5,011,977	5,016,019	4,042
Federal Sources	868,861	765,778	836,149	70,371
Total Revenue	<u>6,387,548</u>	<u>6,021,859</u>	<u>6,079,246</u>	<u>57,387</u>
Expenditures:				
<u>Instruction:</u>				
Basic Instruction	2,054,445	1,869,117	1,961,715	92,598
Added Needs	532,879	704,685	676,195	(28,490)
<u>Support Services:</u>				
Pupil Support	210,908	356,441	350,724	(5,717)
Instructional Staff	257,684	243,797	239,864	(3,933)
General Administration	134,000	90,419	87,164	(3,255)
Executive Administration	750,421	548,737	509,807	(38,930)
School Administration	211,093	179,990	171,469	(8,521)
Business Services	250,188	316,999	303,130	(13,869)
Maintenance and Operations	875,587	879,219	869,112	(10,107)
Transportation	124,135	158,673	164,342	5,669
Central	88,000	182,463	175,919	(6,544)
Community Services	-	18,330	4,707	(13,623)
Athletics	-	6,650	6,765	115
Principal and Interest	184,622	108,823	117,823	9,000
Total Expenditures	<u>5,673,962</u>	<u>5,664,343</u>	<u>5,638,736</u>	<u>(25,607)</u>
Excess of Revenues Over Expenditures	713,586	357,516	553,010	195,494
Other Financing Sources (Uses)				
Transfers Out	(940,141)	(939,119)	(939,120)	(1)
Proceeds from Sale of Building	300,000	1,473,937	3,643,572	2,169,635
Costs Related to Sale of Building	-	-	(227,217)	(227,217)
Principal Payments	-	-	(2,068,043)	(2,068,043)
Total Other Financing Sources (Uses)	<u>(640,141)</u>	<u>534,818</u>	<u>409,192</u>	<u>(125,626)</u>
Net Changes in Fund Balances	73,445	892,334	849,702	(42,632)
Fund Balances-July 1, 2015	89,045	89,045	89,045	-
Fund Balances-June 30, 2016	<u>\$ 162,490</u>	<u>\$ 981,379</u>	<u>\$ 938,747</u>	<u>\$ (42,632)</u>