

Beaver Island Community School

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2013



CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	5
STATEMENT OF ACTIVITIES.....	6
BALANCE SHEET - GOVERNMENTAL FUNDS.....	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	8
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES.....	9
STATEMENT OF FIDUCIARY NET POSITION.....	10
NOTES TO FINANCIAL STATEMENTS.....	11
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND.....	23
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
BALANCE SHEET.....	25
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES.....	26
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS.....	27



Beaver Island Community School
37895 King's Highway
Beaver Island, MI 49782
231.448.2744 phone 231.448.2919 fax
info@beaverisland.k12.mi.us

Management's Discussion and Analysis

Overview of the Basic Financial Statements

Beaver Island Community School's (the "School") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the School's non-fiduciary funds. The government-wide 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 displays all of the School's assets and liabilities, with the difference reported as net position. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the School (instruction, support services, etc...) which are supported by the School's general revenues (property taxes, unrestricted state aid, etc...).

Fund Financial Statements

The fund financial statements report on the government funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented separately from the governmental funds, due to the fact that these assets do not represent assets of the School. These assets are not presented as part of the government-wide financial statements.

Beaver Island Community School maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Capital Project Fund which are considered major funds. Data from the other two governmental funds are combined into a single, non-major governmental funds column. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the Other Supplemental Information section of this report.

Financial Highlights

The overall conditions of all funds remain very strong for the School. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available to meet the School's financial needs.

The assets of the School exceeded its liabilities at the close of the recent fiscal year by \$2.19 million (net position).

The School's total net position has increased by \$.081 million this fiscal year.

At the end of the current fiscal year, the aggregated fund balance for the School's operational funds was \$819,391.

Government-Wide Financial Analysis

Table 1 provides a summary of the School's net assets as of June 30, 2013 and 2012:

	<u>Governmental Activities</u> (in millions)	
	<u>2013</u>	<u>2012</u>
Assets		
Current assets	\$ 1.05	\$.99
Noncurrent assets	<u>4.84</u>	<u>4.92</u>
Total assets	<u>5.89</u>	<u>5.91</u>
Liabilities		
Current liabilities	.36	.35
Noncurrent liabilities	<u>3.33</u>	<u>3.45</u>
Total liabilities	<u>3.69</u>	<u>3.80</u>
Net position		
Invested in capital assets, net of related debt	1.39	1.37
Restricted	.09	.10
Unrestricted	<u>.71</u>	<u>.64</u>
Total net position	<u>\$ 2.19</u>	<u>\$ 2.11</u>

The School currently reports positive balances in each category of net position.

Operations for the School as a whole are presented in the Statement of Activities. The following summary shows the changes in the net assets for the fiscal years 2013 and 2012.

Governmental Activities
(in millions)

	<u>2013</u>	<u>2012</u>
Revenue		
Program revenue		
Charges for services	\$.002	\$.002
Operating grants and contributions	.439	.414
General revenue		
Property taxes	1.724	1.693
State School Aid	.114	.121
Other	<u>.022</u>	<u>.038</u>
 Total revenue	 <u>2.301</u>	 <u>2.268</u>
 Functions /Program Expenses		
Instruction	1.235	1.258
Supporting services	.817	.803
Community services	.002	.003
Food service	.024	.026
Interest on long-term debt	<u>.142</u>	<u>.146</u>
 Total expenses	 <u>2.220</u>	 <u>2.236</u>
 Increase in net position	 <u>\$.081</u>	 <u>\$.032</u>

As recorded above, the School recorded \$2.220 million of expenses. The majority of the School's activities were funded by property taxes, grants and contributions.

The School experienced an increase in net assets of \$.081 million. In the fund financial statements, debt and capital outlay payments represent expenditures of available spendable resources, however, in the government wide statements as noted above they are not current expenses. Depreciation is used to ratably expense these costs over the estimated life to be benefited by the School.

Fund Financial Analysis

The June 30, 2013 General Fund balance increased by \$68,983 during the fiscal year. The fund balance of \$707,708 is approximately 36% of reported expenditures over the same fiscal year. The School has a goal of maintaining a 15% fund balance.

General Fund Budgetary Highlights

Final budgeted revenues were up from the original budgeted revenues. It reflected additional local property tax revenues relating to taxable value adjustments. The School also received \$34,284 from the State of Michigan for retirement cost relief, of which \$16,654 will be flowed directly to the Office of Retirement Services to keep employer retirement rates lower for this and the next fiscal years.

Capital Assets

At June 30, 2013 the School had \$4,840,072 invested in capital assets. The following table is a summary of the capital asset activity for the year.

	<u>2013</u>	<u>2012</u>
Capital assets not being depreciated		
Land	\$ 92,228	\$ 92,228
Capital assets being depreciated		
Building and improvements	5,482,159	5,457,558
Furniture and fixtures	70,633	70,633
Vehicles	17,522	17,522
Equipment	<u>141,709</u>	<u>94,138</u>
Total Capital	5,712,023	5,639,851
Less accumulated depreciation	(964,179)	(813,235)
Total capitals assets, net	<u>\$4,840,072</u>	<u>\$4,918,844</u>

Long-term Debt

	<u>2013</u>	<u>2012</u>
General obligation bonds	\$3,480,000	\$3,590,000
Discount on bonds payable	<u>(34,350)</u>	<u>(36,158)</u>
Total long-term debt	<u>\$3,445,650</u>	<u>\$3,553,842</u>

Economic Factors

At the end of the fiscal year, the School welcomed a new Superintendent to lead the School in the coming year. While State revenues are expected to remain relatively steady, expenses will continue to rise at the cost of living. The School is expecting to experience a reduction in taxable values resulting in less tax levy income for the next fiscal year. In an effort to develop and maintain high quality education, the School is planning on committing fund balance to invest in education program development. The School has also recently completed a multi-year application process to received Federal Title I and Title II funds to supplement educational needs of at-risk students in core areas such as reading, math, science and social studies. Upon the pending approval, the School will increase Federal revenues by nearly \$70,000 in year one (estimated \$34,000 per year after this initial implementation year) to offset the start up costs of the program.

Financial Contract

The School's financial statements are designed to present users with a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the business office of Beaver Island Community Schools.



415 Munson Avenue, P.O. Box 947
Traverse City, Michigan 49685-1947
231.946.1722 ph, 231.946.2762 fax
www.dgncpa.com

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education
Beaver Island Community School

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Beaver Island Community School* (the "School District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Beaver Island Community School as of June 30, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *v*, and budgetary comparison information on page 23, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2013, on our consideration of the School 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 School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

August 14, 2013

Beaver Island Community School

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 990,106
Due from other governments	48,393
Prepaid expenses	<u>8,091</u>
Total current assets	1,046,590
Capital assets, net of accumulated depreciation	<u>4,840,072</u>
Total assets	<u><u>\$ 5,886,662</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 950
Accrued salaries and related expenses	196,474
Accrued interest	23,108
Unearned revenue	29,775
Current portion of long-term debt	<u>113,192</u>
Total current liabilities	363,499
Non-current portion of long-term debt	<u>3,332,458</u>
Total liabilities	<u>3,695,957</u>
NET POSITION	
Invested in capital assets, net of related debt	1,394,422
Restricted for	
Debt service	77,212
Capital projects	10,391
Food service	972
Unrestricted	<u>707,708</u>
Total net position	<u>2,190,705</u>
Total liabilities and net position	<u><u>\$ 5,886,662</u></u>

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

Beaver Island Community School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
Instruction	\$ 1,235,253	\$ -	\$ 204,398	\$ (1,030,855)
Supporting services	817,133	-	223,936	(593,197)
Community services	2,109	-	-	(2,109)
Food service	23,941	2,469	11,008	(10,464)
Other	324	-	-	(324)
Interest on long-term debt	142,083	-	-	(142,083)
Total governmental activities	\$ 2,220,843	\$ 2,469	\$ 439,342	(1,779,032)
General purpose revenues				
Property taxes				
Levied for general purposes				1,481,882
Levied for debt service				242,349
Levied for capital expenditures				95
State school aid - unrestricted				114,000
Unrestricted investment earnings				2,164
Other				19,839
Total general purpose revenues				1,860,329
Change in net position				81,297
Net position, beginning of year				2,109,408
Net position, end of year				\$ 2,190,705

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

Beaver Island Community School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

	General Fund	2007 General Obligation Bond Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 878,401	\$ 100,320	\$ 11,385	\$ 990,106
Due from other governments	47,695	-	698	48,393
Prepaid expenditures	8,091	-	-	8,091
Total assets	<u>\$ 934,187</u>	<u>\$ 100,320</u>	<u>\$ 12,083</u>	<u>\$ 1,046,590</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 838	\$ -	\$ 112	\$ 950
Accrued salaries and related expenditures	195,866	-	608	196,474
Unearned revenues	29,775	-	-	29,775
Total liabilities	226,479	-	720	227,199
FUND BALANCES				
Nonspendable for prepaid expenditures	8,091	-	-	8,091
Restricted for debt service	-	100,320	-	100,320
Restricted for capital projects	-	-	10,391	10,391
Restricted for food service	-	-	972	972
Committed for building and land improvements	87,000	-	-	87,000
Committed for potential employee leave	25,000	-	-	25,000
Assigned for subsequent year's expenditures	98,409	-	-	98,409
Unassigned	489,208	-	-	489,208
Total fund balances	707,708	100,320	11,363	819,391
Total liabilities and fund balances	<u>\$ 934,187</u>	<u>\$ 100,320</u>	<u>\$ 12,083</u>	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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, therefore, are not reported as assets in governmental funds. The cost of the assets is \$5,804,251 and the accumulated depreciation is \$964,179.	4,840,072
Interest is accrued on outstanding bonds in governmental activities, whereas in governmental funds, an interest expenditure is reported when due.	(23,108)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
	Bonds payable (3,480,000)
	Discount on bonds payable <u>34,350</u>
Total net position - governmental activities	<u>\$ 2,190,705</u>

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

Beaver Island Community School

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	General Fund	2007 General Obligation Bond Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local sources				
Property taxes	\$ 1,481,882	\$ 242,349	\$ 95	\$ 1,724,326
Charges for services	-	-	2,484	2,484
Interest	1,820	322	22	2,164
Other local revenue	243,760	-	-	243,760
State sources	192,286	-	1,599	193,885
Federal sources	126,112	-	9,409	135,521
	<u>2,045,860</u>	<u>242,671</u>	<u>13,609</u>	<u>2,302,140</u>
Expenditures				
Instruction	1,082,501	-	-	1,082,501
Supporting services	799,421	-	-	799,421
Community services	2,109	-	-	2,109
Food service	-	-	23,941	23,941
Debt service				
Principal	-	110,000	-	110,000
Interest	-	142,770	-	142,770
Other	-	324	-	324
Capital outlays	83,884	-	6,000	89,884
	<u>1,967,915</u>	<u>253,094</u>	<u>29,941</u>	<u>2,250,950</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>77,945</u>	<u>(10,423)</u>	<u>(16,332)</u>	<u>51,190</u>
Other financing sources (uses)				
Operating transfers in	-	-	8,962	8,962
Operating transfers out	(8,962)	-	-	(8,962)
	<u>(8,962)</u>	<u>-</u>	<u>8,962</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>68,983</u>	<u>(10,423)</u>	<u>(7,370)</u>	<u>51,190</u>
Fund balance, beginning of year	638,725	110,743	18,733	768,201
Fund balance, end of year	<u>\$ 707,708</u>	<u>\$ 100,320</u>	<u>\$ 11,363</u>	<u>\$ 819,391</u>

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

Beaver Island Community School

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Total Net Change in Fund Balance - Governmental Funds	\$	51,190
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:		
Capital outlays	\$ 72,172	
Depreciation expense	<u>(150,944)</u>	(78,772)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position:		
Bonds	\$ 110,000	
Amortization of bond discount	<u>(1,808)</u>	108,192
Accrued interest expense on long-term debt is reported in the district-wide statement of activities, but does not require the use of current financial resources. Therefore, accrued interest expense is not reported as an expenditure in government funds.		<u>687</u>
Changes in Net Position of Governmental Activities	\$	<u><u>81,297</u></u>

Beaver Island Community School

STATEMENT OF FIDUCIARY NET POSITION AGENCY FUNDS

June 30, 2013

	<u>Student Activity Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 20,423</u>
LIABILITIES	
Due to student groups	<u>\$ 20,423</u>

Beaver Island Community School

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Beaver Island Community School (the "School District") operates under a Board-Superintendent form of government and provides education services to Beaver Island residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

The accounting and reporting framework and the more significant accounting principles and practices of Beaver Island Community School are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2013.

The Financial Reporting Entity

Beaver Island Community School's Board of Education (the "Board") is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal government sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity," as defined in Governmental Accounting Standards Board ("GASB") Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the District-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

The *General Fund* is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The 2007 *General Obligation Bond Fund* accounts for principal and interest payments on the bonds used to finance various construction projects in the School District.

Other Governmental Funds

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted or Board committed to expenditures for special purposes. The Food Service Fund is accounted for as Special Revenue Funds.

The *Sinking Fund* was approved by the voters for a period of five years, fiscal 2003 through 2007 to levy an amount not to exceed 1 mill on all property for constructing, remodeling and repairing school buildings, and developing and improving sites.

NOTES TO FINANCIAL STATEMENTS - Continued

Fiduciary Funds

The *Agency Fund* accounts for assets held by the School District as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Student Activity Fund is an Agency Fund.

Cash and Cash Equivalents

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Capital Assets

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 5 to 50 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20-50 years
Furniture and other equipment	5-15 years
Vehicles	7 years

Long-Term Debt and Bond Discounts/Premiums

In the district-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums are capitalized and amortized over the terms of the respective bonds using the straight-line method, which approximates the effective interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balances is a limitation imposed by the Superintendent as a designee of the School Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

It is the School District's policy to maintain a minimum fund balance of at least 15% of the General Fund's annual operating expenditures.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Isolated District, 21st Century, Special Education and Vocational Education Grants, and School Lunch Programs, which are reported as operating grants and contributions.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE B - BUDGETARY POLICY AND PRACTICE

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which she submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. She does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

NOTE C - CASH AND EQUIVALENTS

At June 30, 2013, the School District's cash and equivalents include the following:

	Cash and <u>Equivalents</u>
Bank deposits	<u>\$ 1,010,529</u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2013, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$1,010,529 and the bank balance was \$1,047,240. As of June 30, 2013, \$688,560 of the bank balance was exposed to custodial risk because it was uninsured and uncollateralized.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the counties and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as unearned revenue. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$15.791 per \$1,000 of equalized non-principal residence property value in the School District of \$93 million and \$3.791 per \$1,000 of commercial personal property value in the School District of \$625 thousand was levied for general operating purposes. For debt service purposes, \$2 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value in the School District of \$119.9 million was levied.

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2013 are as follows:

Due from State of Michigan	
State Aid	\$ 47,378
Other	<u>1,015</u>
	<u>\$ 48,393</u>

Unearned revenue for the year ended June 30, 2013 is comprised of the following:

Vocational Education	<u>\$ 29,775</u>
----------------------	------------------

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	June 30, 2012	Additions	Retirements	June 30, 2013
Capital assets not being depreciated				
Land	\$ 92,228	\$ -	\$ -	\$ 92,228
Capital assets being depreciated				
Buildings and improvements	5,457,558	24,601	-	5,482,159
Furniture and fixtures	70,633	-	-	70,633
Vehicles	17,522	-	-	17,522
Equipment	94,138	47,571	-	141,709
Total capital assets being depreciated	5,639,851	72,172	-	5,712,023
Less accumulated depreciation	(813,235)	(150,944)	-	(964,179)
Total capital assets, net	<u>\$ 4,918,844</u>	<u>\$ (78,772)</u>	<u>\$ -</u>	<u>\$ 4,840,072</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Instruction	<u>\$ 150,944</u>
-------------	-------------------

NOTE F - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Transfers and Payments

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The district-wide statement of activities eliminates transfers as reported within the governmental activities column.

The following schedule reports transfers and payments within the reporting entity:

Fund	Transfers In	Transfers Out
Major Governmental Funds		
General Fund	\$ -	\$ 8,962
Other Governmental Funds		
Food Service Fund	8,962	-
	<u>\$ 8,962</u>	<u>\$ 8,962</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - SHORT-TERM DEBT - TAX ANTICIPATION NOTE

The School issued a Tax Anticipation note in advance of property tax receipts, depositing the proceeds in the General Fund. This note was necessary because property tax payments were not received before December of the school year.

Short-term debt activity for the year ended June 30, 2013, excluding interest expense of \$362 was as follows:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax anticipation note	\$ <u> -</u>	\$ <u> 100,000</u>	\$ <u> 100,000</u>	\$ <u> -</u>

NOTE H - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2013 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments/ Accretion</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 3,590,000	\$ -	\$ 110,000	\$ 3,480,000	\$ 115,000
Discount on bonds payable	<u>(36,158)</u>	<u>-</u>	<u>(1,808)</u>	<u>(34,350)</u>	<u>(1,808)</u>
Total long-term liabilities	<u>\$ 3,553,842</u>	<u>\$ -</u>	<u>\$ 108,192</u>	<u>\$ 3,445,650</u>	<u>\$ 113,192</u>

At June 30, 2013, the School District's long-term debt consisted of the following:

2007 School Building and Site Bonds due in annual installments through May 1, 2032; interest at 3.75% - 4.15% due semi-annually.	\$ 3,480,000
Unamortized bond discount	<u>(34,350)</u>
Total long-term debt	<u>\$ 3,445,650</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds outstanding as of June 30, 2013 are as follows:

Years Ending June 30,	Principal	Interest	Total
2014	\$ 115,000	\$ 138,646	\$ 253,646
2015	120,000	134,332	254,332
2016	125,000	129,832	254,832
2017	135,000	125,146	260,146
2018	140,000	120,082	260,082
2019-2023	805,000	515,340	1,320,340
2024-2028	1,025,000	339,596	1,364,596
2029-2032	<u>1,015,000</u>	<u>108,106</u>	<u>1,123,106</u>
	<u>\$ 3,480,000</u>	<u>\$ 1,611,080</u>	<u>\$ 5,091,080</u>

Interest expense for the year ended June 30, 2013 was \$142,083 and interest paid for the year ended June 30, 2013 was \$142,770.

NOTE I - RISK MANAGEMENT

The School District carries commercial insurance for risks of loss, including property and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, disability insurance and errors and omissions coverages. SET-SEG is a public entity risk pool currently operating as a common risk management and workers' compensation insurance program for various school districts throughout the State. The School District pays an annual premium for its workers' compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the School District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE J - PENSION PLAN

The School District contributes to the Michigan Public School Employees Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). Effective December 1, 2012, members could elect to no longer contribute to the pension fund, and begin contributing to a defined contribution plan. MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants received enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at www.Michigan.gov.

Funding Policy

Defined Benefit Plan

Plan members who participate in MIP are required to contribute 3% to 7% of their annual covered salary; plan members who participate in the Basic Plan contribute 3%; and Beaver Island Community School is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rates were 24.46% and 23.23%, dependent on entrance date, for the period of July 1, 2012 to September 30, 2012. From October 1, 2012 through January 31, 2013, the rates were 27.37% and 26.14%, dependent on entrance date. Beginning February 1, 2013, the rates ranged between 20.96% and 24.32% based on individual retirement elections made by each employee. The contribution requirements of plan members and Beaver Island Community School are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2013, 2012 and 2011 were \$224,796, \$206,702 and \$163,235, respectively, which is equal to the required contribution for the year.

Defined Contribution Plan

Plan members who participate in the plan may contribute up to the maximum amounts permitted by the Internal Revenue Service to their 457 account. Beaver Island Community School is required to contribute 4% to a tax-deferred 401(k) account. The School District's contribution to the defined contribution plan was \$3,236 for the year ended June 30, 2013.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Required contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.

NOTE K - COMMITMENTS AND CONTINGENCIES

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

REQUIRED SUPPLEMENTARY INFORMATION

Beaver Island Community School

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
Revenues					
Local sources					
Property taxes	\$ 1,718,960	\$ 1,724,926	\$ 1,727,462	\$ 5,966	\$ 2,536
State sources	161,203	192,281	192,286	31,078	5
Federal sources	127,630	127,538	126,112	(92)	(1,426)
Total revenues	2,007,793	2,044,745	2,045,860	36,952	1,115
Expenditures					
Education					
Instruction	1,117,877	1,126,340	1,095,046	(8,463)	31,294
Supporting services	858,816	867,875	852,159	(9,059)	15,716
Community services	4,656	2,836	2,109	1,820	727
Capital outlays	22,800	18,602	18,601	4,198	1
Total expenditures	2,004,149	2,015,653	1,967,915	(11,504)	47,738
REVENUES OVER EXPENDITURES	3,644	29,092	77,945	25,448	48,853
Other financing uses					
Operating transfers out	(10,000)	(10,000)	(8,962)	-	1,038
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(6,356)	19,092	68,983	25,448	49,891
Fund balance, beginning of year	638,725	638,725	638,725	-	-
Fund balance, end of year	\$ 632,369	\$ 657,817	\$ 707,708	\$ 25,448	\$ 49,891

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Beaver Island Community School

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2013

	<u>Food Service Fund</u>	<u>Sinking Fund</u>	<u>Total Non-Major Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 994	\$ 10,391	\$ 11,385
Due from other governments	<u>698</u>	<u>-</u>	<u>698</u>
 Total assets	 <u><u>\$ 1,692</u></u>	 <u><u>\$ 10,391</u></u>	 <u><u>\$ 12,083</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 112	\$ -	\$ 112
Salaries payable and related expenses	<u>608</u>	<u>-</u>	<u>608</u>
 Total liabilities	 <u>720</u>	 <u>-</u>	 <u>720</u>
FUND BALANCES			
Restricted for capital projects	-	10,391	10,391
Restricted for food service	<u>972</u>	<u>-</u>	<u>972</u>
 Total fund balances	 <u>972</u>	 <u>10,391</u>	 <u>11,363</u>
 Total liabilities and fund balances	 <u><u>\$ 1,692</u></u>	 <u><u>\$ 10,391</u></u>	 <u><u>\$ 12,083</u></u>

Beaver Island Community School

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2013

	<u>Food Service Fund</u>	<u>Sinking Fund</u>	<u>Total Non-Major Governmental Funds</u>
Revenues			
Local Sources			
Property taxes	\$ -	\$ 95	\$ 95
Charges for services	2,484	-	2,484
Interest	1	21	22
State sources	1,599	-	1,599
Federal sources	<u>9,409</u>	<u>-</u>	<u>9,409</u>
Total revenues	<u>13,493</u>	<u>116</u>	<u>13,609</u>
Expenditures			
Food service	23,941	-	23,941
Capital outlays	<u>-</u>	<u>6,000</u>	<u>6,000</u>
Total expenditures	<u>23,941</u>	<u>6,000</u>	<u>29,941</u>
REVENUES OVER (UNDER) EXPENDITURES	(10,448)	(5,884)	(16,332)
Other financing sources			
Operating transfers in	<u>8,962</u>	<u>-</u>	<u>8,962</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	(1,486)	(5,884)	(7,370)
Fund balance, beginning of year	<u>2,458</u>	<u>16,275</u>	<u>18,733</u>
Fund balance, end of year	<u><u>\$ 972</u></u>	<u><u>\$ 10,391</u></u>	<u><u>\$ 11,363</u></u>



415 Munson Avenue, P.O. Box 947
Traverse City, Michigan 49685-1947
231.946.1722 ph, 231.946.2762 fax
www.dgncpa.com

Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA

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

Board of Education
Beaver Island Community School

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 ***Beaver Island Community School*** (the "School District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated August 14, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

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 School District's financial statements will not be prevented, or detected and corrected on a timely basis. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School 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*.

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 School 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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis, Gartland & Niergarth

August 14, 2013