

Beaver Island Community School

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2014



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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 2007 General Obligation Bond 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 \$2.2 million (net position).

The School's total net position has increased by \$.019 million this fiscal year.

At the end of the current fiscal year, the aggregated fund balance for the School's governmental funds was \$876,714.

Government-Wide Financial Analysis

Following is a summary of the School's net assets as of June 30, 2014 and 2013:

	<u>Governmental Activities</u> (in millions)	
	<u>2014</u>	<u>2013</u>
Assets		
Current assets	\$ 1.15	\$ 1.05
Noncurrent assets	<u>4.69</u>	<u>4.84</u>
Total assets	<u>5.84</u>	<u>5.89</u>
Liabilities		
Current liabilities	.42	.36
Noncurrent liabilities	<u>3.21</u>	<u>3.33</u>
Total liabilities	<u>3.63</u>	<u>3.69</u>
Net position		
Invested in capital assets, net of related debt	1.36	1.39
Restricted	.07	.09
Unrestricted	<u>.78</u>	<u>.71</u>
Total net position	<u>\$ 2.21</u>	<u>\$ 2.19</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 2014 and 2013.

Governmental Activities

(in millions)

	<u>2014</u>	<u>2013</u>
Revenue		
Program revenue		
Charges for services	\$.002	\$.002
Operating grants and contributions	.428	.439
General revenue		
Property taxes	1.713	1.724
State School Aid	.160	.114
Other	<u>.020</u>	<u>.022</u>
Total revenue	<u>2.323</u>	<u>2.301</u>
Functions /Program Expenses		
Instruction	1.272	1.235
Supporting services	.866	.817
Community services	.001	.002
Food service	.026	.024
Other	.001	-
Interest on long-term debt	<u>.138</u>	<u>.142</u>
Total expenses	<u>2.304</u>	<u>2.220</u>
Increase in net position	<u>\$.019</u>	<u>\$.081</u>

As recorded above, the School recorded \$2.304 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 \$.019 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, 2014 General Fund balance increased by \$76,320 during the fiscal year. The fund balance of \$784,028 is approximately 39% 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. Throughout the current year, the School received additional unplanned State funds including \$41,560 Isolated District; \$4,935 Hold Harmless Guarantee; \$12,591 Sec147a MPSERS Cost Offset; and \$680 in Technology Infrastructure grants.

The School was approved for the federally funded Title I grant for the first time for a total of \$43,843.

Local funds for delinquent taxes came in at \$26,350 more than planned. Beaver Island Community Schools is an Out-of-Formula district and as such delinquent tax revenue and tax abatement expenditures directly impact the bottom line of the School.

Capital Assets

At June 30, 2014 the School had \$1,354,993 invested in capital assets. The following is a summary of the capital assets and debt activity for the years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
<u>Capital Assets</u>		
Capital assets not being depreciated		
Land	\$ 92,228	\$ 92,228
Capital assets being depreciated		
Building and improvements	5,482,159	5,482,159
Furniture and fixtures	70,633	70,633
Vehicles	17,522	17,522
Equipment	<u>141,709</u>	<u>141,709</u>
Total Capital	5,712,023	5,712,023
Less accumulated depreciation	<u>(1,116,801)</u>	<u>(964,179)</u>
Total capitals assets, net	<u>\$ 4,687,450</u>	<u>\$4,840,072</u>

	<u>2014</u>	<u>2013</u>
<u>Debt Activity</u>		
General obligation bonds	\$ 3,365,000	\$3,480,000
Discount on bonds payable	<u>(32,542)</u>	<u>(34,350)</u>
Total long-term debt	<u>\$ 3,332,458</u>	<u>\$3,445,650</u>

Economic Factors

For the upcoming school year, 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 next fiscal year. While the School's after-school program will no longer be funded by the federal 21st CCLC grant, a commitment to core tutoring and homework help will continue with a combination of general operating and Title I funds. The School is also planning on using deferred technology millage funds to expand iPad use in the coming school-year.

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.



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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, 2014, 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, 2014, 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 18, 2014, 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 18, 2014

Beaver Island Community School

STATEMENT OF NET POSITION

June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash	\$ 959,515
Accounts receivable	478
Due from other governments	186,403
Prepaid expenses	<u>9,238</u>
Total current assets	1,155,634
Capital assets, net of accumulated depreciation	<u>4,687,450</u>
Total assets	<u><u>\$ 5,843,084</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accounts payable	\$ 5,310
Accrued salaries and related expenses	178,471
Accrued interest	22,389
Unearned revenue	95,139
Current portion of long-term debt	<u>118,192</u>
Total current liabilities	419,501
Non-current portion of long-term debt	<u>3,214,266</u>
Total liabilities	<u>3,633,767</u>
NET POSITION	
Invested in capital assets, net of related debt	1,354,993
Restricted for	
Debt service	58,858
Capital projects	10,401
Food service	1,038
Unrestricted	<u>784,027</u>
Total net position	<u>2,209,317</u>
Total liabilities and net position	<u><u>\$ 5,843,084</u></u>

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

Beaver Island Community School

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

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	\$ 1,272,003	\$ -	\$ 255,871	\$ (1,016,132)
Supporting services	866,369	-	160,548	(705,821)
Community services	1,259	-	-	(1,259)
Food service	25,714	2,266	11,379	(12,069)
Other	1,279	-	-	(1,279)
Interest on long-term debt	<u>137,926</u>	<u>-</u>	<u>-</u>	<u>(137,926)</u>
Total governmental activities	<u>\$ 2,304,550</u>	<u>\$ 2,266</u>	<u>\$ 427,798</u>	<u>(1,874,486)</u>
General purpose revenues				
Property taxes				
Levied for general purposes				1,477,067
Levied for debt service				235,673
State school aid - unrestricted				160,395
Unrestricted investment earnings				1,490
Other				<u>18,473</u>
Total general purpose revenues				<u>1,893,098</u>
Change in net position				18,612
Net position, beginning of year				<u>2,190,705</u>
Net position, end of year				<u>\$ 2,209,317</u>

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

Beaver Island Community School

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	2007 General Obligation Bond Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 867,110	\$ 81,247	\$ 11,158	\$ 959,515
Accounts receivable	478	-	-	478
Due from other governments	186,101	-	302	186,403
Prepaid expenditures	9,238	-	-	9,238
 Total assets	 \$ 1,062,927	 \$ 81,247	 \$ 11,460	 \$ 1,155,634
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 5,289	\$ -	\$ 21	\$ 5,310
Accrued salaries and related expenditures	178,471	-	-	178,471
Unearned revenues	95,139	-	-	95,139
 Total liabilities	 278,899	 -	 21	 278,920
FUND BALANCES				
Nonspendable for prepaid expenditures	9,238	-	-	9,238
Restricted for debt service	-	81,247	-	81,247
Restricted for capital projects	-	-	10,401	10,401
Restricted for food service	-	-	1,038	1,038
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	77,429	-	-	77,429
Unassigned	585,361	-	-	585,361
 Total fund balances	 784,028	 81,247	 11,439	 876,714
 Total liabilities and fund balances	 \$ 1,062,927	 \$ 81,247	 \$ 11,460	

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 \$1,116,801.	4,687,450
Interest is accrued on outstanding bonds in governmental activities, whereas in governmental funds, an interest expenditure is reported when due.	(22,389)
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	(3,365,000)
Discount on bonds payable	32,542
Total net position - governmental activities	\$ 2,209,317

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, 2014

	General Fund	2007 General Obligation Bond Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues				
Local sources				
Property taxes	\$ 1,477,067	\$ 235,673	\$ -	\$ 1,712,740
Charges for services	-	-	2,266	2,266
Interest	1,302	178	10	1,490
Other local revenue	179,021	-	-	179,021
State sources	251,279	-	2,361	253,640
Federal sources	164,987	-	9,018	174,005
	<u>2,073,656</u>	<u>235,851</u>	<u>13,655</u>	<u>2,323,162</u>
Expenditures				
Instruction	1,117,573	-	-	1,117,573
Supporting services	854,251	-	-	854,251
Community services	1,259	-	-	1,259
Food service	-	-	25,714	25,714
Debt service				
Principal	-	115,000	-	115,000
Interest	-	138,645	-	138,645
Other	-	1,279	-	1,279
Capital outlays	12,118	-	-	12,118
	<u>1,985,201</u>	<u>254,924</u>	<u>25,714</u>	<u>2,265,839</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>88,455</u>	<u>(19,073)</u>	<u>(12,059)</u>	<u>57,323</u>
Other financing sources (uses)				
Operating transfers in	-	-	12,135	12,135
Operating transfers out	(12,135)	-	-	(12,135)
	<u>(12,135)</u>	<u>-</u>	<u>12,135</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>76,320</u>	<u>(19,073)</u>	<u>76</u>	<u>57,323</u>
Fund balance, beginning of year	707,708	100,320	11,363	819,391
Fund balance, end of year	<u>\$ 784,028</u>	<u>\$ 81,247</u>	<u>\$ 11,439</u>	<u>\$ 876,714</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, 2014

Total Net Change in Fund Balance - Governmental Funds		\$	57,323
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:			
	Depreciation expense	\$ (152,622)	(152,622)
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	\$ 115,000	
	Amortization of bond discount	<u>(1,808)</u>	113,192
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>719</u>
Changes in Net Position of Governmental Activities		<u>\$</u>	<u>18,612</u>

Beaver Island Community School

STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS

June 30, 2014

	<u>Student Activity Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$ 25,989</u>
LIABILITIES	
Due to student groups	<u>\$ 25,989</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, 2014.

The Financial Reporting Entity

Beaver Island Community School is a special purpose government and considered to be a primary government because it has separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Beaver Island Community School includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature and significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, management has not identified any component units. 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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. The fund balance in the Sinking Fund is restricted for capital projects.

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, 2014, the School District's cash and equivalents include the following:

	Cash and <u>Equivalents</u>
Bank deposits	<u>\$ 985,504</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, 2014, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$985,504 and the bank balance was \$999,136. As of June 30, 2014, \$723,237 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 \$91 million and \$3.791 per \$1,000 of commercial personal property value in the School District of \$734 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 \$116.0 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 deferred inflows - revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue in the government-wide and the fund financial statements consist of categorical and other grant monies received but not yet earned at year-end. The amount due from Charlevoix-Emmet ISD relates to an overcharge for retirement benefits.

There were no deferred inflows. Amounts due from other governments at June 30, 2014 are as follows:

Due from State of Michigan	
State Aid	\$ 46,350
Other	
Charlevoix-Emmet ISD	131,262
Federal Programs	<u>8,791</u>
	<u>\$ 186,403</u>

Unearned revenue for the year ended June 30, 2014 is comprised of the following:

Vocational Education	<u>\$ 95,139</u>
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NOTES TO FINANCIAL STATEMENTS - Continued

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	June 30, 2013	Additions	Retirements	June 30, 2014
Capital assets not being depreciated				
Land	\$ 92,228	\$ -	\$ -	\$ 92,228
Capital assets being depreciated				
Buildings and improvements	5,482,159	-	-	5,482,159
Furniture and fixtures	70,633	-	-	70,633
Vehicles	17,522	-	-	17,522
Equipment	141,709	-	-	141,709
Total capital assets being depreciated	5,712,023	-	-	5,712,023
Less accumulated depreciation	(964,179)	(152,622)	-	(1,116,801)
Total capital assets, net	<u>\$ 4,840,072</u>	<u>\$ (152,622)</u>	<u>\$ -</u>	<u>\$ 4,687,450</u>

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

Instruction	<u>\$ 152,622</u>
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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	\$ -	\$ 12,135
Other Governmental Funds		
Food Service Fund	12,135	-
	<u>\$ 12,135</u>	<u>\$ 12,135</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE G - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2014 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	\$ 3,480,000	\$ -	\$ 115,000	\$ 3,365,000	\$ 120,000
Discount on bonds payable	<u>(34,350)</u>	<u>-</u>	<u>(1,808)</u>	<u>(32,542)</u>	<u>(1,808)</u>
Total long-term liabilities	<u>\$ 3,445,650</u>	<u>\$ -</u>	<u>\$ 113,192</u>	<u>\$ 3,332,458</u>	<u>\$ 118,192</u>

At June 30, 2014, 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.	\$ 3,365,000
Unamortized bond discount	<u>(32,542)</u>
Total long-term debt	<u>\$ 3,332,458</u>

Total annual requirements to amortize bonds outstanding as of June 30, 2014 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 120,000	\$ 134,332	\$ 254,332
2016	125,000	129,832	254,832
2017	135,000	125,145	260,145
2018	140,000	120,082	260,082
2019	145,000	114,832	259,832
2020-2024	845,000	484,070	1,329,070
2025-2029	1,075,000	298,156	1,373,156
2030-2032	<u>780,000</u>	<u>65,984</u>	<u>845,984</u>
	<u>\$ 3,365,000</u>	<u>\$ 1,472,433</u>	<u>\$ 4,837,433</u>

Interest expense for the year ended June 30, 2014 was \$137,926 and interest paid for the year ended June 30, 2014 was \$138,645.

NOTE H - 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.

NOTES TO FINANCIAL STATEMENTS - Continued

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 I - PENSION PLAN AND POSTEMPLOYMENT BENEFITS

The School District contributes to the Michigan Public School Employees Retirement Systems ("MPSERS"), statewide cost-sharing multiple-employer defined benefit and defined contribution pension plans administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Office of Retirement System, P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy

Defined Benefit Plan

Employer contributions to the system result from implementing the effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

Defined Contribution Plan

Employer contributions to the system are dependent on the plan elected by the participant.

Employee Contributions

Basic plan members are not required to make contributions. Member Investment Plan members contribute at rates ranging for 0 to 7% of gross wages.

NOTES TO FINANCIAL STATEMENTS - Continued

Pension Benefits

Employer contributions to the system for covered payroll of the plan were as follows:

Fiscal Year 2013-2014 Employer Contribution Rate
Active Members and Qualified Participants - Effective February 1, 2013

	<u>Basic/MIP with Premium Subsidy</u>	<u>Pension Plus with Premium Subsidy</u>	<u>Pension Plus with PHF</u>	<u>Pension Plus to DC with PHF</u>	<u>Basic/MIP to DC with Premium Subsidy</u>	<u>Basic/MIP to DC with PHF</u>	<u>Basic/MIP with PHF</u>
Defined Benefit Plan Contributions:							
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Defined Contribution Plan Contributions:							
Employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

Fiscal Year 2013-2014 Employer Contribution Rate
Active Members and Qualified Participants - Effective October 1, 2013

	<u>Basic/MIP with Premium Subsidy</u>	<u>Pension Plus with Premium Subsidy</u>	<u>Pension Plus with PHF</u>	<u>Pension Plus to DC with PHF</u>	<u>Basic/MIP to DC with Premium Subsidy</u>	<u>Basic/MIP to DC with PHF</u>	<u>Basic/MIP with PHF</u>
Defined Benefit Plan Contributions:							
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Defined Contribution Plan Contributions:							
Employer contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

NOTES TO FINANCIAL STATEMENTS - Continued

The School District's contributions to the MPSERS Defined Benefit Plan for the years ended June 30, 2014, 2013 and 2012 were \$279,994, \$224,796, and \$206,702, respectively, which is equal to the required contribution for the year.

The School District's contributions to the MPSERS Defined Contribution Plan was \$1,369 for the year ended June 30, 2014.

Post-Employment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

NOTE J - 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, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
	Revenues				
Local sources	\$ 1,685,955	\$ 1,661,590	\$ 1,657,390	\$ (24,365)	\$ (4,200)
State sources	198,141	251,305	251,279	53,164	(26)
Federal sources	126,370	171,904	164,987	45,534	(6,917)
Total revenues	2,010,466	2,084,799	2,073,656	74,333	(11,143)
Expenditures					
Education					
Instruction	1,189,286	1,148,342	1,117,573	40,944	30,769
Supporting services	904,936	890,381	866,369	14,555	24,012
Community services	4,653	1,632	1,259	3,021	373
Total expenditures	2,098,875	2,040,355	1,985,201	58,520	55,154
REVENUES OVER EXPENDITURES	(88,409)	44,444	88,455	132,853	44,011
Other financing uses					
Operating transfers out	(10,000)	(12,550)	(12,135)	(2,550)	415
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(98,409)	31,894	76,320	130,303	44,426
Fund balance, beginning of year	707,708	707,708	707,708	-	-
Fund balance, end of year	\$ 609,299	\$ 739,602	\$ 784,028	\$ 130,303	\$ 44,426

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

Beaver Island Community School

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2014

	Food Service Fund	Sinking Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 757	\$ 10,401	\$ 11,158
Due from other governments	302	-	302
 Total assets	 \$ 1,059	 \$ 10,401	 \$ 11,460
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 21	\$ -	\$ 21
 Total liabilities	 21	 -	 21
 FUND BALANCES			
Restricted for capital projects	-	10,401	10,401
Restricted for food service	1,038	-	1,038
 Total fund balances	 1,038	 10,401	 11,439
 Total liabilities and fund balances	 \$ 1,059	 \$ 10,401	 \$ 11,460

Beaver Island Community School

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

Year Ended June 30, 2014

	Food Service Fund	Sinking Fund	Total Non-Major Governmental Funds
Revenues			
Local Sources			
Charges for services	\$ 2,266	\$ -	\$ 2,266
Interest	-	10	10
State sources	2,361	-	2,361
Federal sources	9,018	-	9,018
Total revenues	13,645	10	13,655
Expenditures			
Food service	25,714	-	25,714
Total expenditures	25,714	-	25,714
REVENUES OVER (UNDER) EXPENDITURES	(12,069)	10	(12,059)
Other financing sources			
Operating transfers in	12,135	-	12,135
REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES	66	10	76
Fund balance, beginning of year	972	10,391	11,363
Fund balance, end of year	\$ 1,038	\$ 10,401	\$ 11,439



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**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, 2014, 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 18, 2014.

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 18, 2014