

KINGSLEY AREA SCHOOLS

KINGSLEY, MICHIGAN

JUNE 30, 2012

Baird, Cotter and Bishop, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2012

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August 24, 2012

INDEPENDENT AUDITORS' REPORT

Board of Education
Kingsley Area Schools
Kingsley, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kingsley Area Schools, Kingsley, Michigan, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kingsley Area Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Kingsley Area Schools, Kingsley, Michigan, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2012, on our consideration of Kingsley Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and Kingsley 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through x and 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Kingsley Area Schools, Kingsley, Michigan's financial statements as a whole. The combining nonmajor fund financial statements and other information are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The other information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

This section of Kingsley Area Schools' (the "District") annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2012. Please read it in conjunction with the District's financial statements, which immediately follow this section.

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The basic financial statements consist of the following three components: the government-wide financial statements, fund financial statements, and the notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

A. Government-Wide Financial Statements

The government-wide statements provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The district-wide financial statements are compiled using full accrual basis of accounting and more closely represent financial statements presented by business and industry. The Statement of Net Assets includes all of the District's assets and liabilities. All of the year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

Over time, increases and decreases in the District's net assets are indicators of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District requires consideration of additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are all shown in one category titled "Governmental Activities". These activities, including regular and special education, transportation, administration, food services, and athletic activities are primarily financed with state and federal aids and property taxes.

B. Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, rather than the District as a whole. Funds that do not meet the threshold to be classified as major funds are called "non-major" funds. Detailed financial information for non-major funds can be found in the combining and individual fund statements section.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District may establish other funds to control and manage money for particular purposes.

The District maintains the following kinds of funds:

Governmental Funds – The District's basic services are included in governmental funds, which generally focus on 1) how cash and other financial assets that can be readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is a trustee, or fiduciary, for assets that belong to other organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

C. Summary of Net Assets

The following schedule summarizes the net assets at June 30,

Assets	<u>2012</u>	<u>2011</u>
Current Assets	\$ 5,687,073	\$ 5,611,478
Non Current Assets		
Deferred Issuance Costs - Net	64,987	74,270
Deferred Loss on Refunding - Net	79,304	90,633
Capital Assets	17,054,931	16,662,705
Less Accumulated Depreciation	<u>(6,892,347)</u>	<u>(6,452,104)</u>
Total Non Current Assets	<u>10,306,875</u>	<u>10,375,504</u>
Total Assets	<u>15,993,948</u>	<u>15,986,982</u>

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

	<u>2012</u>	<u>2011</u>
Liabilities		
Current Liabilities	1,580,713	1,530,793
Non Current Liabilities	3,858,359	4,404,033
Total Liabilities	<u>5,439,072</u>	<u>5,934,826</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	6,222,285	5,738,279
Restricted for Specific Purposes	113,299	166,218
Unrestricted	4,219,292	4,147,659
Total Net Assets	<u>\$ 10,554,876</u>	<u>\$ 10,052,156</u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2012, the District's net assets increased by \$502,720. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2012, \$460,243 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the year ended June 30, 2012, \$412,226 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, disposal of capital assets and the current year's depreciation is a decrease in capital assets in the amount of \$48,017 for the year ended June 30, 2012.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

E. Results of Operations

For the years ended June 30, the results of operations, on a district-wide basis, were:

	<u>2012</u>	<u>2011</u>
General Revenues		
Property Taxes	\$ 1,605,889	\$ 1,650,055
Investment Earnings	8,236	22,407
State Sources	9,029,579	9,409,991
Other	23,116	67,017
Total General Revenues	<u>10,666,820</u>	<u>11,149,470</u>
Program Revenues		
Charges for Services	303,261	313,861
Operating Grants	1,901,665	2,139,093
Total Program Revenues	<u>2,204,926</u>	<u>2,452,954</u>
Total Revenues	<u>12,871,746</u>	<u>13,602,424</u>
Expenses		
Instruction	7,549,249	7,845,392
Supporting Services	3,878,695	4,258,237
Food Service Activities	680,321	742,108
Facilities Acquisition	36,892	37,656
Community Services	55,869	40,598
Other Transactions	16,257	2,911
Interest on Long Term Debt	151,743	176,622
Total Expenses	<u>12,369,026</u>	<u>13,103,524</u>
Change in Net Assets	<u>\$ 502,720</u>	<u>\$ 498,900</u>

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

F. Financial Analysis of the District's Funds

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Major Funds			
General Fund	\$ 4,205,246	\$ 3,958,122	247,124
Nonmajor Funds			
Food Service	4,595	54,732	(50,137)
2010 Debt Retirement Fund	140,747	152,645	(11,898)
Durant Debt Retirement Fund	0	0	0
Public Improvement Fund	<u>274,663</u>	<u>449,630</u>	<u>(174,967)</u>
Total Governmental Funds	<u>\$ 4,625,251</u>	<u>\$ 4,615,129</u>	<u>\$ 10,122</u>

G. Analysis of Significant Revenues and Expenses

Significant revenues and expenditures are discussed in the segments below:

1. Property Taxes

The District levies 18 mills of property taxes for operations on non-principal residence exemption properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the tax levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2011-2012 fiscal year, the District levied \$969,399 in non-principal residence exemption property taxes.

KINGSLEY AREA SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

The following table summarizes the non-principal residence exemption property tax levies for operations for the past five years:

Fiscal Year	Non-Homestead Tax Levy
2011-2012	\$ 969,399
2010-2011	1,003,175
2009-2010	995,692
2008-2009	968,834
2007-2008	987,535

2. State Sources

The majority of the state sources is comprised of the per student foundation allowance. The State of Michigan funds districts based on student enrollment. The enrollment consists of 90% of the current year's fall count and 10% of the prior year's spring count. For the 2011-2012 fiscal year, the District received \$6,846 per student FTE.

3. Student Enrollment

The following schedule summarizes the blended student enrollment for the past five years:

Fiscal Year	Blended Student FTE
2011-2012	1,475
2010-2011	1,512
2009-2010	1,522
2008-2009	1,534
2007-2008	1,522

4. Operating Grants

The District funds a significant portion of its operations with categorical sources. For the year ended June 30, 2012, federal, state, and other grants accounted for \$1,901,665. This represents a decrease of \$237,428 from the total grant sources received compared to the 2010-2011 fiscal year.

H. General Fund Budgetary Highlights

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2011-2012 fiscal year, the District amended the General Fund at various time throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a comparison of the original General Fund budget, the final amended General Fund budget, and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	\$ 11,129,319	\$ 11,546,364	\$ 11,604,399
 <u>EXPENDITURES</u>			
Instruction	\$ 7,805,991	\$ 7,723,047	\$ 7,556,958
Supporting Services	3,594,565	3,872,596	3,742,151
Community Services	29,431	53,819	55,869
Other Transactions	3,000	3,000	2,297
Total Expenditures	<u>\$ 11,432,987</u>	<u>\$ 11,652,462</u>	<u>\$ 11,357,275</u>

The original revenue budget of \$11,129,319 was increased to \$11,546,364 primarily as a result of increased revenue from Federal, State, and Local sources. The original expenditure budget of \$11,432,987 was increased to \$11,652,462 primarily as a result of increased expenditures related to Supporting Services and Community Services.

I. Capital Asset and Debt Administration

1. Capital Assets

By the end of the 2011-2012 fiscal year, the District had invested \$17,054,931 in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$392,226 from the prior fiscal year. Depreciation expense for the year amounted to \$460,243 bringing the accumulation to \$6,892,347 as of June 30, 2012.

2. Long-Term Debt

At June 30, 2012, the District had \$4,201,608 in debt outstanding. This represents a decrease of \$550,926 from the amount outstanding at the close of the prior fiscal year.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

J. Factors Bearing on the District's Future

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- The current retirement rate is 24.46%. Proposed legislation caps the retirement rate at 24.46 % for future years. State Aid dollars will be used to maintain this rate cap. Therefore, future increase in foundation allowance is questionable. Containment of costs within the retirement system continues to be a concern for all Michigan school districts.
- We are very concerned about the State School Aid Budget, as well as the current economic outlook of the State and national economy. The budget for the 2012-2013 school year projects an increase of funding \$120 per pupil based upon the current State budget.
- The exhaustion of federal Education Jobs funds will mean further reductions in funding for school budgets. The federal deficit and economic outlook could also hamper the impact for State and Title grant dollars in upcoming fiscal year.

K. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent, Kingsley Area Schools, 402 Fenton Street, Kingsley, Michigan 49649.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 850,674
Investments	2,897,798
Accounts Receivable	11,932
Taxes Receivable	13,152
Due from External Parties (Fiduciary Funds)	4,942
Due from Other Governments	1,871,720
Inventories	36,855
Total Current Assets	<u>5,687,073</u>
<u>NONCURRENT ASSETS</u>	
Deferred Issuance Costs - Net	64,987
Deferred Loss on Refunding - Net	79,304
Capital Assets	17,054,931
Less Accumulated Depreciation	<u>(6,892,347)</u>
Total Non Current Assets	<u>10,306,875</u>
TOTAL ASSETS	<u>15,993,948</u>
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	104,266
Accrued Interest Payable	24,204
Salaries Payable	925,431
Deferred Revenue	18,973
Current Portion of Noncurrent Liabilities	507,839
Total Current Liabilities	<u>1,580,713</u>
<u>NONCURRENT LIABILITIES</u>	
Bonds Payable - Net	4,092,429
Compensated Absences	273,769
Less Current Portion of Non Current Liabilities	<u>(507,839)</u>
Total Non Current Liabilities	<u>3,858,359</u>
TOTAL LIABILITIES	<u>5,439,072</u>
<u>NET ASSETS</u>	
Invested in Capital Assets Net of Related Debt	6,222,285
Restricted for Debt Service	108,704
Restricted for Food Service	4,595
Unrestricted	4,219,292
TOTAL NET ASSETS	<u>\$ 10,554,876</u>

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>GOVERNMENTAL</u>
		<u>CHARGES FOR</u>	<u>OPERATING</u>	<u>ACTIVITIES</u>
		<u>SERVICES</u>	<u>GRANTS</u>	<u>NET (EXPENSE)</u>
				<u>REVENUE AND</u>
				<u>CHANGES IN</u>
				<u>NET ASSETS</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 7,549,249	\$ 0	\$ 986,348	\$ (6,562,901)
Supporting Services	3,878,695	67,756	469,085	(3,341,854)
Food Service Activities	680,321	187,406	438,462	(54,453)
Facilities Acquisition	36,892	0	0	(36,892)
Community Services	55,869	48,099	7,770	0
Other Transactions	16,257	0	0	(16,257)
Interest on Long Term Debt	151,743	0	0	(151,743)
Total Governmental Activities	<u>\$ 12,369,026</u>	<u>\$ 303,261</u>	<u>\$ 1,901,665</u>	<u>(10,164,100)</u>
<u>GENERAL REVENUES</u>				
Property Taxes - General Purposes				961,738
Property Taxes - Debt Service				644,151
Investment Earnings				8,236
State Sources				9,029,579
Other				23,116
Total General Revenues				<u>10,666,820</u>
Change in Net Assets				502,720
<u>NET ASSETS</u> - Beginning of Year				<u>10,052,156</u>
<u>NET ASSETS</u> - End of Year				<u>\$ 10,554,876</u>

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2012

<u>ASSETS</u>	<u>GENERAL FUND</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Cash	\$ 439,575	\$ 411,099	\$ 850,674
Investments	2,897,798	0	2,897,798
Accounts Receivable	11,932	0	11,932
Taxes Receivable	9,486	3,666	13,152
Due from Other Funds	26,898	32,775	59,673
Due from Other Governments	1,869,283	2,437	1,871,720
Inventory	30,256	6,599	36,855
	<hr/>		
TOTAL ASSETS	\$ 5,285,228	\$ 456,576	\$ 5,741,804
	<hr/> <hr/>		
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 89,780	\$ 14,486	\$ 104,266
Salaries Payable	925,431	0	925,431
Due to Other Funds	41,706	13,025	54,731
Deferred Revenue	23,065	9,060	32,125
	<hr/>		
Total Liabilities	1,079,982	36,571	1,116,553
	<hr/>		
<u>FUND BALANCES</u>			
Nonspendable:			
Inventory	30,256	6,599	36,855
Restricted for:			
Debt Service	0	140,747	140,747
Committed for:			
Public Improvements	0	274,663	274,663
Assigned for:			
Budgeted Use of Fund Balance in 12/13	585,053	0	585,053
Unassigned	3,589,937	(2,004)	3,587,933
	<hr/>		
Total Fund Balances	4,205,246	420,005	4,625,251
	<hr/>		
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,285,228	\$ 456,576	\$ 5,741,804
	<hr/> <hr/>		

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS

JUNE 30, 2012

Total Governmental Fund Balances	\$	4,625,251
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	\$	17,054,931
Accumulated depreciation is	<u>(6,892,347)</u>	10,162,584
Property taxes receivable and other receivables in governmental activities are deferred unless they are collected within sixty days of year end.		13,152
Other long-term assets are not available for pay for current period expenditures and, therefore, are deferred in the funds. These assets consist of:		
Deferred Loss on Refunding		79,304
Bond Issuance Costs		64,987
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds Payable		(3,927,839)
Bond Discount (Premium)		(164,590)
Compensated Absences		(273,769)
Accrued interest is not included as a liability in government funds, it is recorded when paid		<u>(24,204)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>10,554,876</u></u>

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

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

YEAR ENDED JUNE 30, 2012

	<u>GENERAL</u> <u>FUND</u>	<u>OTHER</u> <u>NONMAJOR</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>	<u>TOTAL</u> <u>GOVERNMENTAL</u> <u>FUNDS</u>
<u>REVENUES</u>			
Local Sources	\$ 1,116,575	\$ 835,519	\$ 1,952,094
State Sources	9,871,006	42,515	9,913,521
Federal Sources	275,504	404,159	679,663
Other Transactions	341,314	0	341,314
Total Revenues	11,604,399	1,282,193	12,886,592
<u>EXPENDITURES</u>			
Instruction	7,556,958	0	7,556,958
Supporting Services	3,742,151	0	3,742,151
Food Service Activities	0	676,135	676,135
Facilities Acquisition	0	136,218	136,218
Debt Service			
Principal	0	536,604	536,604
Interest	0	156,278	156,278
Community Services	55,869	0	55,869
Other Transactions	2,297	13,960	16,257
Total Expenditures	11,357,275	1,519,195	12,876,470
Excess (Deficiency) of Revenues Over Expenditures	247,124	(237,002)	10,122
<u>FUND BALANCE</u> - Beginning of Year	3,958,122	657,007	4,615,129
<u>FUND BALANCE</u> - End of Year	\$ 4,205,246	\$ 420,005	\$ 4,625,251

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances Total Governmental Funds	\$ 10,122
Amounts reported for governmental activities are different because:	
In governmental funds property taxes receivable are deferred unless they are collected within sixty days of year end.	
Deferred Property Tax Revenue - Beginning of Year	(27,998)
Deferred Property Tax Revenue - End of Year	13,152
Governmental funds report capital outlays as expenditures. In the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(460,243)
Capital Outlay	412,226
Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued Interest Payable - Beginning of Year	25,838
Accrued Interest Payable - End of Year	(24,204)
The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Repayment of Principal	536,604
Amortization of Deferred Charges	2,901
Employees Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Compensated Absences - Beginning of Year	288,091
Compensated Absences - End of Year	<u>(273,769)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 502,720</u>

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2012

	<u>PRIVATE-PURPOSE</u> <u>TRUST FUND</u>	<u>AGENCY</u> <u>FUND</u>
<u>ASSETS</u>		
Cash	\$ 100,128	\$ 197,054
Accounts Receivable	0	140
Due from Other Fund	0	8,931
	<hr/>	
Total Assets	100,128	206,125
	<hr/>	
<u>LIABILITIES</u>		
Accounts Payable	0	1,609
Due to Groups and Organizations	0	196,073
Due to Other Funds	5,430	8,443
	<hr/>	
Total Liabilities	5,430	206,125
	<hr/>	
<u>NET ASSETS</u>		
Held in Trust for Scholarships	\$ 94,698	\$ 0
	<hr/> <hr/>	

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2012

	<u>PRIVATE PURPOSE TRUST FUND</u>
<u>ADDITIONS</u>	
Earnings on Investments	\$ 249
<u>DEDUCTIONS</u>	
Scholarships Awarded	<u>5,430</u>
Change in Net Assets	(5,181)
<u>NET ASSETS - Beginning of Year</u>	<u>99,879</u>
<u>NET ASSETS - End of Year</u>	<u>\$ 94,698</u>

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Kingsley Area Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The School District is located in Grand Traverse and Wexford Counties with its administrative offices located in Kingsley, Michigan. The District operates under an elected 7-member board of education and provides services to its 1,475 students in elementary, middle school, high school, special education, transportation, food service and athletics. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. The District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. The District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14.

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

The District does not allocate indirect costs.

The effect of interfund activity has been eliminated from the government-wide financial statements.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

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

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

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

Other Non-Major Funds

The *SPECIAL REVENUE FUND* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in a special revenue fund.

The *CAPITAL PROJECTS FUND* (public improvement fund) is used to account for financial resources to be used for major improvement projects and is primarily funded from transfers in from the General Fund.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

The *DEBT RETIREMENT FUNDS* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Fiduciary Funds

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *PRIVATE PURPOSE TRUST FUND* is used to account for resources legally held in trust to provide scholarships to post-secondary education students. Contributions are held as permanent endowments and the earnings from those endowments can be used to provide the scholarships.

The *AGENCY FUND* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

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

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2012, the foundation allowance was based on pupil membership counts taken in February and October of 2011. For fiscal year ended June 30, 2012, the per pupil foundation allowance was \$6,846 for Kingsley Area Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by Non-PRE property taxes (formerly known as Non-Homestead) which may be levied at a rate of up to 6 mills for commercial personal property and up to 18 mills for real property. The State revenue is recognized during the foundation period and is funded through payments from October 2011 to August 2012. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

D. Assets, Liabilities and Equity

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government, or obligations of the state.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (e) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

The Schools' deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and billed and due December 1. Unpaid taxes become delinquent as of February 14th and are subject to penalties and interest after that date. Uncollected taxes at year-end are not material.

For the year ended June 30, 2012, the District levied the following amounts per \$1,000 of taxable valuation:

Fund	Mills
General Fund – Non-Principal Residence Exemption (PRE)	18.0000
General Fund – Commercial Personal Property	6.0000
Debt Service Funds – PRE, Non-PRE, Commercial Personal Property	3.1500

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. Inventories in the general and special revenue funds consist of expendable supplies held for consumption, which are recorded as expenditures when consumed

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Land Improvements	10 – 20 Years
Buildings and Additions	25 - 50 Years
Machinery and Other Equipment	5 – 20 Years
Transportation Equipment	5 – 10 Years

The District’s capitalization policy is to capitalize individual items exceeding \$5,000.

6. Compensated Absences

It is the District’s policy to permit employees to accumulate earned but unused sick pay benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Deferred Revenue

The District reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurring of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method over the

KINGSLEY AREA SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

term of the related debt. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Fund Balance

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

Nonspendable – Includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – Includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – Includes amounts that can only be used for specific purposes determined by a formal action by Board Resolution. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action (Board Resolution) that was employed when the funds were initially committed.

Assigned – Includes amounts a government intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.

Unassigned – Includes amounts that are available for any purpose. Positive amounts are only reported in the General Fund.

As stated in Note 1B above, restricted resources are used first when an expense is incurred for which both restricted and unrestricted resources are available. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the School Board has provided otherwise in its commitment or assignment actions.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

10. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
6. Budgeted amounts are as originally adopted on June 22, 2011, or as amended by the School Board of Education at various times throughout the fiscal year.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Support Services		
General Administration	\$ 251,989	\$ 270,037
Community Services		
Custody and Care of Children	45,046	48,099
Food Service Fund	624,371	676,135

The overages were funded by available fund balance and greater than anticipated revenues.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits

The District's deposits and investments are all on deposit with Northwestern Bank and Michigan School District Liquid Asset Fund Plus.

Investment Rate Risk. The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

Foreign Currency Risk. The District is not authorized to invest in investments, which have this type of risk; therefore, it is not expressed in the investment policy.

Credit Risk. The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

Concentration of Credit Risk. The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Custodial Credit Risk – Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of June 30, 2012, \$767,545 of the government’s bank balance of \$1,312,582 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the District’s investment policy does specifically address custodial credit risk, the District tries to limit its exposure to this risk by controlling who holds the District’s deposits.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered, or securities held by the District or the District’s agent in the District’s name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty’s trust department or its agent in the District’s name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District’s name. At year-end all of the District’s investments were uncategorized as to risk.

At year-end, the only investments were investment trust funds.

Investments not subject to categorization:
Investment Trust Funds

\$ 2,897,798

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2012, the fair value of the District’s investments is the same as the value of the pool shares.

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash and Cash Equivalents	\$ 850,674	\$ 0	\$ 297,182	\$ 1,147,856
Investments	0	2,897,798	0	2,897,798
	\$ 850,674	\$ 2,897,798	\$ 297,182	\$ 4,045,654

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

B. Receivables

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

	<u>GENERAL</u> <u>FUND</u>	<u>NONMAJOR</u> <u>AND OTHER</u> <u>FUNDS</u>	<u>TOTAL</u>
Receivable			
Accounts	\$ 11,932	\$ 0	\$ 11,932
Taxes	9,486	3,666	13,152
Due from Other Governments	1,869,283	2,437	1,871,720
	\$ 1,890,701	\$ 6,103	\$ 1,896,804

Amounts due from other governments include amounts due from federal, state, and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable	\$ 13,152	\$ 0
Revenues Received, but Not Earned	0	13,579
Food Service Fund Student Balances	0	5,394
Total	\$ 13,152	\$ 18,973

C. Lease Information

Operating Leases – The School District is committed under a noncancelable lease for electrical equipment. This lease is an operating lease with no contingent lease payments. Lease expense for the current year was \$66,677. The future minimum lease payments for these leases are as follows:

<u>YEAR ENDED JUNE 30,</u>	<u>AMOUNT</u>
2013	\$ 67,995
2014	67,043
2015	63,839
2016	47,684
	\$ 246,561

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

D. Capital Assets

A summary of changes in the District's capital assets follows:

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Capital assets not being depreciated				
Land	\$ 413,971	\$ 0	\$ 0	\$ 413,971
Capital assets being depreciated				
Buildings	13,399,195	78,725	0	13,477,920
Land improvements	676,455	14,210	0	690,665
Machinery and equipment	699,360	129,117	0	828,477
Transportation equipment	1,445,724	190,174	0	1,635,898
Other Assets	28,000	0	(20,000)	8,000
Subtotal	<u>16,248,734</u>	<u>412,226</u>	<u>(20,000)</u>	<u>16,640,960</u>
Less accumulated depreciation for:				
Buildings	4,499,667	314,470	0	4,814,137
Land improvements	330,930	36,185	0	367,115
Machinery and equipment	567,333	24,471	0	591,804
Transportation equipment	1,026,174	85,117	0	1,111,291
Other Assets	28,000	0	(20,000)	8,000
Accumulated depreciation	<u>6,452,104</u>	<u>460,243</u>	<u>(20,000)</u>	<u>6,892,347</u>
Net capital assets being depreciated	<u>9,796,630</u>	<u>(48,017)</u>	<u>0</u>	<u>9,748,613</u>
Net capital assets	<u>\$ 10,210,601</u>	<u>\$ (48,017)</u>	<u>\$ 0</u>	<u>\$ 10,162,584</u>

Construction Commitment: The District accepted a bid for \$57,100 for roof repair at the high school. In July 2012, the District paid \$28,550 as a down payment on the roof repair project. The project will be completed in the fall of 2012.

Depreciation for the fiscal year ended June 30, 2012, totaled \$460,243 was charged to the following functions:

Instruction	\$ 10,260
Support Services	448,142
Food Service Activities	<u>1,841</u>
	<u>\$ 460,243</u>

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

E. Interfund Receivables, Payables, and Transfers

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2012, were:

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 26,898	\$ 41,706
Food Service Fund	14,000	0
Capital Improvement Fund	18,775	0
2010 Debt Retirement Fund	0	13,025
Private Purpose Trust Fund	0	5,430
Agency Fund	8,931	8,443
	<u>\$ 68,604</u>	<u>\$ 68,604</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at June 30, 2012, are expected to be repaid within one year.

F. Long-Term Debt

The District issues general obligation bonds and notes to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2012:

At June 30, 2012, the District's long-term debt consisted of the following issues:

	Bonds	Notes	Compensated Absences	Total
Balance - July 1, 2011	\$ 4,425,321	\$ 39,122	\$ 288,091	\$ 4,752,534
Additions	0	0	0	0
Reductions	(497,482)	(39,122)	(14,322)	(550,926)
Balance - June 30, 2012	3,927,839	0	273,769	4,201,608
Less Current Portion	(507,839)	0	0	(507,839)
Total Due After One Year	<u>\$ 3,420,000</u>	<u>\$ 0</u>	<u>\$ 273,769</u>	<u>\$ 3,693,769</u>

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

2010 Refunding Bonds due in annual installments of \$500,000 to \$630,000 through May 1, 2019, interest at 2.0% to 4.0%	\$ 3,920,000
1998 School Improvement Bonds due in annual installments of \$7,839 through May 15, 2013, interest at 4.761353%, being serviced by designated state aid	7,839
Accumulated Compensated Absences	273,769
Total Long-Term Debt	\$ 4,201,608

The requirements to amortize debt outstanding as of June 30, 2012, including interest of \$631,148 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 507,839	\$ 145,598	\$ 653,437
2014	515,000	135,225	650,225
2015	535,000	114,625	649,625
2016	555,000	93,225	648,225
2017	580,000	71,025	651,025
2018-2019	1,235,000	71,450	1,306,450
	\$ 3,927,839	\$ 631,148	4,558,987

Accumulated Compensated Absences	273,769
	\$ 4,832,756

Compensated absences will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

NOTE 4 – OTHER INFORMATION

A. Employee Retirement System

Plan Description. The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost-sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909 or by calling (800) 381-5111.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
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JUNE 30, 2012

Funding Policy. Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members joining the system on or after July 1, 2008 contribute at the following graduated rate: 3% of the first \$5,000, 3.6% of \$5,001 through \$15,000 and 6.4% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPSERS who became a member of MPSERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferable retirement savings (defined contribution) account.

The 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. The rates for the year ended June 30, 2012, were 20.66% of payroll through September 30, 2011, and 24.46% effective October 1, 2011. For employees who first worked on or after July 1, 2010, the rate for the year ended June 30, 2012, was 19.16% for the first quarter and 23.23% for the remainder of the year. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2012, 2011, and 2010 were \$1,414,387, \$1,308,749, and \$1,197,430 respectively, and were equal to the required contribution for those years.

Other Post Employment Benefits Funding Policy. Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The Systems has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010, to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit that were paid less than \$18,000 are required to contribute 1.5% of the members' compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account. Effective April 1, 2011 a court order eliminated this requirement. The court order is being appealed by the State of Michigan.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Pension recipients are generally eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing coverage.

The District is not responsible for the payment of retirement benefits and post-employment benefits. That is the responsibility of the State of Michigan.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2012 or any of the prior three years.

C. Commitments and Contingencies

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district.

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2012

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources	\$ 1,067,621	\$ 1,082,795	\$ 1,116,575
State Sources	9,683,279	9,872,474	9,871,006
Federal Sources	242,619	290,668	275,504
Other Transactions	135,800	300,427	341,314
Total Revenues	<u>11,129,319</u>	<u>11,546,364</u>	<u>11,604,399</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	6,564,932	6,596,564	6,482,927
Added Needs	1,241,059	1,126,483	1,074,031
Supporting Services			
Pupil	287,460	292,149	288,401
Instructional Staff	134,437	106,272	99,525
General Administration	257,055	251,989	270,037
School Administration	564,525	566,671	555,785
Business	206,124	158,514	131,045
Operations and Maintenance	997,657	995,965	965,829
Transportation Services	743,992	990,963	936,617
Central Services	165,805	272,610	263,827
Athletic Activities	237,510	237,463	231,085
Community Services			
Community	0	8,773	7,770
Custody and Care of Children	29,431	45,046	48,099
Other Transactions	3,000	3,000	2,297
Total Expenditures	<u>11,432,987</u>	<u>11,652,462</u>	<u>11,357,275</u>
Excess (Deficiency) of Revenues Over Expenditures	(303,668)	(106,098)	247,124
<u>FUND BALANCE</u> - Beginning of Year	<u>3,813,573</u>	<u>3,958,122</u>	<u>3,958,122</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 3,509,905</u>	<u>\$ 3,852,024</u>	<u>\$ 4,205,246</u>

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KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2012

	FOOD SERVICE FUND	PUBLIC IMPROVEMENT FUND	DEBT SERVICE FUNDS		TOTAL NONMAJOR GOVERNMENTAL FUNDS
			2010 DEBT RETIREMENT	DURANT DEBT RETIREMENT	
<u>ASSETS</u>					
Cash	\$ 1,439	\$ 255,888	\$ 153,772	\$ 0	\$ 411,099
Taxes Receivable	0	0	3,666	0	3,666
Due from Other Funds	14,000	18,775	0	0	32,775
Due from Other Governments	2,437	0	0	0	2,437
Inventory	6,599	0	0	0	6,599
TOTAL ASSETS	\$ 24,475	\$ 274,663	\$ 157,438	\$ 0	\$ 456,576
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 14,486	\$ 0	\$ 0	\$ 0	\$ 14,486
Due to Other Funds	0	0	13,025	0	13,025
Deferred Revenue	5,394	0	3,666	0	9,060
Total Liabilities	19,880	0	16,691	0	36,571
<u>FUND BALANCE</u>					
Nonspendable:					
Inventory	6,599	0	0	0	6,599
Restricted for:					
Debt Service	0	0	140,747	0	140,747
Committed for:					
Public Improvements	0	274,663	0	0	274,663
Unassigned	(2,004)	0	0	0	(2,004)
TOTAL FUND BALANCES	4,595	274,663	140,747	0	420,005
TOTAL LIABILITIES AND FUND BALANCES	\$ 24,475	\$ 274,663	\$ 157,438	\$ 0	\$ 456,576

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES

YEAR ENDED JUNE 30, 2012

	FOOD SERVICE FUND	PUBLIC IMPROVEMENT FUND	DEBT SERVICE FUNDS		TOTAL NONMAJOR GOVERNMENTAL FUNDS
			2010 DEBT RETIREMENT	DURANT DEBT RETIREMENT	
<u>REVENUES</u>					
Local Sources	\$ 187,536	\$ 796	\$ 647,187	\$ 0	\$ 835,519
State Sources	34,303	0	0	8,212	42,515
Federal Sources	404,159	0	0	0	404,159
Total Revenues	625,998	796	647,187	8,212	1,282,193
<u>EXPENDITURES</u>					
Food Service Activities	676,135	0	0	0	676,135
Facilities Acquisition	0	136,218	0	0	136,218
Debt Service					
Principal	0	39,122	490,000	7,482	536,604
Interest and Fees	0	423	155,125	730	156,278
Taxes Abated and Written Off	0	0	13,960	0	13,960
Total Expenditures	676,135	175,763	659,085	8,212	1,519,195
Excess (Deficiency) of Revenues Over Expenditures	(50,137)	(174,967)	(11,898)	0	(237,002)
<u>FUND BALANCE</u> - Beginning of Year	54,732	449,630	152,645	0	657,007
<u>FUND BALANCE</u> - End of Year	\$ 4,595	\$ 274,663	\$ 140,747	\$ 0	\$ 420,005

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

2010 REFUNDING BONDS

JUNE 30, 2012

<u>TITLE OF ISSUE</u>	Kingsley Area Schools, 2010 Refunding Bonds		
<u>PURPOSE</u>	The Bonds are being issued for the purpose of advance refunding a portion of the school District's outstanding 1999 School Building and Site Bonds dated June 1, 1999, which are due and payable May 1, 2011 through May 1, 2019, inclusive and May 1, 2020.		
<u>DATE OF ISSUE</u>	March 31, 2010		
<u>REDEMPTION PRIOR TO MATURITY</u>	The bonds are not subject to redemption prior to maturity.		
<u>AMOUNT OF ISSUE</u>		\$	4,890,000
<u>AMOUNT REDEEMED</u>			
Prior to Current Year	\$	480,000	
Current Year		490,000	970,000
<u>BALANCE OUTSTANDING - June 30, 2012</u>		\$	<u>3,920,000</u>

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>		
		<u>TOTAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>
November 1, 2012		\$ 72,613	\$ 72,613	
May 1, 2013	2.000%	572,612	72,612	\$ 500,000
November 1, 2013		67,613	67,613	
May 1, 2014	4.000%	582,612	67,612	515,000
November 1, 2014		57,313	57,313	
May 1, 2015	4.000%	592,312	57,312	535,000
November 1, 2015		46,613	46,613	
May 1, 2016	4.000%	601,612	46,612	555,000
November 1, 2016		35,513	35,513	
May 1, 2017	4.000%	615,512	35,512	580,000
November 1, 2017		23,913	23,913	
May 1, 2018	4.000%	628,912	23,912	605,000
November 1, 2018		11,813	11,813	
May 1, 2019	3.750%	641,812	11,812	630,000
		<u>\$ 4,550,775</u>	<u>\$ 630,775</u>	<u>\$ 3,920,000</u>

KINGSLEY AREA SCHOOLS
KINGSLEY, MICHIGAN

SCHEDULE OF DURANT BONDS PAYABLE
1998 BOND ISSUE

JUNE 30, 2012

<u>TITLE OF ISSUE</u>	1998 School Improvement Bond		
<u>PURPOSE</u>	This bond is issued for purposes permitted in Section 1351a of Act 451, Public Acts of Michigan, 1976 pursuant to the authority granted under Act 94, Public Acts of Michigan, 1979, and a resolution duly adopted by the Kingsley Board of Education.		
<u>DATE OF ISSUE</u>	November 24, 1998		
<u>INTEREST PAYABLE</u>	May 15th, of each year		
<u>REDEMPTION PRIOR TO MATURITY</u>	This bond is not subject to redemption prior to maturity by the School District and the School District may not issue any other bonds or obligations for the purpose of refunding this bond.		
<u>AMOUNT OF ISSUE</u>	\$		116,949
<u>AMOUNT REDEEMED</u>			
Current Year	\$	7,482	
Prior Years		101,628	109,110
<u>BALANCE OUTSTANDING - June 30, 2011</u>	\$		7,839
<u>DUE DATES</u>	<u>INTEREST</u>	<u>REQUIREMENTS</u>	
	<u>RATES</u>	<u>TOTAL</u>	<u>INTEREST</u>
May 15, 2013	4.761353%	\$ 8,212	\$ 373
		\$	\$ 7,839

