

**SAND CREEK COMMUNITY SCHOOLS
SAND CREEK, MICHIGAN**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

**WITH
INDEPENDENT AUDITORS' REPORT**

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Sand Creek Community Schools is a K-12 school district located in Lenawee County, Michigan. The Management's Discussion and Analysis, a requirement of the Governmental Accounting Standards Board Statement 34 (GASB 34), is intended to be the Sand Creek Community School Districts' Management's discussion and analysis of the financial results for the fiscal year ended June 30, 2014. A comparative analysis of fiscal year ended June 30, 2014 to the prior year has been included in this discussion.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The statements report the District's net assets, which is the difference between assets and liabilities, and changes in them. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are one indicator of whether its financial health is improving or deteriorating. The relationship between revenues and expenses indicates the School District's operating overall results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. The reader will need to consider other nonfinancial factors such as property tax base, political conditions at the State Capitol, student enrollment growth, birth rates, and facility conditions in arriving at their conclusion regarding the overall health of the District.

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. The fund financial statements are reported on a modified accrual basis, as opposed to the full accrual basis of the Statement of Net Assets and Statement of Activities. Only those revenues that are "measurable" and "currently available" are reported when using the modified accrual basis. Currently available is considered to be collected within 60 days of the end of the current fiscal period. Liabilities are recognized to the extent that they are normally expected to be paid with current financial resources. The fund financial statement provides a detailed short-term view of the District's general operations and the basic services it provides. These fund statements help you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Debt Funds, Capital Project Funds, and the Special Revenue Funds which are comprised of Food Service and Community Service accounts for our two school buildings.

SAND CREEK COMMUNITY SCHOOLS**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2014**

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of interest on long-term obligations are recorded as expenditures, whereas payments of principal are recorded as other financing uses. Future year's debt obligations are not recorded.

Statement of Net Position:

The following summarizes the net assets at fiscal year ended June 30, 2014, as compared to the prior year. The School District's net assets were \$5,877,177 at June 30, 2014. Of this amount, \$988,937 was unrestricted. Restricted net assets are reported separately because the School District is limited in their ability to use these net assets for day-to-day operations.

Net Position Summary	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Assets		
Current Assets	\$ 2,759,954	\$3,298,493
Noncurrent Assets	<u>6,444,082</u>	<u>6,178,323</u>
Total Assets	<u>\$ 9,204,036</u>	<u>\$9,476,816</u>
Liabilities		
Current Liabilities	\$ 1,588,127	\$1,669,056
Noncurrent Liabilities	<u>1,734,964</u>	<u>2,050,764</u>
Total Liabilities	<u>\$ 3,323,091</u>	<u>\$3,719,820</u>
Deferred inflows of resources		
Unearned revenue	<u>3,768</u>	<u>15,181</u>
Net Position		
Invested in capital assets, net of related debt	4,469,082	3,908,323
Restricted for debt service	138,418	137,767
Restricted for capital projects	233,070	573,121
Restricted for Food Service	47,670	55,802
Unrestricted	<u>988,937</u>	<u>1,066,802</u>
Total Net Position	<u>5,877,177</u>	<u>5,741,815</u>
Total Liabilities, Deferred Inflows of resources and Net Position	<u>\$ 9,204,036</u>	<u>\$9,476,816</u>

SAND CREEK COMMUNITY SCHOOLS**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2014****Statement of Activities:**

For the fiscal year ended June 30, 2014, the District wide results of operations as compared to June 30, 2013, were:

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Revenues:		
General Revenues:		
Property taxes levied for general operations	\$ 231,808	\$ 227,056
Property taxes levied for debt service	379,734	372,752
Property taxes levied for capital projects	217,623	213,598
Investment earnings	6,187	10,593
Intermediate Sources	465,121	490,371
State of Michigan unrestricted foundation aid	6,723,706	6,636,838
Contributions	3,550	0
Other general revenues	<u>21,130</u>	<u>16,349</u>
Total General Revenues	<u>8,048,859</u>	<u>7,967,557</u>
Program Revenues:		
Operating Grants:		
Federal	401,798	388,146
State of Michigan	194,393	193,254
Other operating grants	<u>0</u>	<u>0</u>
Total Operating Grants	<u>596,191</u>	<u>581,400</u>
Charges for Services:		
Food service	174,723	187,615
Athletics	44,714	53,513
Instruction	34,956	36,052
Other	<u>9,611</u>	<u>8,083</u>
Total Charges for Services	<u>264,004</u>	<u>285,263</u>
Capital Grants:		
Transportation	<u>0</u>	<u>40,000</u>
Total Capital Grants	-0-	-0-
Total Revenues	<u>8,909,054</u>	<u>8,874,220</u>

SAND CREEK COMMUNITY SCHOOLS**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2014****Statement of Activities (continued):**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Expenses:		
Instruction	5,254,857	5,169,506
Support services	2,317,321	2,196,307
Food service	488,932	494,386
Athletics	244,404	231,860
Interest on long-term debt including amortization of discount	83,283	79,311
Capital Outlay	32,103	222,903
Depreciation	349,786	302,021
Other	<u>3,006</u>	<u>0</u>
Total Expenses	8,773,692	8,696,294
Change in Net Position	135,362	177,926
Beginning Net Position	<u>5,741,815</u>	<u>5,563,889</u>
Ending Net Position	<u>\$ 5,877,177</u>	<u>\$ 5,741,815</u>

Analysis of Financial Position

During the fiscal year ended June 30, 2014 the District's total governmental activities had an increase in net assets of \$135,362. Sand Creek Schools has experienced an overall enrollment decline that began with the 2005/06 school year; going from a fall enrollment of 975 to 913 in September 2008. The district has bounced back slightly since then but has not been able to get back to the 975 enrollment figure. At the 2013 fall count, the district had 928 while the tentative fall of 2014 enrollment stands at 918. In 2013/2014, 42% of the district's enrollment came from non-district students. The overall reduction in student count and the state funding that goes with it continues to put a financial strain on the district budget. The district has been extremely careful and cautious with budget planning, spending and negotiations and this diligence to our spending/budget has resulted in a growing fund balance, even in years of enrollment and funding declines. The 2013/2014 budget year ended with a loss of \$82,936 in the general fund, and an ending unassigned fund balance of 13.21%.

The Master Agreement with the Sand Creek Education Association (teachers' union) was renewed for a two year period in August of 2013. This new agreement eliminated the old step salary system and replaced it with a new, leading edge salary agreement. This agreement includes a performance pay schedule based on proposed raises and noncumulative (off-schedule) stipends based on a combination of fund balance level, current salary level and performance evaluations. We are very excited and proud of this ground-breaking agreement that was a result of both administration and union collaboration. After completing the first year of this two year agreement, I would say it has been successful. The district's teachers have a performance goal to strive for that is linked to a financial reward. This provides personal satisfaction and accomplishment as well provides a direct benefit to our students in the classroom.

The district replaced an open administrative position with an on-staff teacher in the 2013/2014 school year. This teacher position was replaced by a first-year teacher, resulting in a savings to the district of approximately \$40,000. MESSA health insurance premium rates decreased slightly resulting in a 1.77% savings in benefit costs. The district continues to pay 80% of the total health costs, with the employee paying the other 20%. The state retirement system has undergone many changes with the addition of new plans for newer members, resulting in varying rates. The state legislature has taken action to reduce the cost effect of increasing rates by using state funds to stabilize these rates. While this controls our retirement costs, it also uses state funds that could have otherwise been used for revenue increases.

Major purchases were made within the district's transportation department during the 2013/2014 school year. Two new buses were purchased with the 2012 technology and bus bond funds for a total of \$159,000. The district also purchased two new district vehicles (suburban's) for a total of \$71,000 that will eventually replace two old, high mileage district vehicles. These vehicles are used on a daily basis for a variety of district purposes, including athletic and student trips and staff training. Fuel costs decreased by 8%, or \$5,600, from the 2012/2013 fiscal year. Energy costs however, increased sharply for the second year in a row. In the past two years, our heat and electric costs have risen by \$28,000 or almost 26%! The winter of 2014 was a particularly hard one, with a record number of extremely cold days which accounts for some of this cost increase. The district was also forced to cancel school due to weather conditions for several days, accounting for the decrease in fuel cost. The net results of the 2013/2014 school year was an increase in revenue of \$98,113 along with a decrease in costs of \$39,492. The School District had a net position increase of \$135,362. The assets of the School District exceeded its liabilities at the close of the fiscal year by \$5,877,177 (net position).

General Fund and Special Revenue Fund Operations

The district's expenses from General Fund operations exceeded revenues by \$82,936 for the fiscal year ended June 30, 2014. Most of this decrease can be attributed to the cost of new district vehicles (two suburban's costing \$71,000), purchased with funds the board had assigned and set-aside from the FYE 6/30/13 fund balance. The district was overall very pleased to end the year with this small decrease, considering the district's limited revenue resources and cost increases. At the end of the fiscal year, the fund balance for the School District's General Fund was \$1,045,425, or 13.21%. Revenues and expenses for the district's athletic program are combined with the General Fund at the end of the fiscal year. The School District's General Fund supports the athletic program every year. In 2013/2014, the general fund contributed funds of \$202,847 towards coaching salaries, benefits and other athletic costs. Overall ticket sales have decreased for all athletic events. Athletic trainer fees have increased by \$12,000 due to a change in provider services. In addition, there were additional costs of \$14,000 for the replacement of the track field's pole vault pad.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2014**

The Lunch Fund (Food Service program) continues to support itself. The Lunch Fund operating revenues exceeded operating expenses by \$1,868 in 2013-2014. A contribution was made into the general fund from the lunch fund in the amount of \$10,000, as part of the final year-end adjustments, to reimburse the general fund for indirect costs. After this transfer out the final fund balance at 6/30/2014 was \$47,670, a decrease of \$8,132. Overall food sales were down by \$10,100. The unusually harsh winter during the school year caused a high number of cancelled days. With average food sales of \$2,000 per day (including federal reimbursement), cancelled school days can hit revenue hard in the food service department. The district's free and reduced eligibility percentage stands near 50% and the district has met the requirements for the 6 cent per meal reimbursement for meeting nutrition requirements. This continues to bring in additional revenue in the form of federal reimbursement. The Universal Free Breakfast program in our elementary program continues to be very successful, providing a free nutritious breakfast to over 90% of our elementary students.

Our food service management group works hard to use government commodities to provide nutritional and appetizing meals for our students and staff and keep costs down, while now abiding by new federal regulations that limits choices and challenges staff to create menu choices that appeal to students. Food and labor costs have both increased since the inception of these new federal nutrition requirements. Healthy food is more expensive (as the saying goes) and more labor intensive to prepare and this has proven true for our food service staff. . Due to both rising food and labor costs (some the direct result of the new guidelines), the district's board of education increased lunch prices last fiscal year by 20 cents per meal. This has offset the cost increases and helped the food service program stay in the black. The district's food and milk sales to students and adults amounted to \$174,723 for the fiscal year, while state and federal funding totaled \$312,676. Of this amount, \$26,326 was commodity entitlement.

The food service program had an overall decrease to the fund balance of \$8,132.

Long-Term Bonded Debt and Long-Term Notes

The District had \$1,975,000 in long-term debt as of June 30, 2014. During the fiscal year ended June 30, 2014, total principal payments on long-term debt were \$295,000. All of the district's long-term debt is covered below and in the following pages of this report in further detail.

	<u>Principal Balance</u> <u>June 30, 2013</u>	<u>Additions</u> <u>June 30, 2014</u>	<u>Payments</u> <u>June 30, 2014</u>	<u>Principal</u> <u>Balance</u> <u>June 30, 2014</u>
2009 Refunding Bonds	\$1,405,000		170,000	\$1,235,000
2012 Bond	<u>865,000</u>		<u>125,000</u>	<u>740,000</u>
Total long-term bond obligations	\$2,270,000	\$ 0	\$295,000	\$1,975,000

VOTED BOND DEBT

On September 25, 2000, the qualified electors of the School District approved a proposal authorizing the School District to issue bonds in the sum of not to exceed Two Million Eight Hundred Ninety Thousand (\$2,890,000) for the purpose of erecting, furnishing, and equipping additions to and partially remodeling, refurbishing, and re-equipping the Sand Creek High School; and developing and improving the site. Significant improvements were made to the Jr/Sr High School Building with these funds. A new media center, open computer lab, and computer classrooms were just a few of the improvements. This was a 20 year bond issue with interest paid semiannually on May 1 and November 1, and principal payments due annually on May 1.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2014**

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2000 Voted Bond for the High School Addition and Renovation, is based on the taxable valuation of all properties: homestead and non-homestead. The School District levied 2.9 mills on a taxable value of almost \$75 million in the 2000 tax roll. Between 2001 and 2008, the rate was reduced to 2.4 mills because of a sufficient increase in the taxable value of the school district. In 2008, this millage rate was set at 2.1 mills due to the additional increase in the district's taxable value. In 2009, the millage rate was further reduced to 2.0 mills. During the fiscal year ended 2014, this 2.0 mills levied on a taxable valuation of \$117,258,778 generated revenue of \$231,779.

In September 2009, the district refunded these 2000 School Building and Site Voted Bonds. The district anticipates passing on a total reduced millage of .57 mills, and total net savings of \$87,660, to its constituent taxpayers over the remaining years of the bond.

TECHNOLOGY AND BUS BONDS

On May 8, 2012, the qualified electors of the School District approved a proposal authorizing the School District to issue bonds in the sum of not to exceed Nine Hundred Seventy Thousand (\$970,000) for the purpose of acquiring and installing educational technology improvements, infrastructure, furnishings and equipment in school buildings; and acquiring school buses. The closing of this bond occurred on July 17, 2012, with work to begin in August 2012. This was a 7 year bond issue with interest paid semiannually on May 1 and November 1, and principal payments due annually on May 1.

The District's debt fund levy, which is used to pay the principal and interest on the bond obligations for the 2012 School Technology and Bus Bonds, is based on the taxable valuation of all properties: homestead and non-homestead. The district will levy 1.22 mills beginning with the 2012 tax roll. Final bond maturity is May 1, 2019.

During the fiscal year ended 2014, this 1.22 mills levied on a taxable valuation of \$117,258,778 generated revenue of \$142,642.

Net Investment in Capital Assets

At the end of fiscal year 2014, the School District had \$11,802,223 invested in land and buildings, furniture and equipment, and vehicles and buses. Of this amount, 5,358,141 in depreciation and amortization have been taken over the years. Our capital assets currently have a net book value of \$6,444,082.

	<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
Capital assets	\$11,307,382	\$615,545	(120,704)	\$11,802,223
Less: Accumulated depreciation and amortization	<u>(5,129,059)</u>	<u>(349,786)</u>	<u>120,704</u>	<u>(5,358,141)</u>
Net investment capital outlay	\$ <u>6,178,323</u>	\$ <u>265,759</u>	<u>(\$0)</u>	\$ <u>6,444,082</u>

SAND CREEK COMMUNITY SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS For Fiscal Year Ended June 30, 2014

The two main factors affecting the School District's revenue picture during the 2013-2014 fiscal year, and any fiscal year, were the State Foundation Allowance and Student Enrollment. Another important revenue factor is the Property Tax levied for General Operations on the District's non-homestead property value. These three revenue areas, and the effect they had on the District's fiscal year ended 2014, are explained in more detail below.

State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment – Blended at 90 percent of current year's fall count and 10 percent of prior year's winter count
- c. The District's non-homestead levy

Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. For the 2013-2014 fiscal year, the Sand Creek Community School's foundation allowance was \$7,026, an increase of \$60 per student from the prior year. This small increase was the result of a minimum foundation increase approved as part of the 2013/14 School Aid Package. Sand Creek Schools is at the minimum funding level. The state legislature also offered three different one-time revenue sources; the Best Practice Incentive, the MPSERs Cost Offset and a \$50 per student Foundation Equity Payment for minimum foundation districts. An additional \$157,553 was gained from these three different sources.

Student Enrollment:

The District's student enrollment for the fall count of 2013-14 was 928 students. The school district has experienced an overall decline in enrollment. In September 2005 the enrollment was 975 and in September 2008 it had fallen to 913. In September 2009, however, enrollment bounced back slightly to 933 and has remained fairly steady through September 2013 at 928. The following summarizes fall student enrollments in the past thirteen years:

	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2013-14	928	(1.83%)
2012-13	945	1.29%
2011-12	933	0.21%
2010-11	931	(0.21%)
2009-10	933	2.19%
2008-09	913	(0.77%)
2007-08	920	(1.52%)
2006-07	934	(4.39%)
2005-06	975	2.96%
2004-05	947	(2.87%)
2003-04	975	(.51%)
2002-03	980	0%
2001-02	980	

A preliminary enrollment figure of 918 for the 2014-2015 school year shows a decrease of 10 students. At the close of the 2013/2014 school year, the district graduated a low class of 50 seniors and enrolled a 2014-15 kindergarten class of 57 (not including students already in Young 5s class). A smaller kindergarten class has been the trend for the last few years which has been a concern of the district. We are currently averaging class sizes between 65-75. As we graduate larger classes in the high school and bring in smaller kindergarten classes, it has had a major impact on the budget picture. The district has been encouraged to see this kind of swing level off the last couple of years. We continue to pick up schools of choice students throughout the other grades that has helped our overall enrollment remain steady.

In the 2013-2014 school year, 387 guest students from 8 other school districts were accepted for enrollment at Sand Creek Schools. This amounts to 41% of the district's total enrollment in 2013-2014. In the past 15 years since "Schools of Choice" started at the school district, the number of choice students has continued to grow. However, the number of resident students has decreased. It is still the Board of Education's desire to maintain its small class sizes and insure that it has space available for its own resident students.

Property Taxes levied for General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on non-homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable increase in property value is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less.

The District successfully passed a non-homestead millage renewal on November 6, 2013. The current millage rate of 17.837 mills was renewed, along with an additional approved millage of .5 mills, for 7 years. This will be up for renewal again in November of 2020. Total authorized millage was 18.337, although the district only levies the 18.0 mills allowable by law.

The District's non-homestead property revenue for the 2013-14 fiscal year was \$231,808.

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Sand Creek Community Schools amends its budget periodically during the school year. The June 23, 2014 budget amendment was the final budget for the fiscal year.

Change from Original to Final Budget

General Fund Revenues:

Total Revenues - Original Budget	\$ 7,424,965
Total Revenues - Final Budget	<u>7,806,156</u>
Increase in Budgeted Revenues	\$ 381,191

The District's final, actual general fund revenue was 7,828,170; which was more than the final budget by \$22,014, an increase of only .43% percent from final budget. This difference came mainly from the following sources: increase in LISD funding from budget of \$16,800, Medicaid reimbursement funding of \$5,240 and prior-period state aid adjustments of \$4,361.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
For Fiscal Year Ended June 30, 2014**

The final revenue budget was more than originally projected by \$381,191. This increase is due to several changes. Adjustments to revenue budget are very common due to the timing of when the school's budget must be adopted. Student enrollment and the foundation allowance per students (the main drivers of the district's revenue) are only educated guesses at the time the original budget is adopted by the board. The original budget was for 928 students at a \$7,026 student foundation allowance. The actual audited September student count for fiscal year 2013/2014 was 933 (an increase of 5 students), which brought in another \$35,000 of unanticipated revenue. The district also received additional \$50,800 in special education cost reimbursements from our Intermediate School District than budgeted. The district did not account for revenue or expense of the UAAL Rate Stabilization line item in the original budget. The revenue portion of this state aid adjustment for 2013/14 was \$223,487. These three changes together made up most of the revenue budget increase of \$381,191.

General Fund Expenditures:

The District's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 7,681,930
Total Expenditures Final Budget	<u>7,950,791</u>
Increase in Budgeted Expenditures	\$ 268,861

The final expenditure budget was more than originally projected by \$268,861. As previously stated above in the revenue section, the district did not originally budget for the effect of the UAAL Rate Stabilization 147c on either revenue or expense. As directed by the Michigan Department of Education, the district amended its revenue and expenditure budget to account for this state aid line item. The effect on the expenditure budget was an increase of \$223,487. Other changes that occurred after the budget was adopted was the resignation and replacement hiring of an administration staff member, as well as a teacher. These changes all effect the budget and the budget was amended accordingly. The district takes a conservative approach to preparing a budget based on what we know at that time. Often the first amendment to the budget includes many changes and the net effect is usually a gain to fund balance based on the conservative approach to the original budget.

The School District's final, actual expenditures were \$7,911,106, less than final budget by only \$39,685, or less than 1%. With the decreasing enrollment across the state and uncertain state aid revenue, the district has been very conservative with its spending. The district will continue this careful watch of spending through the upcoming fiscal year. A final budget revision was done in June. The philosophy of the district is to be conservative with the budgeting while being as accurate as possible, but also allowing room in the budget for the unknowns. We came in very close to accurate with being less than 1% off the final budget figure.

The district will continue to revise budgets in June in order to budget as close to actual as possible. By doing budget revisions in June, the fiscal year will be closer to completion and there will be fewer unknowns to plan for.

The General Fund had total revenues of \$7,828,170 and total expenditures of \$7,911,106 with an ending fund balance of \$1,045,425. The unassigned ending fund balance was 13.21%.

NEXT YEAR'S BUDGETS

The School District will continue to face financial challenges in the coming year. The financial condition of the State of Michigan is weak and the state foundation allowance is \$410 lower per student than it was two years ago. In addition, enrollment state-wide continues to drop. The positive note is that the district's preliminary enrollment figures for September 2014 show the district being only slightly down from this past fall – down only 10. Another positive is that the district continues to save money on health insurance costs due to a combination of a new HSA/High Deductible MESSA plan and a new Lenawee County Consortium group that are both saving costs at each county school. The retirement rate is always a concern. Even with the state putting state funds into the retirement system to control costs that would otherwise be passed to the districts, our rate is going up again by a percentage point. The district had one teacher and a counselor retire at the end of the fiscal year 2013-2014, both replaced by new teachers. We also had an open administrator position which was filled in house this past summer. These three personnel changes will all save the district funds as they are all replaced with lower paid teachers. The School District continues to save money by having the High School Principal also handle the responsibilities of being a Superintendent, with help from current staff.

The Master Agreement with the Sand Creek Education Association (SCEA) was approved for a two year period, through August 31, 2015. This agreement was a ground-breaking agreement reached with the SCEA that throws out all of the old "step" language and replaces it with a new, incentive schedule with increases for each member based on current district fund-balance, current salary level and individual performance evaluations. The 2013/14 was the first year of implementation of this new schedule and it went very well. All teachers received an incentive amount based on our ending fund balance at 6/30/2013 as well as their performance evaluation summary for this past school year. We are all very excited about this collaborative agreement. The teachers currently contribute 20% towards their health benefit premium.

The School District is currently budgeting to end the 2014/2015 school year with a \$160,057 decrease to fund balance. This would bring the fund balance down to \$885,368, or 11.31%. These budget figures will of course be amended to adjust for actual enrollment data and state aid figures. Enrollment changes and state funding are always watched carefully, as this information will affect, possibly drastically, the financial picture for 2014/2015 and beyond.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Superintendent's Office at Sand Creek Community Schools:

Ms. Sharon Smith
Chief Financial Officer
Sand Creek Community Schools
6518 Sand Creek Hwy
Sand Creek, MI 49279
Phone (517) 436-3108, Fax (517) 436-3143

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sand Creek Community Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the schools 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 the 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 procedure selected depends 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

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 Sand Creek Community Schools, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof 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 and budgetary comparison information on pages i through xi and page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sand Creek Community Schools basic financial statements. The introductory section, combining and individual non major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major 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 and individual non-major fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 them.

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2014, on our consideration of Sand Creek Community School's internal control over financial reporting and 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 Sand Creek Community School's internal control over financial reporting and compliance.

Robertson, Eaton & Owen, P.C.
Adrian, Michigan

October 15, 2014

**SAND CREEK COMMUNITY SCHOOLS
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013**

	Governmental Activities	
	2014	2013
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 1,359,077	\$ 1,834,819
Accounts receivable	6,164	3,823
Due from other governmental units	1,358,521	1,417,769
Interest receivable	-	67
Inventory	3,952	4,152
Prepaid expenses	32,240	37,863
Total Current Assets	2,759,954	3,298,493
Non Current Assets		
Capital assets	11,802,223	11,307,382
Less: Accumulated depreciation	(5,358,141)	(5,129,059)
Total Non Current Assets	6,444,082	6,178,323
Total assets	\$ 9,204,036	\$ 9,476,816
LIABILITIES:		
Accounts payable	\$ 22,629	\$ 146,460
State aid loan payable	357,143	442,857
Interest payable	15,379	17,145
Salaries payable	538,292	463,769
Accrued expenses	307,138	264,594
Current portion of long term obligations	310,000	295,000
Current portion of compensated absences	37,546	39,231
Total Current Liabilities	1,588,127	1,669,056
Noncurrent liabilities:		
Noncurrent portion of long term obligations	1,665,000	1,975,000
Compensated absences	69,964	75,764
Total Long Term Liabilities	1,734,964	2,050,764
Total liabilities	3,323,091	3,719,820
Deferred inflows of resources:		
Unearned revenue	3,768	15,181
NET POSITION:		
Invested in capital assets, net of related debt	4,469,082	3,908,323
Restricted for:		
Debt service	138,418	137,767
Capital projects	233,070	573,121
Food Service	47,670	55,802
Unrestricted	988,937	1,066,802
Total net position	\$ 5,877,177	\$ 5,741,815

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

**SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013**

<u>Functions/programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Total</u>	
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Governmental Activities</u>	
		<u>Services</u>	<u>Grants</u>	<u>Grants</u>	<u>Net (Expense) Revenue and</u>	
					<u>Changes in Net Position</u>	
					<u>2014</u>	<u>2013</u>
Governmental activities:						
Instruction	\$ 5,254,857	\$ -	\$ 281,415	\$ -	\$ (4,973,442)	\$ (4,914,707)
Support services	2,317,321	-	5,240	-	(2,312,081)	(2,184,559)
Food services	488,932	174,723	309,536	-	(4,673)	8,082
Athletics	244,404	44,714	-	-	(199,690)	(178,347)
Interest on long term debt including amortization of discount and costs of issuance of bonds	83,283	-	-	-	(83,283)	(79,311)
Capital outlay	32,103	-	-	-	(32,103)	(182,903)
Unallocated depreciation	349,786	-	-	-	(349,786)	(302,021)
Other	3,006	44,567	-	-	41,561	44,135
Total governmental activities	<u>\$ 8,773,692</u>	<u>\$ 264,004</u>	<u>\$ 596,191</u>	<u>\$ -</u>	<u>\$ (7,913,497)</u>	<u>\$ (7,789,631)</u>
General revenues:						
Property taxes, levied for general purposes					\$ 231,808	\$ 227,056
Property taxes, levied for debt service					379,734	372,752
Property taxes, levied for capital projects					217,623	213,598
Investment earnings					6,187	10,593
Intermediate Sources					465,121	490,371
State sources					6,723,706	6,636,838
Contributions					3,550	-
Other					21,130	16,349
Total general revenues					<u>8,048,859</u>	<u>7,967,557</u>
Change in net position					135,362	177,926
Net position, beginning of year					<u>5,741,815</u>	<u>5,563,889</u>
Net position, end of year					<u>\$ 5,877,177</u>	<u>\$ 5,741,815</u>

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

**SAND CREEK COMMUNITY SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013**

	General Fund	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds 2014	Total Governmental Funds 2013
ASSETS:					
Cash and cash equivalents	\$ 950,684	\$ 232,520	\$ 175,873	\$ 1,359,077	\$ 1,834,819
Accounts receivable	578		-	578	3,823
Due from other funds	10,762	579	3,379	14,720	746
Due from other governmental units	1,272,525		22,690	1,295,215	1,350,701
Due from other fiduciary funds	5,586	-		5,586	-
Interest receivable	-		-	-	67
Inventory	-		3,952	3,952	4,152
Prepaid expenditures	32,240		-	32,240	37,863
Total assets	<u>\$ 2,272,375</u>	<u>\$ 233,099</u>	<u>\$ 205,894</u>	<u>\$ 2,711,368</u>	<u>\$ 3,232,171</u>
LIABILITIES:					
Accounts payable	\$ 21,067	\$ -	\$ 1,212	\$ 22,279	\$ 146,460
State aid loan payable	357,143	-	-	357,143	442,857
Due to other funds	3,929	29	10,762	14,720	746
Due to other fiduciary funds	350			350	-
Interest payable	3,091	-	-	3,091	2,946
Salaries payable	537,075	-	1,217	538,292	463,769
Accrued expenditures	304,295	-	2,843	307,138	264,594
Total liabilities	<u>1,226,950</u>	<u>29</u>	<u>16,034</u>	<u>1,243,013</u>	<u>1,321,372</u>
Deferred inflows of resources:					
Unearned revenue	-	-	3,768	3,768	15,181
FUND BALANCES:					
Nonspendable					
Inventory	-	-	3,952	3,952	4,152
Prepaid expenditures	32,240	-	-	32,240	37,238
Restricted					
School lunch program	-	-	43,718	43,718	51,650
Capital projects		233,070	-	233,070	573,121
Debt service	-	-	138,418	138,418	137,767
Assigned					
Community service	-	-	4	4	567
Capital Outlay	-	-	-	-	75,000
Unassigned					
General fund	1,013,185	-	-	1,013,185	1,016,123
Total fund balance	<u>1,045,425</u>	<u>233,070</u>	<u>186,092</u>	<u>1,464,587</u>	<u>1,895,618</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 2,272,375</u>	<u>\$ 233,099</u>	<u>\$ 205,894</u>	<u>\$ 2,711,368</u>	<u>\$ 3,232,171</u>

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

**SAND CREEK COMMUNITY SCHOOLS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013**

	2014	2013
Total governmental fund balances	\$ 1,464,587	\$ 1,895,618
Amount reported for governmental activities in the statement of net position are different because:		
Capital assets used in the governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital asset is	11,802,223	11,307,382
The accumulated depreciation is	(5,358,141)	(5,129,059)
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
	63,306	67,068
Long term liabilities are not due and payable in the current period and are not reported in the funds:		
Bonds payable	(1,975,000)	(2,270,000)
Interest payable on long term debt	(12,288)	(14,199)
Compensated absences	(107,510)	(114,995)
Net position of governmental activities	\$ 5,877,177	\$ 5,741,815

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

SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

REVENUES:	General Fund	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds 2014	Total Governmental Funds 2013
Local sources:					
Property taxes	\$ 231,808	\$ 217,623	\$ 379,734	\$ 829,165	\$ 813,406
Investment earnings	2,234	2,331	1,622	6,187	10,504
Contributions	-	550	3,000	3,550	-
Food sales	-	-	174,723	174,723	187,615
Athletics	44,714	-	-	44,714	53,513
Other	53,416	-	2,388	55,804	60,573
Total local sources	332,172	220,504	561,467	1,114,143	1,125,611
State sources	6,900,430	-	17,669	6,918,099	6,830,092
Federal sources	106,792	-	295,006	401,798	388,146
Intermediate sources	468,883	-	-	468,883	460,961
Total revenues	7,808,277	220,504	874,142	8,902,923	8,804,810
EXPENDITURES:					
Current:					
Instruction	5,257,673	-	-	5,257,673	5,200,589
Support services	2,393,314	-	-	2,393,314	2,210,392
Food service activities	-	-	488,986	488,986	494,876
Athletic activities	260,119	-	-	260,119	231,860
Interest	-	-	85,194	85,194	-
Other expenditures	-	-	3,006	3,006	-
Capital outlay	-	560,555	-	560,555	859,530
Debt service:					
Interest	-	-	-	-	91,092
Total expenditures	7,911,106	560,555	577,186	9,048,847	9,088,339
Excess (deficiency) of revenues over (under) expenditures	(102,829)	(340,051)	296,956	(145,924)	(283,529)
Other financing sources (uses):					
Prior period revenue	9,115	-	-	9,115	-
Sale of school property	778	-	-	778	-
Proceeds from loan and bond issuance	-	-	-	-	960,385
Redemption of principal	-	-	(295,000)	(295,000)	(271,046)
Contributed capital	-	-	-	-	40,000
Transfers in	10,000	-	-	10,000	-
Transfers out	-	-	(10,000)	(10,000)	-
Total other financing sources	19,893	-	(305,000)	(285,107)	729,339
Change in fund balances	(82,936)	(340,051)	(8,044)	(431,031)	445,810
Fund balances:					
Beginning of year	1,128,361	573,121	194,136	1,895,618	1,449,808
End of year	<u>\$ 1,045,425</u>	<u>\$ 233,070</u>	<u>\$ 186,092</u>	<u>\$ 1,464,587</u>	<u>\$ 1,895,618</u>

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

**SAND CREEK COMMUNITY SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
Change in fund balances total governmental funds	\$ (431,031)	\$ 445,810
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures in the statement of revenues, expenditures and changes in fund balances. These costs are allocated over their estimated useful lives as depreciation in the statement of activities:		
Depreciation expense	(349,786)	(302,021)
Capital outlay	615,545	690,323
Accrued interest on bonds and other long term obligations is recorded in the statement of activities when incurred; it is not recorded in the governmental funds until it is paid:		
Accrued interest payable - beginning of year	14,199	12,075
Accrued interest payable - end of year	(12,288)	(14,199)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		
Special education revenue from the Lenawee Intermediate School - end of year	63,306	67,068
The issuance of long-term debt (e.g., bonds, leases) 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.	295,000	(698,954)
Write off balance of issuance costs and premium discount	-	15,891
Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in governmental funds:		
Accrued compensated absences - beginning of year	114,995	114,586
Accrued compensated absences - end of year	(107,510)	(114,995)
Change in net position of governmental activities	\$ 135,362	\$ 177,926

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

**SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013**

	<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>	<u>Total</u>	
			<u>2014</u>	<u>2013</u>
ASSETS:				
Cash and cash equivalents	\$ 203,990	\$ 119,267	\$ 323,257	\$ 250,519
Investments	-	-	-	26,873
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 203,990</u>	<u>\$ 119,617</u>	<u>\$ 323,607</u>	<u>\$ 277,392</u>
LIABILITIES AND NET POSITION:				
LIABILITIES:				
Due to student groups	\$ -	\$ 119,617	\$ 119,617	\$ 106,376
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>119,617</u>	<u>119,617</u>	<u>106,376</u>
NET POSITION:				
Reserved for:				
Scholarships - expendable	11,370	-	11,370	11,664
Scholarships - nonexpendable	192,620	-	192,620	159,352
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net position	<u>\$ 203,990</u>	<u>\$ -</u>	<u>\$ 203,990</u>	<u>\$ 171,016</u>

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

**SAND CREEK COMMUNITY SCHOOLS
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	Private Purpose Trust Funds	
	2014	2013
ADDITIONS:		
Contributions	\$ 44,050	\$ 9,408
Investment earnings	1,424	1,465
	45,474	10,873
DEDUCTIONS:		
Scholarships awarded	12,500	8,400
	12,500	8,400
Change in net position	32,974	2,473
NET POSITION:		
Beginning of year	171,016	168,543
End of year	\$ 203,990	\$ 171,016

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

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The **basic financial statements** of Sand Creek Community Schools (the "District") 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 District is governed by the Board of Education (the "Board") of Sand Creek Community Schools, which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, 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. In addition, 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 position and the statement of activities) report information on all of the non-fiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities.

Amounts reported in the funds as interfund receivables and payables are eliminated in the governmental activities column of the Statement of Net Position. Amounts reported in the funds as receivable from or payable to Fiduciary Funds are included in the Statement of Net Position as receivable from or payable to external parties, rather than as internal balances. Therefore, all internal balances are eliminated in the total primary government column.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are 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*.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, and (b) 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 position are reported in three parts – invested in capital assets net of related debt; restricted net position; and unrestricted net position.

The District first utilizes restricted resources to finance qualifying activities.

This 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, fines, permits, 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.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position 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. Effective July 1, 2010, the school district has implemented their Fund Balance Policy in Accordance with GASB Statement No. 54 as follows:

Purpose. The following has been adopted by the Board of Education in order to address the implications of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*. The policy is created in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services. This policy will ensure that the District maintains adequate fund balance and reserves in order to:

- a. Provide sufficient cash flow for daily financial needs,
- b. Secure and maintain investment grade bond ratings,
- c. Offset significant economic downturns or revenue shortfalls, and
- d. Provide funds for unforeseen expenditures related to emergencies.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

This policy and the procedures promulgated under it supersede all previous regulations regarding the District's fund balances and reserve policies.

Fund type definitions. The following definitions will be used in reporting activity in governmental funds across the District. The District may or may not report all fund types in any given reporting period, based on actual circumstances and activity.

The general fund is used to account for all financial resources not accounted for and reported in another fund.

Special revenue funds are used to account and report the proceeds of *specific revenue sources* that are *restricted or committed* to expenditure for *specific purposes* other than debt service or capital projects.

Debt service funds are used to account for all financial resources restricted, committed or assigned to expenditure for principal and interest.

Capital projects funds are used to account for all financial resources restricted, committed or assigned to expenditure for the acquisition or construction of capital assets.

Permanent funds are used to account for resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the District's purposes.

Fund balance reporting in governmental funds. Fund balance will be reported in governmental funds under the following categories:

Nonspendable fund balance

Definition – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained in-tact.

Classification – Nonspendable amounts will be determined before all other classifications and consist of the following items (as applicable in any given fiscal year):

- The District will maintain a fund balance equal to the balance of any long-term outstanding balances due from others (including other funds of the government).
- The District will maintain a fund balance equal to the value of inventory balances and prepaid items (to the extent that such balances are not offset with liabilities and actually result in fund balance).
- The District will maintain a fund balance equal to the corpus (principal) of any permanent funds that are legally or contractually required to be maintained in-tact.
- The District will maintain a fund balance equal to the balance of any land or other nonfinancial assets held for sale.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Financial Statements (Continued)

Restricted fund balance

Definition – includes amounts that can be spent only for the specific purposes stipulated by the constitution, external resource providers; or through enabling legislation.

Committed fund balance

Definition – includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority (i.e., the Board of Education).

Authority to Commit – Commitments will only be used for specific purposes pursuant to a formal action of the Board of Education. A majority vote is required to approve a commitment and a two-thirds majority vote is required to remove a commitment.

Assigned fund balance

Definition – includes amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Authority to Assign – The Board of Education delegates to the Superintendent or his/her/their designee the authority to assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.

Unassigned fund balance

Definition – includes the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

Operational guidelines. The following guidelines address the classification and use of fund balance in governmental funds:

Classifying fund balance amounts – Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.

Encumbrance reporting – Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display or encumbered amounts. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed or assigned, will be classified as committed or assigned, as appropriate.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide And Fund Financial Statements (Continued)

Prioritization of fund balance use – When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the District to consider restricted amounts to have been reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the District that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.

The District reports the following major governmental funds:

The *General Fund*

The *Capital Projects Fund*

Other Non-major Funds

The *Special Revenue Fund*

The *Debt Service Fund*

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.

Expendable Trust and Agency Fund

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. It is used to account for assets that the District holds for others in an agency capacity, primarily student activities.

The *Expendable Trust Fund* is used to account for assets held by the District in a trustee capacity for scholarships. The principal and earnings may be spent.

Nonexpendable Trust Fund

The *Nonexpendable Trust Fund* is used to account for assets held by the District in a trustee capacity for scholarships. Only the earnings may be spent.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, 2014, the foundation allowance was based on pupil membership counts taken in February and September of 2013.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2013 to August 2014. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

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 unearned revenue. Other categorical funding is recognized when the appropriation is received.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Codification I50 Para 105-119, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.

The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The District has adopted a deposit and investment policy in accordance with GASB Codification I50 Para 105-119.

2. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of August 1 and December 1 and are due upon receipt of the billing by the taxpayer. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

For the year ended June 30, 2014, the District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund (Non-homestead)	18.000
Capital Projects (Homestead & Non-homestead)	1.3454
Capital Projects (Homestead & Non-homestead)	.5
Capital Projects (Homestead & Non-homestead)	1.22
Debt Fund (Homestead & Non-homestead)	2.0

3. Accounts Receivable

Accounts receivable at June 30, 2014 have been determined to be collectible in full.

4. Inventories and Prepaid Expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the Special Revenue Funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized. 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 capital assets are valued at their estimated fair market value on the date received.

The cost 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 capital assets.

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

Buildings and additions	50 years
Furniture and equipment	5 – 20 years
Transportation equipment	5 – 7 years

The District's capitalization policy is to capitalize individual amounts exceeding \$3,500.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. 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.

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unearned revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from one source; receipts that exceeded 60 days of year end. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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, Special Revenue, and Debt Service Funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the General Fund. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Two functions in the General Fund had actual expenditures exceeding budget but expenditures overall did not exceed appropriations.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). 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 and Business Manager are authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
6. The budget was amended during the year with supplemental appropriation, the last one approved prior to June 30, 2014. The District does not consider these amendments to be significant.
7. On the Budgetary Comparison Schedule, no expenditure function exceeded budgeted amounts.

NOTE 3. DEPOSITS AND INVESTMENTS – CREDIT RISK

Deposits

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2014, \$1,423,777 of the District's bank balance of \$1,655,117 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	<u><u>\$ 1,423,777</u></u>
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**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 3. DEPOSITS AND INVESTMENTS – CREDIT RISK (Continued)

Investments

The District's investment is a certificate of deposit with United Bank & Trust of \$27,219 at June 30, 2014.

Interest Rate Risk: The District will minimize interest rate risk, which is the risk that the market value of securities invested will fall due to changes in market interest rates, by: structuring the investments so that they mature to meet cash requirements for ongoing operations and thus avoiding the need to sell in the open market; and by investing in shorter-term securities.

NOTE 4. INTERGOVERNMENTAL RECEIVABLES

Due from governmental units June 30, 2014 consist of the following:

<u>Intergovernmental:</u>	
State Aid	\$ 1,259,201
Federal Revenue	23,883
Lenawee Intermediate School District	<u>12,131</u>
	<u><u>\$ 1,295,215</u></u>

NOTE 5. CAPITAL ASSETS

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

	<u>Primary Government</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	
Governmental activities:				
Assets not being depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Work in progress	-	-	-	-
Total assets not being depreciated	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Land improvements	328,321	118,311	-	446,632
Buildings and improvements	8,892,084	82,150	-	8,974,234
Machinery and equipment	962,210	22,943	-	985,153
Transportation equipment	1,074,767	392,141	120,704	1,346,204
Depreciable capital assets	<u>11,257,382</u>	<u>615,545</u>	<u>120,704</u>	<u>11,752,223</u>
Less accumulated depreciation for:				
Land improvements	75,570	23,844	-	99,414
Buildings and improvements	3,636,278	192,788	-	3,829,066
Machinery and equipment	561,782	68,111	-	629,893
Transportation equipment	855,429	65,043	120,704	799,768
Total accumulated depreciation	<u>5,129,059</u>	<u>349,786</u>	<u>120,704</u>	<u>5,358,141</u>
Governmental activities capital assets, net	<u>\$ 6,178,323</u>	<u>\$ 265,759</u>	<u>\$ -</u>	<u>\$ 6,444,082</u>

Depreciation is computed by the straight line method for all classes of assets. Depreciation for the fiscal year ended June 30, 2014 and 2013 amounted to \$349,786 and \$302,021, respectively. The District determined that it was impractical to allocate depreciation and amortization to the various governmental activities as the assets serve multiple functions.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6. LONG-TERM DEBT

In September 2009, the school district issued 2009 Sand Creek Community Schools, County of Lenawee, State of Michigan Refunding Bonds in the amount of \$1,865,000 (General Obligation-Unlimited Tax) to be used to refund the 2000 School Building and Site Bonds outstanding of \$1,925,000. The net interest savings is estimated at \$87,660 over the life of the Refunding Bonds. Savings included in the June 30, 2011 financial statements is \$1,986. A schedule of the bonds and the representative interest payments due from 2014 through 2020 is as follows:

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due May 1	Interest Due November 1	Total
2014	5.00	-	-	27,975	27,975
2015	5.00	180,000	27,975	23,475	231,450
2016	5.00	190,000	23,475	18,725	232,200
2017	4.00	205,000	18,725	14,625	238,350
2018	4.00	210,000	14,625	10,425	235,050
2019	4.25	220,000	10,425	5,750	236,175
2020	5.00	230,000	5,750	-	235,750
		<u>\$ 1,235,000</u>	<u>\$ 100,975</u>	<u>\$ 100,975</u>	<u>\$ 1,436,950</u>

The School District has issued a general obligation bond issue, dated July 17, 2012, for the purpose of renovating existing school facilities for technology, purchase of computers and purchase of new buses. The bond issue for \$970,000 has an interest rate of 2.375% to 2.5%.

Year Ended June 30,	Interest Rate	Principal Due May 1	Interest Due May 1	Interest Due November 1	Total
2014	2.375	-	-	8,888	8,888
2015	2.375	130,000	8,888	7,344	146,232
2016	2.375	140,000	7,344	5,681	153,025
2017	2.375	150,000	5,681	3,900	159,581
2018	2.375	160,000	3,900	2,000	165,900
2019	2.500	160,000	2,000	-	162,000
		<u>\$ 740,000</u>	<u>\$ 27,813</u>	<u>\$ 27,813</u>	<u>\$ 795,626</u>

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 6. LONG-TERM DEBT (Continued)

The following is a schedule of the governmental long term obligations for the District for the year ended June 30, 2014:

	<u>2009 Bond</u>	<u>2012 Bond</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance July 1, 2013	\$ 1,405,000	\$ 865,000	\$ 114,995	\$ 2,384,995
Additions	-	-	-	-
Deletions	(170,000)	(125,000)	(7,485)	(302,485)
Balance June 30, 2014	1,235,000	740,000	107,510	2,082,510
Less: current portion	180,000	130,000	37,546	347,546
Total due after one year	<u>\$ 1,055,000</u>	<u>\$ 610,000</u>	<u>\$ 69,964</u>	<u>\$ 1,734,964</u>

The debt service requirements of governmental activities at June 30, 2014 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	310,000	73,726	383,726
2016	330,000	61,638	391,638
2017	355,000	48,812	403,812
2018	370,000	37,050	407,050
2019	380,000	24,850	404,850
2020	230,000	11,500	241,500
Compensated Absences	107,510	-	107,510
	<u>\$ 2,082,510</u>	<u>\$ 257,576</u>	<u>\$ 2,340,086</u>

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 7. SHORT TERM DEBT

State school aid anticipation notes are issued under the provisions of Section 1225 of Act 451, Public Acts of Michigan, and Act 34 of Michigan for the purpose of providing money for school operations. The District has pledged its State aid as collateral. In the event of unavailability or insufficiency of State school aid, the note is payable from taxes levied by the District.

The District issued a state aid anticipation note in the 2013-14 fiscal year in the amount of \$700,000. \$300,000 is set a side at an interest rate of .4% and \$220,000 non set a side at an interest rate of .27% and \$180,000 is a non set aside at an interest rate of 1.46% with a maturity date of August 2014.

Short-term debt activity for the fiscal year ended June 30, 2014 is as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
State aid anticipation note	\$ 442,857	\$ 700,000	\$ 785,714	\$ 357,143

Interest paid and accrued was \$6,142 for the fiscal year

NOTE 8. DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description The District participates in the statewide Michigan Public School Employees' Retirement System (System) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently currently operating under the provision of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan, 48909-7671 or by calling (800)381-5111. It is also available at <http://www.michigan.gov/orsschools>.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 8. DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

BENEFIT PROVISIONS - PENSION

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. A DB member of Pension Plus hybrid plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

Pension Reform 2010

On May 19, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of the Michigan Public Schools Employees' Retirement System (MPERS) who became a member of MPERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1 – members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan Members: 4% contribution
- MIP – Fixed, MIP-Graded and MIP-Plus members: a flat 7% contribution

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 8. DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

BENEFIT PROVISIONS - PENSION (Continued)

Option 2 – members voluntarily elected to increase their contributions to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 – members voluntarily elected not to increase their contributions to the pension fund and maintain their current level of contribution to the pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 – members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future service as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their *total* years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus hybrid plan described above and a Defined Contribution (DC) plan that provides a 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period to elect to opt out of the Pension Plus hybrid plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus hybrid plan. If they elect to opt out of the Pension Plus hybrid plan, their participation in the DC plan will be retroactive to their date of hire.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 8. DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

FUNDING POLICY

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contributions 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 between January 1, 1990 and June 30, 2008, 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 first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates; 3% of the \$5,000; 3.6% of \$5,001 through \$15,000; 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 of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions became participants in the Defined Contribution plan as of their transition date.

Employer Contributions

Each school district or reporting entity 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. For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. In addition, the District is required to match 50% up to 1% of the employee's contribution in the Pension Plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS were equal to the required contribution for those years.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 8. DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

FUNDING POLICY (Continued)

The School District's contributions to MPSERS are as follows:

Fiscal Year Ending June 30,	Contributions to MPSERS
2014	\$ 1,082,267
2013	\$ 1,063,505
2012	\$ 1,028,808

Included in the amount paid above, the District received \$223,487 and \$84,874 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expense for the year ended June 30, 2014 and 2013.

PA 464 Retirees Returning to Work, effective December 27, 2012 also require applicable employer contributions to the defined benefit and defined contribution plans. These amounts if any are included in the amounts paid above.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 8. DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

FUNDING POLICY (Continued)

		Fiscal Year 2014 Effective October 1, 2013						
Contributions rates		Basic MIP	Pension Plus	Pension Plus with PHF	Pension Plus to DC with PHF	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Public School Employee Pension Rates (FYE Sept. 30th)								
		DB Contributions						
Pension Normal Cost		2.90%	2.67%	2.67%	0.00%	0.00%	0.00%	2.90%
Pension UAL		14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%
Pension Early Retirement Incentive		1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Pension Contributions - Total Rate		18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health Normal Cost		0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL		5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%
Health Contributions - Total Rate		6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Total		24.79%	24.56%	23.63%	20.96%	21.89%	20.96%	23.86%
		DC Contributions						
DC 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%
Total		0.00%	1.00%	3.00%	5.00%	4.00%	6.00%	2.00%

		Fiscal Year 2013 Effective February 1, 2013						
Contributions rates		Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/3/2012	Pension Plus to DC with PHF First worked after 9/3/2012	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Public School Employee Pension Rates (FYE Sept. 30th)								
		DB Contributions						
Pension Normal Cost		2.43%	2.24%	2.24%	0.00%	0.00%	0.00%	2.43%
Pension UAL		11.42%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%
Pension Early Retirement Incentive		1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Pension Contributions - Total Rate		15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health Normal Cost		0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL		8.18%	8.18%	8.18%	8.18%	8.18%	8.18%	8.18%
Health Contributions - Total Rate		9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Total		24.32%	24.13%	23.20%	20.96%	21.89%	20.96%	23.39%
		DC Contributions						
DC 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%
Total		0.00%	1.00%	3.00%	5.00%	4.00%	6.00%	2.00%

		4 months ended 1/31/13			
Contributions rates		First worked before 7/1/2010	First worked between 6/30/10 and 9/3/2012	Pension Plus and First worked after 9/3/2012	Elected DC and First worked after 9/3/12
Public School Employee Pension Rates (FYE Sept. 30th)					
Pension Normal Cost (Prefunded)		3.47%	2.24%	2.24%	0.00%
Pension Unfunded Accrued Liability		11.42%	11.42%	11.42%	11.42%
Early Retirement Incentive Program		1.36%	1.36%	1.36%	1.36%
Pension Total Rate		16.25%	15.02%	15.02%	12.78%
Retiree Health Care Contribution (Cash basis)		0.93%	0.93%	0.00%	0.00%
Surcharge due to Injunction		8.18%	8.18%	8.18%	8.18%
Health Total Rate		9.11%	9.11%	8.18%	8.18%
Total		25.36%	24.13%	23.20%	20.96%

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

NOTE 8. DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT

Introduction

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, is currently funded on a cash disbursement basis. Beginning fiscal year 2013, it will be funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-fixed and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008 (MIP-Plus plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 set the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

Retiree Healthcare Reform of 2012

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional service or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) account no later than their first pay date after February 1, 2013.

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare. Deferred or nonvested members on September 3, 2012 who are rehired on or after September 4, 2012, will contribute 3% contribution to retiree healthcare and will retain the subsidy benefit. Returning members who made the retirement healthcare election will retain whichever option they chose.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 8. DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT (Continued)

Retiree Healthcare Reform of 2012 (Continued)

Those who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the health care funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet eligibility requirements may request a refund of their contributions. Similarly, if a retiree dies before the total value of the insurance subsidy paid equals the total value of the contributions the member made, and there are no eligible dependents, the beneficiary may request a refund of unused funds. Refunds of member contributions to the healthcare funding account are issued as a supplemental benefit paid out over a 60 month period.

1. Retirees with at least 21 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for subsidized employer paid health benefit coverage.
2. A delayed subsidy applies to retirees who became a member of the retirement system before July 1, 2008 and who purchased service credit on or after July 1, 2008. Such individuals are eligible for premium subsidy benefits at age 60 or when they would have been eligible to retire without having made a service purchase, whichever comes first. They may enroll in the insurance earlier, but are responsible for the full premium until the premium subsidy begins.

Under Public Act 300 of 2012, the state no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will automatically enrolled in a 2% employee contribution into a 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years of age at termination or \$1,000 for participants who are less than 60 years of age at termination.

Participants in the Personal Healthcare Fund, who become disabled for any reason, are not eligible for any employer funded health insurance premium subsidy. If a PHF participant suffers a non-duty related death, his or her health benefit dependents are not eligible to participate in any employer funded health insurance premium subsidy. If a PHF participant suffers a duty death, the state will pay the maximum health premium allowed by statute for the surviving spouse and health benefit dependents. The spouses' insurance subsidy may continue until his or her death, the dependents' subsidy may continue until their eligibility ends (through marriage, age, or other event). Upon eligibility for a duty death benefit, the 2% employer matching contributions and related earnings in the PHF 401(k) are forfeited and the state will pay for the subsidy payments. The beneficiaries receive the member's personal contributions and related earnings in the PHF 457 account.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 8. DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

BENEFIT PROVISIONS – OTHER POSTEMPLOYMENT (Continued)

Other Information

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree health care trust at MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus members. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the mandatory 3% contributions violated both the U.S. and Michigan constitutions. The State appealed the ruling to the Michigan Court of Appeals. The Court of Appeals accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the Court.

On August 16, 2012 the State of Michigan Court of Appeals affirmed the trial court's orders granting summary dispositions in favor of the plaintiffs in each of the cases before it, terminating the stay ordered by this Court on March 18, 2011. The State of Michigan has appealed the decision to the Michigan Supreme Court. The Office of Retirement Services is instructing Michigan public school employers to continue withholding the 3% contribution. Should the plaintiffs prevail; the escrowed funds will be returned to the employees.

NOTE 9. 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. The premiums are accrued based on the ultimate cost of the experience to date of participating members. The District cannot estimate any losses from reported and unreported claims at June 30, 2013. 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 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, 2014 or any of the prior three years.

NOTE 10. INTERFUND BALANCES

Interfund balances 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 balances are expected to be repaid within one year.

**SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014**

A schedule of interfund balances follows:

Fund	Due From	Fund	Due To
General	\$ 10,762	Nonmajor	\$ 10,762
Capital Projects	579	General	550
		Nonmajor	<u>29</u>
			<u>579</u>
Nonmajor	<u>3,379</u>	General	<u>3,379</u>
Totals	<u>\$ 14,720</u>		<u>\$ 14,720</u>

NOTE 11. INTERFUND TRANSFERS

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. A schedule of interfund transfers follows:

Fund	Transfers In	Fund	Transfers Out
General	<u>\$ 10,000</u>	Nonmajor	<u>\$ 10,000</u>
Totals	<u>\$ 10,000</u>		<u>\$ 10,000</u>

NOTE 12. NET POSITION RESTRICTED BY ENABLING LEGISLATION

Net position

The government-wide statement of net position reports \$419,158 of restricted net position at June 30, 2014, all of which is restricted by enabling legislation.

NOTE 13. UPCOMING ACCOUNTING PRONOUNCEMENT

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

SAND CREEK COMMUNITY SCHOOLS
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 14. SUBSEQUENT EVENTS

The School District has reviewed subsequent events from June 30, 2014 to the date that the financial statements were available on October 15, 2014 and determined that no additional disclosures need be made.

NOTE 15. NEW ACCOUNTING STANDARDS

GASB Statement 65 states that bond issuance costs should be expensed in the year they are incurred. As a result the remaining unamortized bond issuance costs were written off as of June 30, 2013. The restatement of the beginning of the year net position is as follows:

Net Position as previously stated on June 30, 2013	\$ 5,727,910
Adoption of GASB Statement 65	<u>13,905</u>
Net Position as restated June 30, 2013	<u>\$ 5,741,815</u>

**SAND CREEK COMMUNITY SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES:				
Local sources	\$ 330,380	\$ 336,780	\$ 332,172	\$ (4,608)
State sources	6,613,485	6,891,785	6,900,430	8,645
Federal sources	110,923	107,060	106,792	(268)
Intermediate sources	370,177	452,000	468,883	16,883
Total revenues	<u>7,424,965</u>	<u>7,787,625</u>	<u>7,808,277</u>	<u>20,652</u>
EXPENDITURES:				
Instruction:				
Basic programs	4,085,934	4,170,720	4,155,684	15,036
Added needs	1,151,556	1,113,936	1,101,989	11,947
Total instruction	<u>5,237,490</u>	<u>5,284,656</u>	<u>5,257,673</u>	<u>26,983</u>
Support services:				
Pupil	234,093	221,313	222,954	(1,641)
Instructional staff	87,018	78,432	76,612	1,820
General administration	235,331	262,669	260,562	2,107
School administration	407,883	460,766	457,880	2,886
Business	153,457	154,707	153,731	976
Operation & maintenance	626,609	686,961	683,609	3,352
Transportation	430,454	511,327	509,472	1,855
Athletics	262,595	262,095	260,119	1,976
Other	7,000	27,865	28,494	(629)
Total support services	<u>2,444,440</u>	<u>2,666,135</u>	<u>2,653,433</u>	<u>12,702</u>
Total expenditures	<u>7,681,930</u>	<u>7,950,791</u>	<u>7,911,106</u>	<u>39,685</u>
Excess of revenues over expenditures	<u>(256,965)</u>	<u>(163,166)</u>	<u>(102,829)</u>	<u>60,337</u>
Other financing sources (uses):				
Transfers in		13,000	10,000	(3,000)
Prior period adjustments		4,753	9,115	4,362
Sale of school property		778	778	-
Total other financing uses	<u>-</u>	<u>18,531</u>	<u>19,893</u>	<u>1,362</u>
Change in fund balance	(256,965)	(144,635)	(82,936)	61,699
Fund balance:				
Beginning of year			<u>1,128,361</u>	
End of year			<u>\$ 1,045,425</u>	

See notes to financial statements.

**SAND CREEK COMMUNITY SCHOOLS
BALANCE SHEET
CAPITAL PROJECTS FUND
JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013**

	.5 Mill Capital Project Fund	Other Capital Project Fund	2012 Bus/ Technology Capital Project Fund	Totals	
				2014	2013
ASSETS:					
Cash and cash equivalents	\$ 204,186	\$ 1,542	\$ 26,792	\$ 232,520	\$ 581,209
Due from other funds		550	29	579	659
Total assets	<u>\$ 204,186</u>	<u>\$ 2,092</u>	<u>\$ 26,821</u>	<u>\$ 233,099</u>	<u>\$ 581,868</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ 8,718
Due to other funds	29			29	29
Total liabilities	<u>\$ 29</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29</u>	<u>\$ 8,747</u>
FUND BALANCE:					
Restricted					
Capital projects	204,157	2,092	26,821	233,070	573,121
Total liabilities and fund balance	<u>\$ 204,186</u>	<u>\$ 2,092</u>	<u>\$ 26,821</u>	<u>\$ 233,099</u>	<u>\$ 581,868</u>

See notes to financial statements.

**SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013**

	<u>.5 Mill Capital Project Fund</u>	<u>Other Capital Project Fund</u>	<u>2012 Bus/ Technology Capital Project Fund</u>	<u>Totals</u>	
				<u>2014</u>	<u>2013</u>
REVENUES:					
Local sources:					
Property taxes	\$ 217,623	\$ -	\$ -	\$ 217,623	\$ 213,598
Investment earnings	920	-	1,411	2,331	4,225
Contributions	-	550	-	550	-
Total revenues	<u>218,543</u>	<u>550</u>	<u>1,411</u>	<u>220,504</u>	<u>217,823</u>
EXPENDITURES:					
Capital outlay	<u>206,056</u>	<u>-</u>	<u>354,499</u>	<u>560,555</u>	<u>859,530</u>
Total expenditures	<u>206,056</u>	<u>-</u>	<u>354,499</u>	<u>560,555</u>	<u>859,530</u>
Excess of revenues over expenditures	<u>12,487</u>	<u>550</u>	<u>(353,088)</u>	<u>(340,051)</u>	<u>(641,707)</u>
Other financing sources (uses):					
Contributed capital			-	-	40,000
Transfers in	-	-	-	-	-
Proceeds from bond issuance	-	-	-	-	960,385
Total other financing sources (uses):	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000,385</u>
Change in fund balance	12,487	550	(353,088)	(340,051)	358,678
FUND BALANCE:					
Beginning of year	<u>191,670</u>	<u>1,542</u>	<u>379,909</u>	<u>573,121</u>	<u>214,443</u>
End of year	<u>\$ 204,157</u>	<u>\$ 2,092</u>	<u>\$ 26,821</u>	<u>\$ 233,070</u>	<u>\$ 573,121</u>

See notes to financial statements.

**SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013**

	Special Revenue	Debt Service	Total Nonmajor Governmental Funds	
			2014	2013
ASSETS:				
Cash and cash equivalents	\$ 37,455	\$ 138,418	\$ 175,873	\$ 183,664
Due from other funds	3,379	-	3,379	-
Due from other governmental units	22,690	-	22,690	8,056
Inventory	3,952	-	3,952	4,152
Prepaid expenditures	-	-	-	625
Total assets	<u>\$ 67,476</u>	<u>\$ 138,418</u>	<u>\$ 205,894</u>	<u>\$ 196,497</u>
LIABILITIES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ 1,212	\$ -	\$ 1,212	\$ 58
Salaries payable	1,217	-	1,217	-
Accrued expenditures	2,843	-	2,843	-
Due to other funds	10,762	-	10,762	87
Total liabilities	<u>16,034</u>	<u>-</u>	<u>16,034</u>	<u>145</u>
Deferred inflows of resources:				
Unearned income	3,768	-	3,768	2,216
FUND BALANCES:				
Nonspendable				
Inventory	3,952	-	3,952	4,152
Restricted				
School lunch program	43,718	-	43,718	51,650
Capital projects	-	-	-	-
Debt service	-	138,418	138,418	137,767
Assigned				
Community service	4	-	4	567
Total fund balances	<u>47,674</u>	<u>138,418</u>	<u>186,092</u>	<u>194,136</u>
Total liabilities & fund balances	<u>\$ 67,476</u>	<u>\$ 138,418</u>	<u>\$ 205,894</u>	<u>\$ 196,497</u>

See notes to financial statements.

SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN
FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Special Revenue	Debt Service	Total Nonmajor Governmental Funds	
			2014	2013
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 379,734	\$ 379,734	\$ 372,752
Investment earnings	411	1,211	1,622	1,790
Contributions	3,000	-	3,000	-
Food sales	174,723	-	174,723	187,615
Other	2,388	-	2,388	844
Total local sources	180,522	380,945	561,467	563,001
State sources	17,669	-	17,669	20,819
Federal sources	295,006	-	295,006	300,368
Total revenues	493,197	380,945	874,142	884,188
EXPENDITURES:				
Current:				
Food service activities	488,986	-	488,986	494,876
Other expenditures	2,906	100	3,006	-
Capital outlay	-	-	-	-
Debt service:				
Interest	-	85,194	85,194	91,092
Total expenditures	491,892	85,294	577,186	585,968
Excess (deficiency) of revenues over (under) expenditures	1,305	295,651	296,956	298,220
Other financing sources (uses):				
Issuance of bond proceeds	-	-	-	-
Redemption of principal	-	(295,000)	(295,000)	(271,046)
Contributed capital	-	-	-	-
Transfers out	(10,000)	-	(10,000)	-
Total other financing sources (uses)	(10,000)	(295,000)	(305,000)	(271,046)
Change in fund balances	(8,695)	651	(8,044)	27,174
Fund balances:				
Beginning of year	56,369	137,767	194,136	166,962
End of year	\$ 47,674	\$ 138,418	\$ 186,092	\$ 194,136

See notes to financial statements.

**SAND CREEK COMMUNITY SCHOOLS
COMBINING BALANCE SHEET
SPECIAL REVENUES FUNDS
JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013**

	School Lunch	Community Service	Totals	
			2014	2013
ASSETS				
Cash and cash equivalents	\$ 37,451	\$ 4	\$ 37,455	\$ 45,897
Due from other funds	3,379	-	3,379	-
Due from other governmental units	22,690	-	22,690	8,056
Inventory	3,952	-	3,952	4,152
Prepaid expenditures	-	-	-	625
Total assets	<u>\$ 67,472</u>	<u>\$ 4</u>	<u>\$ 67,476</u>	<u>\$ 58,730</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts payable	\$ 1,212	\$ -	\$ 1,212	\$ 58
Salaries payable	1,217	-	1,217	-
Accrued expenditures	2,843	-	2,843	-
Due to other funds	10,762	-	10,762	87
Total liabilities	<u>16,034</u>	<u>-</u>	<u>16,034</u>	<u>145</u>
Deferred inflows of resources:				
Unearned income	3,768		3,768	2,216
Fund Balances:				
Nonspendable				
Inventory	3,952	-	3,952	4,152
Restricted				
School lunch program	43,718	-	43,718	51,650
Assigned				
Community service	-	4	4	567
Total fund balances	<u>47,670</u>	<u>4</u>	<u>47,674</u>	<u>56,369</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 67,472</u>	<u>\$ 4</u>	<u>\$ 67,476</u>	<u>\$ 58,730</u>

See notes to financial statements.

**SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN
FUND BALANCE
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013**

	<u>School Lunch</u>	<u>Community Service</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013</u>
REVENUES:				
Local sources:				
Food sales	\$ 174,723	\$ -	\$ 174,723	\$ 187,615
Investment earnings	411	-	411	450
Other	3,045	2,343	5,388	844
Total local sources	178,179	2,343	180,522	188,909
State sources	17,669	-	17,669	14,485
Federal sources	295,006	-	295,006	300,368
Total revenues	490,854	2,343	493,197	503,762
EXPENDITURES:				
Cost of goods sold - net	255,925	-	255,925	267,551
Salaries and wages	135,085	-	135,085	134,755
Employee benefits	63,969	-	63,969	61,923
Contracted services	9,405	-	9,405	7,873
Travel, workshops and conferences	465	-	465	234
Materials and supplies	19,226	-	19,226	20,995
Capital outlay	3,345	-	3,345	1,134
Miscellaneous	1,566	2,906	4,472	411
Total expenditures	488,986	2,906	491,892	494,876
Excess (deficiency) of revenues over (under) expenditures	1,868	(563)	1,305	8,886
Other financing sources:				
Transfers out	(10,000)	-	(10,000)	-
Total other financing sources	(10,000)	-	(10,000)	-
Change in fund balances	(8,132)	(563)	(8,695)	8,886
Fund balances:				
Beginning of year	55,802	567	56,369	47,483
End of year	<u>\$ 47,670</u>	<u>\$ 4</u>	<u>\$ 47,674</u>	<u>\$ 56,369</u>

See notes to financial statements.

**SAND CREEK COMMUNITY SCHOOLS
 COMBINING BALANCE SHEET
 DEBT SERVICE FUNDS
 JUNE 30, 2014
 WITH COMPARATIVE TOTALS FOR JUNE 30, 2013**

	<u>2000 Debt Service</u>	<u>2006 Debt Service</u>	<u>2012 Debt Service</u>	<u>Totals</u>	
				<u>2014</u>	<u>2013</u>
ASSETS:					
Cash and cash equivalents	\$ 53,230	\$ 68,802	\$ 16,386	\$ 138,418	\$ 137,767
Total assets	<u>\$ 53,230</u>	<u>\$ 68,802</u>	<u>\$ 16,386</u>	<u>\$ 138,418</u>	<u>\$ 137,767</u>
FUND BALANCE:					
Fund Balance:					
Restricted					
Debt Service	<u>53,230</u>	<u>68,802</u>	<u>16,386</u>	<u>138,418</u>	<u>137,767</u>
Total liabilities and fund balance	<u>\$ 53,230</u>	<u>\$ 68,802</u>	<u>\$ 16,386</u>	<u>\$ 138,418</u>	<u>\$ 137,767</u>

See notes to financial statements.

SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND
BALANCE
DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	<u>2000</u> <u>Debt</u> <u>Service</u>	<u>2006</u> <u>Debt</u> <u>Service</u>	<u>2012</u> <u>Debt</u> <u>Service</u>	<u>Total</u> <u>2014</u>	<u>2013</u>
REVENUES:					
Local sources:					
Property taxes	\$ 235,869	\$ -	\$ 143,865	\$ 379,734	\$ 372,752
Investment earnings	487	437	287	1,211	1,340
	<u>236,356</u>	<u>437</u>	<u>144,152</u>	<u>380,945</u>	<u>374,092</u>
State sources	-	-	-	-	6,334
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,334</u>
Total revenues	<u>236,356</u>	<u>437</u>	<u>144,152</u>	<u>380,945</u>	<u>380,426</u>
EXPENDITURES:					
Fees and miscellaneous		-	100	100	-
Debt service:					
Interest	64,450	-	20,744	85,194	91,092
	<u>64,450</u>	<u>-</u>	<u>20,744</u>	<u>85,194</u>	<u>91,092</u>
Total expenditures	<u>64,450</u>	<u>-</u>	<u>20,844</u>	<u>85,294</u>	<u>91,092</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures	<u>171,906</u>	<u>437</u>	<u>123,308</u>	<u>295,651</u>	<u>289,334</u>
Other financing sources (uses):					
Redemption of principal	<u>(170,000)</u>	<u>-</u>	<u>(125,000)</u>	<u>(295,000)</u>	<u>(271,046)</u>
Total other financing sources (uses)	<u>(170,000)</u>	<u>-</u>	<u>(125,000)</u>	<u>(295,000)</u>	<u>(271,046)</u>
Change in fund balance	1,906	437	(1,692)	651	18,288
FUND BALANCES:					
Beginning of year	<u>51,324</u>	<u>68,365</u>	<u>18,078</u>	<u>137,767</u>	<u>119,479</u>
End of year	<u>\$ 53,230</u>	<u>\$ 68,802</u>	<u>\$ 16,386</u>	<u>\$ 138,418</u>	<u>\$ 137,767</u>

See notes to financial statements.

**SAND CREEK COMMUNITY SCHOOLS
 COMBINING BALANCE SHEET
 NONEXPENDABLE TRUST FUNDS
 JUNE 30, 2014
 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Bailey/Ries Scholarship</u>	<u>Keenan Scholarship</u>	<u>Sand Creek Communications Scholarship</u>	<u>Margaret Poucher Scholarship</u>	<u>Total 2014</u>	<u>2013</u>
ASSETS:						
Cash and cash equivalents	\$ 198	\$ 3,041	\$ 154,365	\$ 35,016	\$ 192,620	\$ 159,352
Total Assets	<u>\$ 198</u>	<u>\$ 3,041</u>	<u>\$ 154,365</u>	<u>\$ 35,016</u>	<u>\$ 192,620</u>	<u>\$ 159,352</u>
NET POSITION:						
Reserved for:						
Scholarships-nonexpendable	\$ 198	\$ 3,041	\$ 154,365	\$ 35,016	\$ 192,620	\$ 159,352
Total Liabilities and Net Position	<u>\$ 198</u>	<u>\$ 3,041</u>	<u>\$ 154,365</u>	<u>\$ 35,016</u>	<u>\$ 192,620</u>	<u>\$ 159,352</u>

See notes to financial statements.

SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Bailey/Ries Scholarship	Keenan Scholarship	Sand Creek Communications Scholarship	Margaret Poucher Scholarship	Totals	
					2014	2013
REVENUES:						
Contributions	\$ 350	\$ -	\$ 550	\$ 35,000	\$ 35,550	\$ -
Investment earnings	-	23	1,279	16	1,318	1,352
Total revenues	350	23	1,829	35,016	36,868	1,352
EXPENSES:						
Scholarships paid	350	500	3,100		3,600	500
Total expenses	350	500	3,100	-	3,600	500
Change in net position	-	(477)	(1,271)	35,016	33,268	852
NET POSITION:						
Beginning of year	198	3,518	155,636	-	159,352	158,500
End of year	<u>\$ 198</u>	<u>\$ 3,041</u>	<u>\$ 154,365</u>	<u>\$ 35,016</u>	<u>\$ 192,620</u>	<u>\$ 159,352</u>

See notes to financial statements.

**SAND CREEK COMMUNITY SCHOOLS
 COMBINING BALANCE SHEET
 EXPENDABLE TRUST AND AGENCY FUNDS
 JUNE 30, 2014
 WITH COMPARATIVE TOTALS FOR JUNE 30, 2013**

	<u>Expendable Trust</u>	<u>Agency</u>	<u>Totals</u>	
			<u>2014</u>	<u>2013</u>
ASSETS:				
Cash and cash equivalents	\$ 11,370	\$ 119,267	\$ 130,637	\$ 118,040
Due from other funds	<u>-</u>	<u>350</u>	<u>350</u>	<u>-</u>
Total assets	<u>\$ 11,370</u>	<u>\$ 119,617</u>	<u>\$ 130,987</u>	<u>\$ 118,040</u>
LIABILITIES AND NET POSITION:				
LIABILITIES:				
Due to student groups	<u>\$ -</u>	<u>\$ 119,617</u>	<u>\$ 119,617</u>	<u>\$ 106,376</u>
Total liabilities	<u>-</u>	<u>119,617</u>	<u>119,617</u>	<u>106,376</u>
NET POSITION:				
Reserved for:				
Scholarships-expendable	<u>11,370</u>	<u>-</u>	<u>11,370</u>	<u>11,664</u>
Total liabilities and net position	<u>\$ 11,370</u>	<u>\$ 119,617</u>	<u>\$ 130,987</u>	<u>\$ 118,040</u>

See notes to financial statements.

SAND CREEK COMMUNITY SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2013

	Sand Creek Communication Scholarship	Clark Scholarship	Class of 2011	Petrulio Scholarship	Wilt/Horner/Isley Scholarship	Barnes Scholarship	Kelly Scholarship	Ondrovick Scholarship	Totals	
									2014	2013
REVENUES:										
Contributions	\$ 4,500	\$ -	\$ 550	\$ -	\$ -	\$ 1,700	\$ 1,400	\$ -	\$ 8,150	\$ 9,408
Investment earnings	78	3	-	-	5	-	-	20	106	113
Total revenues	4,578	3	550	-	5	1,700	1,400	20	8,256	9,521
EXPENSES:										
Scholarships paid	3,450	250	1,700	-	500	1,150	750	750	8,550	7,900
Total expenses	3,450	250	1,700	-	500	1,150	750	750	8,550	7,900
Other financing sources (uses):										
Transfers in	-	-	-	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-
Change in net position	1,128	(247)	(1,150)	-	(495)	550	650	(730)	(294)	1,621
NET POSITION:										
Beginning of year	\$ 4,911	671	2,408	58	1,267	(41)	(742)	3,132	11,664	10,043
End of year	\$ 6,039	\$ 424	\$ 1,258	\$ 58	\$ 772	\$ 509	\$ (92)	\$ 2,402	\$ 11,370	\$ 11,664

See notes to financial statements.

**SAND CREEK COMMUNITY SCHOOLS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2014</u>
ASSETS:				
Cash and cash equivalents	\$ 106,376	\$ 245,301	\$ 232,410	\$ 119,267
Due from governmental funds	-	350	-	350
Total assets	<u>\$ 106,376</u>	<u>\$ 245,651</u>	<u>\$ 232,410</u>	<u>\$ 119,617</u>
LIABILITIES:				
Due to student groups	\$ 106,376	\$ 245,651	\$ 232,410	\$ 119,617
Total liabilities	<u>\$ 106,376</u>	<u>\$ 245,651</u>	<u>\$ 232,410</u>	<u>\$ 119,617</u>

See notes to financial statements.

**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**

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

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 Sand Creek Community Schools (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 October 15, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered Sand Creek Community Schools' internal control over financial reporting 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 charge 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we considered to be significant deficiencies.

To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

2014-1

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

2014 – 2

Criteria: Adequate design of internal control over the complete preparation of the financial statements and footnotes being audited.

Cause: The District does not have personnel with level of knowledge to update the footnotes completely.

Effect: The District's design uses a template to prepare the financial statements, and prepares the footnotes with the best available information, however, may not be able to detect and correct misstatements timely.

Recommendation: From information gleaned from various seminars attended, consider gathering information on footnotes that will fit the School's needs, and apply appropriately.

Management's Response: The School District has evaluated the manner in which they prepare the financial statements and footnotes to those financial statements and will attempt to follow the recommendation made. However, the cost associated with this is not justified by the expected benefits.

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.

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To the Board of Education
Sand Creek Community Schools
Sand Creek, Michigan

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.

Robertson, Eaton & Owen, P.C.
Adrian, Michigan

October 15, 2014