

**Ashley Community School District
Ashley, Michigan**

Financial Statements
With Supplemental Information
June 30, 2012



RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

Ashley Community School District
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June 30, 2012

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Independent Auditor's Report

Ashley Community School District
Ashley, Michigan

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2012, on our consideration of Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Schools' financial statements as a whole. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been

subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 1, 2012

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



Ashley Community Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2012

This section of Ashley Community School's annual financial report presents our discussion and analysis of Ashley Community Schools' financial performance during the year ended June 30, 2012. Please read this section in conjunction with the financial statements that immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Ashley Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the District's operations in more detail than the District-wide financial statements.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for the General Fund and Major Special Revenue Funds

Other Supplemental Information

Reporting the School District as a Whole – District-wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the financial condition of Ashley Community Schools as a result of this year's activities?" The statement of net assets and the statement of activities, which appear first in the financial statements, report information on the District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Ashley Community Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2012

These two statements report the District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results. However, the District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of services provided and the safety of the schools, to assess the overall health of the Ashley Community Schools.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all the District's services, including instruction, supporting services, and community services, athletics, and food services. Property taxes, State Aid, and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – 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. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help control and manage money for particular purposes or to show that the School District is meeting legal responsibilities for using certain taxes, grants and other money.

The governmental funds of the School District use the following accounting approach:

Governmental Funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Ashley Community Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the Ashley Community Schools as a whole. Table 1 provides a summary comparison of the District's net assets as of June 30, 2012 versus the previous year:

Table 1	2012 Governmental Activities	2011 Governmental Activities
Assets		
Current and other assets	\$ 805,382	\$ 955,006
Capital assets, net of depreciation	<u>4,474,326</u>	<u>4,641,994</u>
Total Assets	5,279,708	5,597,000
Liabilities		
Current liabilities	1,171,589	1,159,607
Long-term liabilities	<u>4,890,032</u>	<u>4,988,796</u>
Total Liabilities	6,061,621	6,148,403
Net Assets		
Invested in capital assets, net of related debt	199,326	142,840
Restricted	37,666	35,034
Unrestricted	<u>(1,018,905)</u>	<u>(729,277)</u>
Total Net Assets	\$ (781,913)	\$ (551,403)

Ashley Community Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The net assets of the School District on June 30, 2012 were (\$781,913). Capital assets, net of related debt totaled \$199,326, compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due.

Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$1,018,905) was unrestricted.

The (\$1,018,905) in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

As reported in the statement of activities, the cost of all of our governmental activities this year was \$3,414,089. We paid for our governmental activities with \$464,349 in taxes, \$2,034,210 in unrestricted state sources, \$311,031 in federal grants, and with our other revenues, such as interest, fees charged for athletic events and lunches, and restricted state grants.

The Ashley Community School District experienced a decrease in net assets of \$231,569. The decrease in net assets differs from the change in fund balance and the reconciliation appears on page 6.

As discussed earlier, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

Ashley Community Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The results of this year's operations for Ashley Community Schools as a whole are reported in the statement of activities (see Table 2), which summarizes the revenues and expenses for 2012.

	Governmental Funds 2012	%	Governmental Funds 2011	%	Governmental Funds 2010	%
Table 2						
Revenue						
Program Revenue	\$567,091	18	\$628,552	18	\$625,637	16
General Revenue:						
Property Taxes	464,349	14	422,214	12	445,184	12
State Foundation Allowance	2,034,210	64	2,312,097	66	2,380,971	67
Other	116,870	4	136,271	4	155,360	5
Total Revenues	3,182,520	100	3,499,134	100	3,607,152	100
Function/Program Expenses						
Instruction	1,891,002	55	2,083,112	56	2,033,574	55
Support Services	1,010,891	30	1,093,429	29	1,065,711	28
Food Service	124,504	4	145,198	4	134,759	4
Athletics	-	0	-	0	75,038	2
Interest & Fees on Long-Term Debt	212,190	6	221,066	6	230,708	6
Other	7,834	0	7,315	0	8,546	0
Depreciation - unallocated	167,668	5	183,835	5	189,035	5
Total Expenses	3,414,089	100	3,733,955	100	3,737,371	100
Increase (Decrease) In Net Assets	(\$231,569)		(\$234,821)		(\$130,219)	

Ashley Community Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The School District's Funds

The Ashley Community School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the District completed this year, the governmental funds reported a combined fund balance of (\$127,191). In the General Fund, our principal operating fund, the fund balance was (\$164,857). In the General Fund total revenues and expenses were within 0.17% and 1.27%, respectively, of budgeted amounts.

- ◆ The Food Service Fund showed a fund balance increase of \$1,084 as a result of general food service operations. There were no significant events in the food service operations during the school year.
- ◆ The Debt Service Funds showed a fund balance increase of \$1,548. The millage rate of 7 mills insures that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Ashley Community School District revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

Changes to the to the General Fund original budget were as follows:

Budgeted revenues decreased \$215,219, which is a decrease of 7.2% compared to the original budget.

Budgeted expenditures decreased by \$206,358, which is a 6.7% decrease when compared to the original budget. The decrease was due mainly to a variety of expenditure changes including utilities, transportation fuel, and various maintenance costs.

Actual revenues collected were \$4,736 less than the final budgeted amounts, which is a 0.17% variance. This variance was mostly due to a decrease in actual pupil count compared to projected pupil count and corresponding increases in revenues from other sources.

Actual expenditures were \$37,071 more than the final budget amounts, which is a 1.27% variance.

The overall change in fund balance from the amended budget to the ending actual was an unfavorable \$40,748.

Ashley Community Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the Ashley Community School District had \$4,474,326 invested in capital assets, including land, buildings, equipment, and vehicles.

Asset	Amount
Land, Buildings and Improvements	\$5,893,694
Vehicles	521,193
Equipment	283,198
Furniture	87,727
Total	6,785,812
Accumulated Depreciation	(2,311,486)
Net Capital Assets	\$4,474,326

Debt

At June 30, 2012 the Ashley Community Schools District had \$5,100,032 in debt outstanding. That debt consists of the following:

Debt	Amount
School Loan Revolving Fund	\$714,556
School Bond Loan Fund	96,931
Compensated Absences	13,545
2004 Bonds	<u>4,275,000</u>
Total Debt	\$5,100,032

ECONOMIC FACTORS AND NEXT YEAR BUDGETS

Our elected Board of Education officials and administration consider many factors when setting the Ashley Community Schools 2012-2013 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2012-2013 fiscal year is 10 percent of the previous year February count and 90 percent of the October, 2012 student count. The 2012-2013 fiscal year budget was adopted in June 2012, based on an estimate of students that will be enrolled in September 2012. Approximately 77% of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. Based on early enrollment data at the start of the 2012-2013 school year, we anticipate that the fall student count will be decrease below the estimates used in creating the original 2012-2013 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget to reflect anticipated revenues.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation at state budget approved levels.

The School District has a one-year labor contract with the professional staff effective through for the 2012-2013 fiscal year.

GENERAL FUND DEFICIT

The Michigan State School Aid act state that district shall not adopt or operate under a deficit during a fiscal year. Districts operating under a deficit budget shall file a Deficit Elimination Plan with the Michigan Department of Education for approval which eliminates the deficit no later than the end of the second fiscal year the deficit has occurred. At June 30, 2012 the general fund of the District had a deficit of \$164,857. The District is currently working with the Michigan Department of Education on approval of a Deficit Elimination Plan.

Ashley Community Schools
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Contacting the School District's Financial Management

This financial report is designed to provide the Ashley School District citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

**Central Office
Ashley Community Schools
104 N. New Street, PO Box 6
Ashley, MI 48806**

**DISTRICT-WIDE
FINANCIAL STATEMENTS**



Ashley Community School District
Statement of Net Assets
June 30, 2012

Assets

Current assets	
Cash and cash equivalents	\$ 395,644
Accounts receivable	483
Due from other governmental units	409,255
Total current assets	805,382
Noncurrent assets	
Capital assets less accumulated depreciation	4,474,326
Total assets	5,279,708

Liabilities

Current liabilities	
Accounts payable	27,411
Salaries payable	137,443
Accrued interest	29,016
Deferred revenue	1,000
Accrued expenses	116,719
Short-term note payable	650,000
Current portion of bonds payable	210,000
Total current liabilities	1,171,589
Non-current liabilities	
Bonds payable	4,065,000
Compensated absences	13,545
School loan revolving fund payable	714,556
School bond loan fund payable	96,931
Total non-current liabilities	4,890,032
Total liabilities	6,061,621

Net assets

Invested in capital assets, net of related debt	199,326
Restricted for:	
Debt service	30,555
Food service	7,111
Unrestricted	(1,018,905)
Total net assets	\$ (781,913)

Ashley Community School District
Statement of Activities
For the Year Ended June 30, 2012

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 1,891,002	\$ -	\$ 426,212	\$ (1,464,790)
Support services	1,010,891	-	22,130	(988,761)
Food service	124,504	38,577	80,172	(5,755)
Interest and fees on long-term debt	212,190	-	-	(212,190)
Other expenses	7,834	-	-	(7,834)
Depreciation - unallocated	167,668	-	-	(167,668)
Total school district	<u>\$ 3,414,089</u>	<u>\$ 38,577</u>	<u>\$ 528,514</u>	<u>(2,846,998)</u>
General revenues:				
Property taxes				464,349
State sources				2,034,210
Unrestricted interest and investment earnings				451
Restricted interest and investment earnings				77
Other revenues				116,342
Total general revenues				<u>2,615,429</u>
Change in net assets				(231,569)
Net assets - beginning of year				(551,403)
Prior period adjustment				<u>1,059</u>
Net assets - end of year				<u>\$ (781,913)</u>

FUND FINANCIAL STATEMENTS



Ashley Community School District
Balance Sheet
Governmental Funds
June 30, 2012

	Major Funds			Totals
	General	Food Service	Debt Service	
Assets				
Cash and cash equivalents	\$ 363,089	\$ 2,000	\$ 30,555	\$ 395,644
Accounts receivable	449	34	-	483
Due from other funds	-	2,153	-	2,153
Due from other governmental units	406,331	2,924	-	409,255
Total assets	<u>\$ 769,869</u>	<u>\$ 7,111</u>	<u>\$ 30,555</u>	<u>\$ 807,535</u>
Liabilities				
Accounts payable	\$ 27,411	\$ -	\$ -	\$ 27,411
Due to other funds	2,153	-	-	2,153
Salaries payable	137,443	-	-	137,443
Deferred revenue	1,000	-	-	1,000
Accrued expenses	116,719	-	-	116,719
Short-term note payable	650,000	-	-	650,000
Total liabilities	<u>934,726</u>	<u>-</u>	<u>-</u>	<u>934,726</u>
Fund balances				
Non-spendable	-	-	-	-
Restricted	-	7,111	30,555	37,666
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	(164,857)	-	-	(164,857)
Total fund balances	<u>(164,857)</u>	<u>7,111</u>	<u>30,555</u>	<u>(127,191)</u>
Total liabilities and fund balances	<u>\$ 769,869</u>	<u>\$ 7,111</u>	<u>\$ 30,555</u>	<u>\$ 807,535</u>

Ashley Community School District
 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
 to Net Assets of Governmental Activities on the Statement of Net Assets
 For the Year Ended June 30, 2012

Total fund balance - governmental funds \$ (127,191)

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Add:	Cost of capital assets	\$ 6,785,812	
Deduct:	Accumulated depreciation	<u>(2,311,486)</u>	
			4,474,326

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Deduct:	Bonds payable	(4,275,000)	
Deduct:	Compensated absences payable	(13,545)	
Deduct:	School loan revolving fund payable	(714,556)	
Deduct:	School bond loan fund payable	(96,931)	
Deduct:	Accrued interest on long-term liabilities	<u>(29,016)</u>	
			<u>(5,129,048)</u>

Total net assets - governmental activities \$ (781,913)

Ashley Community School District
Statement of Revenues, Expenditures, and Changes In Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	Major Funds			Totals
	General	Food Service	Debt Service	
Revenues				
Local sources	\$ 169,394	\$ 38,577	\$ 303,933	\$ 511,904
State sources	2,252,547	6,839	-	2,259,386
Federal sources	230,859	80,172	-	311,031
Other sources	100,199	-	-	100,199
Total revenues	<u>2,752,999</u>	<u>125,588</u>	<u>303,933</u>	<u>3,182,520</u>
Expenditures				
Instruction				
Basic programs	1,368,714	-	-	1,368,714
Added needs	521,126	-	-	521,126
Total instruction	<u>1,889,840</u>	<u>-</u>	<u>-</u>	<u>1,889,840</u>
Support services				
Pupil	5,578	-	-	5,578
Instructional staff	32,599	-	-	32,599
General administration	231,154	-	-	231,154
School administration	170,245	-	-	170,245
Business services	30,527	-	-	30,527
Operation and maintenance	310,426	-	-	310,426
Pupil transportation	149,264	-	-	149,264
Athletics	81,098	-	-	81,098
Total support services	<u>1,010,891</u>	<u>-</u>	<u>-</u>	<u>1,010,891</u>
Food service	-	124,504	-	124,504
Debt service - principal	24,154	-	200,000	224,154
Debt service - interest and other	956	-	188,413	189,369
Other expenses	7,834	-	-	7,834
Total expenditures	<u>2,933,675</u>	<u>124,504</u>	<u>388,413</u>	<u>3,446,592</u>
Revenues over (under) expenditures	(180,676)	1,084	(84,480)	(264,072)
Other financing sources (uses)				
Proceeds from revolving fund	-	-	86,028	86,028
Revenues and other sources over (under) expenditures and other uses	(180,676)	1,084	1,548	(178,044)
Fund balance - beginning of year	14,760	6,027	29,007	49,794
Prior period adjustment	<u>1,059</u>	<u>-</u>	<u>-</u>	<u>1,059</u>
Fund balance - end of year	<u>\$ (164,857)</u>	<u>\$ 7,111</u>	<u>\$ 30,555</u>	<u>\$ (127,191)</u>

Ashley Community School District
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$	(178,044)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Deduct: Depreciation expense		(167,668)
<p>Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).</p>		
Add: 2004 bond payment		200,000
Add: 2009 bus payment		24,154
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>		
Add: Decrease/(increase) in accrual for compensated absences		(1,162)
Deduct: Increase in accrued interest on school loan revolving fund		(19,553)
Deduct: Increase in accrued interest on school bond loan fund		(4,493)
Add: Decrease in accrual interest on long-term liabilities		1,225
<p>Proceeds from long-term debt issuance is an other financial source in the governmental funds, but not in the statement of activities (where it increases long-term debt).</p>		
Deduct: Proceeds from school loan revolving fund		<u>(86,028)</u>
Change in net assets of governmental activities	\$	<u><u>(231,569)</u></u>

Ashley Community School District
Statement of Net Assets – Fiduciary Fund
For the Year Ended June 30, 2012

Assets

Cash and cash equivalents	\$ 25,943
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Liabilities

Due to student and other groups	<u>25,943</u>
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Net Assets

Restricted	<u><u>\$ -</u></u>
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NOTES TO THE FINANCIAL STATEMENTS



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ashley Community School District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District.

Reporting Entity

The District is governed by a seven member Board of Education 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. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

District-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items, including taxes and intergovernmental payments, not properly included among program revenues, are reported instead as general revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted sources first, then unrestricted resources as they are needed.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Financial Statements – The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - The 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 year end. 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 severance pay, are recorded only when payment is due.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The District reports the following major governmental funds:

- The general fund is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.
- The debt service fund is used to record tax, interest and other revenue for payment of principal and other expenditures on the long-term debt.
- The capital projects fund accounts for financial resources used for the acquisition, construction, and improvement of major capital facilities other than those financed by proprietary funds. These resources are derived from proceeds of the 2004 bond issue.
- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The school service funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The District maintains full control of these funds. The school service funds maintained by the District are the athletic fund and food service fund.

Additionally, the District reports the following fund types:

- Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net assets and results of operations are not included in the District-wide statements. Agency funds are custodial in nature (i.e. assets equal liabilities) and do not involve measurement of results of operations.
- The District presently maintains a student activity fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the District for the general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District's deposits are in accordance with statutory authority.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan.

Property Tax Revenue

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 July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and interest and penalties may be assessed by the collecting entity.

The taxable value for the District amounted to \$41,446,597, which includes \$7,762,958 attributable to non-homesteads. The District levied 18.0 mills for school general operations on the non-homestead taxable value, which totaled \$139,733. The District also levied an additional 7.0 mills for the 2004 debt on all property in the District for the purpose of debt service, which totaled \$290,126.

State Aid Revenue

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenue in accordance with State law and accounting principles generally accepted in the United States of America.

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 categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventory

Inventories are valued at cost, on a first in, first out (FIFO) basis. Fund balance is reserved for the amount of inventories on hand as of June 30th.

USDA donated commodities are recorded as a deferred revenue and inventory when received based on their fair market value as determined by the U.S. Department of Agriculture. Revenues and expenditures are then recognized when the commodities are used.

The amount of inventories at year end, including USDA donated commodities, was not significant and, therefore, was not recorded in the financial statements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the District-wide financial statements. Capital assets are defined by the District as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The District does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the District-wide financial statements.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings & Additions	15 – 50
Equipment	5 – 20
Vehicles	5 – 10
Furniture	10 – 25

Estimates

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

Compensated Absences

Employees who are not teachers are awarded vacation based on years of employment. The school board's policy does not allow for the accumulation of vacation days. The vacation pay liability is not reflected in the financial statements because it does not exceed a normal year's accumulation.

The District has various policies for earning sick days. Sick days are earned at the rate of ten (10) days annually. A maximum of 90 days may be accumulated by teachers. All others accumulate up to a maximum of 40 days. Retiring teachers must have at least ten (10) years of service to receive payment for sick leave. They will then be paid for unused accumulated sick days at a rate of \$15.00 per day, or \$1,350 maximum. All other employees receive nothing upon retirement or termination of employment. The sick leave liability as of June 30, 2012 is \$13,545.

Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net assets.

Fund Balance

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – amounts that are in nonspendable form (such as inventory or prepaid

expenditures) or are either legally or contractually required to be maintained intact.

- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District’s Capital Projects and Debt Service fund balances are considered restricted. The District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.
- *Committed fund balance* – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- *Assigned fund balance* – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Unemployment Compensation

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits charged against the District for the year. No provision has been made for possible future claims.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the funds were adopted on a function level and have been presented as such in the Budgetary Comparison Schedules in this report.

During the year ended June 30, 2012, the District incurred expenditures in excess of the amounts budgeted as shown in the Budgetary Comparison Schedules in this report as unfavorable variances.

Also, see Note 14 regarding the General Fund Deficit.

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2012, the carrying amount of the District’s cash, deposits and investments was as follows:

Description	Amount
Petty Cash	\$ 400
Deposits With Financial Institutions: Interest Bearing Checking, Savings, Money Market Accounts	395,244
Total	\$ 395,644

At year-end, the carrying amount of the District’s deposits was \$395,244 and the bank balance was \$450,364. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the

Ashley Community School District
Notes to the Financial Statements

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

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. See above for amount of deposits held by the District that are exposed to custodial credit risk because it is uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, it is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

NOTE 4 - ACCOUNTS RECEIVABLE

These receivables consist of various amounts owed to the District that are due from non-governmental units.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at June 30th are as follows:

Fund	Due From	Due To
General Fund	\$ -	\$ 2,153
Food Service Fund	2,153	-
Totals	\$ 2,153	\$ 2,153

NOTE 6 - DUE FROM OTHER GOVERNMENTAL UNITS

As of June 30th, due from other governmental units is comprised of the following amounts:

Due From	Amount
State of Michigan – State Aid	\$ 406,331
State of Michigan – State Aid (Food Service)	2,924
Total	\$ 409,255

NOTE 7 - CAPITAL ASSETS

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

Capital Assets	Beginning Balance	Additions	Disposals	Ending Balance
Buildings & Additions	\$ 5,893,694	\$ -	\$ -	\$ 5,893,694
Equipment	283,198	-	-	283,198
Vehicles	521,193	-	-	521,193
Furniture	87,727	-	-	87,727
Total Capital Assets	6,785,812	-	-	6,785,812
Accumulated Depreciation				
Buildings & Additions	(1,465,201)	(131,208)	-	(1,596,409)
Equipment	(207,259)	(16,125)	-	(223,384)
Vehicles	(447,875)	(15,867)	-	(463,743)
Furniture	(23,482)	(4,468)	-	(27,950)
Total Accumulated Depreciation	(2,143,818)	(167,668)	-	(2,311,486)
Net Capital Assets	\$ 4,641,994	\$ (168,668)	\$ -	\$ 4,474,326

Depreciation for the year ended June 30, 2012 totaled \$168,668. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 8 - SALARIES PAYABLE

Accrued wages as of June 30th consist mainly of the remaining balance owed on teacher contracts to be paid during the summer months. This also includes amounts earned by other employees as of year-end but not paid until after year-end.

NOTE 9 - ACCRUED EXPENSES

Accrued expenses as of June 30th are as follows:

Accrued Expenses	Amount
Retirement	\$ 33,613
FICA	10,373
Health Insurance	70,758
Other	1,975
Totals	\$ 116,719

NOTE 10 - SHORT-TERM NOTE PAYABLE

On August 22, 2011, the District borrowed \$650,000 in the form of a State Aid Anticipation Note for the purpose of providing funds for school operations. The interest rate is stated at 0.98% and the maturity date is August 20, 2012.

On August 20, 2012 (after the end of the current fiscal year) the District borrowed \$750,000 in the form of a State Aid Anticipation Note for the purpose of providing funds for school operations. The interest rate is stated at 0.59% and the maturity date is August 20, 2013.

NOTE 11 - LONG-TERM DEBT

The District issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and refunding bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include compensated absences.

2004 Bond Issue

During 2004 the District issued \$5,465,000 of general obligation bonds for the purpose of erecting, furnishing, and equipping additions to and partially remodeling, furnishing and refurbishing, equipping and re-equipping school buildings; acquiring, installing and equipping the facility for technology; and developing and improving the site.

Also, a portion of the 2004 bond proceeds has been used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the 1996 bonds until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance. Accordingly, the trust account assets and the liability for the defeased bonds are not included on the District's financial statement.

As a result of the advance refunding, the District reduced its total debt service requirements by \$213,566, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$148,856. An additional estimated savings \$206,971 will result from reduced interest expense from the school bond loan fund.

See schedule of long-term debt in the back of this report.

School Bond Loan Fund and School Loan Revolving Fund

The District has periodically approved the borrowing from the State Of Michigan's School Bond Loan Fund and the School Loan Revolving Fund for the purpose of paying debt service. The interest rates are variable. Repayment of the loans will begin when excess funds are available from the taxes collected for payment of the bond issue.

See bond payment schedules included in the back of this report.

Loan – Bus

On June 16, 2009, the District borrowed \$72,462 for the purpose of purchasing a school bus. The terms of the loan call for two payments of \$22,901 beginning on September 12, 2009. The interest rate is stated at 3.99%.

Ashley Community School District
Notes to the Financial Statements

Changes to Long-Term Debt

The long-term obligations currently outstanding are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
Compensated Absences	\$ 12,383	\$ 1,162	\$ -	\$ 13,545	\$ -	\$ 13,545
2004 Bonds	4,475,000	-	(200,000)	4,275,000	210,000	4,065,000
School Bond Loan Fund	92,438	4,493	-	96,931	-	96,931
School Bond Revolving	608,975	105,581	-	714,556	-	714,556
Bus Loan - 2009	24,154	-	(24,154)	-	-	-
Total	\$ 5,212,950	\$ 111,236	\$ (224,154)	\$ 5,100,032	\$ 210,000	\$ 4,890,032

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2012, including interest of \$1,882,016 are as follows:

Fiscal Year Ending June 30,	Amount
2013	\$ 387,737
2014	390,212
2015	387,256
2016	383,723
2017	384,676
2018	384,993
2019	384,665
2020	383,730
2021	387,075
2022	374,820
2023	230,250
2024	223,650
2025	216,900
2026	210,000
2027	203,063
2028	196,088
2029	189,113
2030	182,063
2031	174,938
2032	167,813
2033	160,688
2034	153,563

NOTE 12 - EMPLOYEE RETIREMENT SYSTEM

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

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

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

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate through September 30, 2011 was 20.66% of payroll and increased to 24.46% for the base plan and 23.23% for pension plus members effective October 1, 2011 through October 31, 2012 at which time it increased again due to the number of retirees associated with the early retirement incentive to 27.37% for basic plan members and 26.14% for pension plus members for the period October 1, 2012 through September 30, 2013. In addition, the district is required to match 50% up to 1% of the employees 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 health care portion is 5.5% before the 3% for the injunction. The District's contributions to MPERS for the years ended June 30, 2012, 2011, and 2010, were \$380,222, \$349,578, and \$305,374, respectively, and were equal to the required contribution for those years.

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

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

The District is not responsible for the payment of retirement or post-retirement benefits which is the responsibility of the State of Michigan.

NOTE 13 - RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The District has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 14 – GENERAL FUND DEFICIT

The Michigan State School Aid act states a district receiving money under this act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund during a school fiscal year. A district having an existing deficit or which incurs a deficit shall not be allotted or paid a further sums under this act until the district submits to the Michigan Department of Education for approval a budget for the current fiscal year and a plan to eliminate the deficit not later than the end of the second fiscal year after the deficit was incurred.

At June 30, 2012, the general fund of the District had a deficit of \$164,857. The District is currently working with the Michigan Department of Education and implementing its deficit elimination plan.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE



Ashley Community School District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$155,068	\$170,117	\$ 169,394	\$ (723)
State sources	2,552,046	2,255,795	2,252,547	(3,248)
Federal sources	153,340	230,411	230,859	448
Other sources	112,500	101,412	100,199	(1,213)
Total revenues	<u>2,972,954</u>	<u>2,757,735</u>	<u>2,752,999</u>	<u>(4,736)</u>
Expenditures				
Instruction				
Basic programs	1,367,287	1,296,698	1,368,714	(72,016)
Added needs	533,717	571,204	521,126	50,078
Total instruction	<u>1,901,004</u>	<u>1,867,902</u>	<u>1,889,840</u>	<u>(21,938)</u>
Support services				
Pupil	66,771	5,578	5,578	-
Instructional staff	81,974	33,346	32,599	747
General administration	229,879	231,745	231,154	591
School administration	170,780	171,429	170,245	1,184
Business services	38,130	30,528	30,527	1
Operation and maintenance	338,070	305,131	310,426	(5,295)
Pupil transportation	193,584	165,255	149,264	15,991
Athletics	75,270	78,190	81,098	(2,908)
Total support services	<u>1,194,458</u>	<u>1,021,202</u>	<u>1,010,891</u>	<u>10,311</u>
Outgoing transfers and other	7,500	7,500	32,944	(25,444)
Total expenditures	<u>3,102,962</u>	<u>2,896,604</u>	<u>2,933,675</u>	<u>(37,071)</u>
Revenues over (under) expenditures	(130,008)	(138,869)	(180,676)	(41,807)
Fund balance - beginning of year	14,760	14,760	14,760	-
Prior period adjustment	-	-	1,059	1,059
Fund balance - end of year	<u>\$ (115,248)</u>	<u>\$ (124,109)</u>	<u>\$ (164,857)</u>	<u>\$ (40,748)</u>

Ashley Community School District
 Budgetary Comparison Schedule for the Food Service Fund
 For the Year Ended June 30, 2012

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$44,000	\$46,505	\$ 38,577	\$ (7,928)
State sources	6,151	4,224	6,839	2,615
Federal sources	70,000	71,348	80,172	8,824
Total revenues	<u>120,151</u>	<u>122,077</u>	<u>125,588</u>	<u>3,511</u>
Expenditures				
Food service	<u>114,500</u>	<u>122,033</u>	<u>124,504</u>	<u>(2,471)</u>
Revenues over (under) expenditures	5,651	44	1,084	1,040
Fund balance - beginning of year	6,027	6,027	6,027	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 11,678</u></u>	<u><u>\$ 6,071</u></u>	<u><u>\$ 7,111</u></u>	<u><u>\$ 1,040</u></u>

OTHER SUPPLEMENTARY INFORMATION



Ashley Community School District
General Fund
Statement of Revenues
For the Year Ended June 30, 2012

Local sources

Property taxes	\$ 160,493
Fees for instruction	6,207
Interest	451
Rental fees	125
Gate receipts	-
Other local revenues	2,118
Total local sources	<u>169,394</u>

State sources

General state aid	2,034,210
Categorical:	
Special education	95,153
At risk	68,494
Class size reduction	22,130
Best practice incentive	32,560
School readiness	-
Total state sources	<u>2,252,547</u>

Federal sources

Title I	182,059
Medicaid	13,636
Education Jobs Fund	6,358
Title II, Part A - Improving teacher quality	28,806
Total federal sources	<u>230,859</u>

Other financing sources

County special education tax	31,706
District library	24,000
Other funding sources	44,493
Total other financing sources	<u>100,199</u>

Total revenues	<u><u>\$ 2,752,999</u></u>
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Ashley Community School District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2012

Instruction

Basic programs

Elementary

Salaries	\$ 290,524
Employee benefits	176,889
Purchased services	13,215
Supplies, materials and other	6,625
Total elementary	487,253

Middle school

Salaries	252,025
Employee benefits	136,961
Purchased services	5,855
Supplies, materials and other	687
Total middle school	395,528

Secondary

Salaries	296,829
Employee benefits	171,143
Purchased services	10,281
Supplies, materials and other	7,680
Total secondary	485,933

Total basic programs

1,368,714

Added needs

Special education

Salaries	182,102
Employee benefits	90,830
Purchased services	2,489
Supplies, materials and other	137
Total special education	275,558

Title I

Salaries	100,246
Employee benefits	31,641
Purchased services	4,639
Supplies, materials and other	57,426
Capital outlay	83
Total Title I	194,035

Ashley Community School District
 General Fund
 Statement of Expenditures
 For the Year Ended June 30, 2012

Instruction (continued)

Added needs (continued)

Reap

Salaries	\$ 14,900
Employee benefits	7,230
Total Reap	22,130

At risk

Salaries	21,171
Employee benefits	7,634
Supplies, materials and other	598
Total at risk	29,403

Total added needs	521,126
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Total instruction	1,889,840
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Supporting services

Pupil services

Student assistance	
Purchased services	684

Guidance services

Salaries	3,275
Employee benefits	1,557
Purchased services	62
Total guidance services	4,894

Total pupil services	5,578
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Instructional staff

Library

Salaries	10,508
Employee benefits	3,280
Supplies, materials and other	725
Total library	14,513

Audio-visual/technology

Purchased services	14,437
Supplies, materials and other	3,649
Total audio-visual	18,086

Total instructional staff	32,599
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Ashley Community School District
 General Fund
 Statement of Expenditures
 For the Year Ended June 30, 2012

Supporting services (continued)

General administration	
Board of education	
Purchased services	\$ 13,970
Supplies, materials and other	14,121
Total board of education	<u>28,091</u>
Executive administration	
Salaries	141,644
Employee benefits	57,150
Purchased services	2,276
Supplies, materials and other	1,993
Total executive administration	<u>203,063</u>
Total general administration	231,154
School administration	
Offices of the principals	
Salaries	109,398
Employee benefits	53,181
Purchased services	1,627
Supplies, materials and other	6,039
Total offices of the principals	<u>170,245</u>
Business services	
Other business services	
Purchased services:	
Insurances	25,479
Interest and fees	317
Data processing	2,236
Taxes abated and written off / other transactions	2,495
Total business services	<u>30,527</u>
Operation and maintenance	
Salaries	111,721
Employee benefits	76,897
Purchased services	86,223
Supplies, materials and other	35,585
Total operation and maintenance	<u>310,426</u>

Ashley Community School District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2012

Supporting services (continued)

Pupil transportation	
Salaries	\$ 59,781
Employee benefits	17,252
Purchased services	29,539
Supplies, materials and other	42,692
Total pupil transportation	149,264
Athletics	
Salaries	47,014
Employee benefits	6,656
Purchased services	9,350
Supplies, materials and other	18,078
Total athletics	<u>81,098</u>
Total support services	<u>1,010,891</u>

Outgoing transfers and other transactions

Copier leases	7,046
Licenses	788
Debt service - principal	24,154
Debt service - interest	956
Total outgoing transfers and other transactions	<u>32,944</u>
Total general fund expenditures and other transactions	<u><u>\$ 2,933,675</u></u>

Ashley Community School District
Food Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2012

Revenues

Local sources	
Student lunches	\$ 20,096
Student breakfast	1,920
Adult lunches	604
Ala-carte	9,128
Miscellaneous	6,829
Total local sources	38,577
 State sources	
School lunch program	6,839
 Federal sources	
National school lunch program	73,173
USDA donated & bonus commodities	6,999
Total federal sources	80,172
 Total revenues	125,588

Expenditures

Salaries	-
Employee benefits	-
Purchased services	76,967
Supplies, materials and other	47,537
Total expenditures	124,504

Revenues over (under) expenditures

1,084

Fund balance - beginning of year

6,027

Fund balance - end of year

\$ 7,111

Ashley Community School District
Debt Service Fund
Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2012

Revenues

Local sources	
Property tax	\$ 303,856
Interest on investments	77
Total revenues	<u>303,933</u>

Expenditures

Outgoing transfers and other transactions	
Principal - 2004 bonds	200,000
Interest and other charges - 2004 bonds	188,413
Total expenditures	<u>388,413</u>

Revenues over (under) expenditures (84,480)

Other financing sources (uses)

Proceeds from school loan revolving fund	<u>86,028</u>
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Revenues and other sources over (under) expenditures and other uses 1,548

Fund balance - beginning of year 29,007

Fund balance - end of year \$ 30,555

Ashley Community School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2012

Fiscal Year Ended June 30,	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
2004 Bonds - \$5,465,000					
2013	3.50%	\$ 210,000	\$ 87,031	\$ 90,706	\$ 387,737
2014	3.50%	220,000	83,181	87,031	390,212
2015	3.65%	225,000	79,075	83,181	387,256
2016	3.85%	230,000	74,648	79,075	383,723
2017	3.85%	240,000	70,028	74,648	384,676
2018	4.05%	250,000	64,965	70,028	384,993
2019	4.05%	260,000	59,700	64,965	384,665
2020	4.20%	270,000	54,030	59,700	383,730
2021	4.20%	285,000	48,045	54,030	387,075
2022	4.40%	285,000	41,775	48,045	374,820
2023	4.40%	150,000	38,475	41,775	230,250
2024	4.40%	150,000	35,175	38,475	223,650
2025	4.60%	150,000	31,725	35,175	216,900
2026	4.60%	150,000	28,275	31,725	210,000
2027	4.65%	150,000	24,788	28,275	203,063
2028	4.65%	150,000	21,300	24,788	196,088
2029	4.65%	150,000	17,813	21,300	189,113
2030	4.75%	150,000	14,250	17,813	182,063
2031	4.75%	150,000	10,688	14,250	174,938
2032	4.75%	150,000	7,125	10,688	167,813
2033	4.75%	150,000	3,563	7,125	160,688
2034	4.75%	150,000	-	3,563	153,563
		<u>\$ 4,275,000</u>	<u>\$ 895,655</u>	<u>\$ 986,361</u>	<u>\$ 6,157,016</u>

Ashley Community School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2012

Fiscal Year Ended June 30,	Principal Balance	Interest	June 30th Balance Due
School Bond Loan Fund			
1998	\$ 21,492	\$ 776	\$ 22,268
1999	21,387	997	44,652
2000	25,689	4,100	74,441
2001	10,041	4,006	88,488
2002	18,752	4,244	111,484
2003	-	3,800	115,284
2004	(31,262)	(18,738)	65,284
2004	-	2,434	67,718
2005	-	2,005	69,723
2006	-	2,846	72,569
2007	-	3,444	76,013
2008	-	3,416	79,429
2009	-	3,753	83,182
2010	-	4,710	87,892
2011	-	4,546	92,438
2012	-	4,493	96,931
	<u>\$ 66,099</u>	<u>\$ 30,832</u>	

As of June 30, 2011, the interest rate was 4.625%.

During the year ended June 30, 2004 the District made a \$50,000 payment on this loan, of which \$31,262 was applied to principal.

School Loan Revolving Fund

2006	\$ 54,000	\$ 492	\$ 54,492
2007	132,454	5,502	192,448
2008	143,559	11,078	347,085
2009	39,933	17,453	404,471
2010	84,427	22,757	511,655
2011	76,476	20,844	608,975
2012	86,028	19,553	714,556
	<u>\$ 616,877</u>	<u>\$ 97,679</u>	

As of June 30, 2011, the interest rate was 3.000%.



**Report On Internal Control over Financial Reporting
And On Compliance and Other Matters Based On an Audit of Financial
Statements Performed In Accordance With *Government Auditing Standards***

Board of Education
Ashley Community School District
Ashley, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ashley Community School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 1, 2012. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 2012-1 and 2012-2 that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, described in the accompanying schedule of findings and responses as item 2012-3.

We noted certain matters that we reported to management of the District in a separate letter dated November 1, 2012.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, its Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 1, 2012

Ashley Community School District
Schedule of Findings and Responses
June 30, 2012

Finding 2012-1

Finding

School Districts are required to issue financial statements that are prepared in accordance with Generally Accepted Accounting Principles (GAAP). Responsibility for the financial statement rests with the District's management. The preparation of the financial statements in accordance with GAAP requires internal controls over both 1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and 2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

The District relies on the independent auditors for assistance with the preparation of annual financial statements and related notes in accordance with GAAP.

Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Recommendation

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Response

The District is aware of this deficiency and believes it is not cost beneficial in their situation to develop this expertise. They will continue to use the external auditors for this technical assistance and they expect this situation to be ongoing in future years.

Finding 2012-2

Finding

The Districts is responsible for designing and implementing the necessary internal controls to safeguard assets from errors, fraud, or abuse and to assure that transactions are properly authorized and financial activity is properly recorded in the records. A fundamental concept in a good system of internal control is the segregation of duties.

During our review of student accounts we became aware that one staff person is responsible for nearly all duties associated with the accounting for student accounts including: opening bank statements and preparing the bank reconciliations, receiving payments, cash disbursements, and the recording the activity into the accounting records.

Recommendation

We recommend that management review the internal controls over the student accounts and segregate the duties as necessary to reduce the risk of errors, fraud, or abuse and to assure that transactions are properly authorized and financial activity is properly recorded in the records.

Response

The District is in agreement with our recommendations and will implement the recommendation stated above.

Finding 2012-3

Finding

Compliance with the Uniform Budgeting and Accounting Act. MCL (Michigan Compile Laws) 141.436 states, except as otherwise permitted in MCL 388.1702 the local school board shall not adopt a general appropriations act (Budget) or an amendment to that act which causes estimated total expenditures to exceed total estimated revenues including prior year fund balance, or incur an actual fund balance deficit. The District's general fund budgets reflect estimated appropriations greater than current year estimated revenues including prior year fund balance. The District currently has a deficit fund balance in the general fund.

Recommendation

The District has communicated this issue with the Michigan Department of Education and is in the process of implementing a deficit reduction plan.

Response

The District is in agreement with our recommendations and will implement the recommendation stated above.