

MESICK CONSOLIDATED SCHOOLS
REPORT ON FINANCIAL STATEMENTS
JUNE 30, 2012

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MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2012

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July 26, 2012

INDEPENDENT AUDITORS' REPORT

To the Board of Education
Mesick Consolidated Schools
Mesick, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mesick Consolidated Schools, Mesick, Michigan, as of and for the year ended June 30, 2012, which collectively comprise the Districts' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mesick Consolidated 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 Mesick Consolidated Schools, Mesick, Michigan, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2012, on our consideration of Mesick Consolidated 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through ix and 24 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 Mesick Consolidated Schools, Mesick, Michigan's financial statements as a whole. The combining fund financial statements section is presented for purposes of additional analysis and is not a required part of the financial statements. The combining fund financial statements section is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other 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.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

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

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The basic financial statements consist of the following three components: the government-wide financial statements, fund financial statements, and the notes to basic financial statements.

A. Government-Wide Financial Statements

The government-wide statements provide short-term and long-term financial information about the District’s overall financial status. The District-wide financial statements are compiled using full accrual basis of accounting and more closely represent financial statements presented by business and industry. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the year’s revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

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

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

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

B. Fund Financial Statements

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

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

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

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

The District maintains the following kinds of funds:

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

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

C. Summary of Net Assets

The following schedule summarizes the net assets at fiscal year ended June 30:

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets	\$ 3,020,507	\$ 3,266,424
Non Current Assets		
Capital Assets	10,858,031	10,846,921
Less Accumulated Depreciation	(4,160,797)	(4,056,400)
Deferred Charges - Net of Amortization	21,815	25,502
Total Non Current Assets	<u>6,719,049</u>	<u>6,816,023</u>
Total Assets	<u>\$ 9,739,556</u>	<u>\$ 10,082,447</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

	<u>2012</u>	<u>2011</u>
Liabilities		
Current Liabilities	\$ 1,796,214	\$ 2,217,488
Non Current Liabilities	<u>2,959,268</u>	<u>3,469,457</u>
Total Liabilities	<u>4,755,482</u>	<u>5,686,945</u>
Net Assets		
Invested in Capital Assets Net of Related Debt	3,469,046	3,063,157
Restricted for Food Service	121,966	97,625
Restricted for Debt Service	112,904	174,256
Unrestricted	<u>1,280,158</u>	<u>1,060,464</u>
Total Net Assets	<u>4,984,074</u>	<u>4,395,502</u>
Total Liabilities and Net Assets	<u><u>\$ 9,739,556</u></u>	<u><u>\$ 10,082,447</u></u>

D. Analysis of Financial Position

During the fiscal year ended June 30, 2012, the District's net assets increased by \$588,572. A few of the more significant factors affecting net assets during the year are discussed below:

1. Depreciation Expense

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

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2012, \$245,679 was recorded for depreciation expense.

2. Capital Outlay Acquisitions

For the fiscal year ended June 30, 2012, \$152,392 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

3. Payment of Long-Term Liabilities

During the year ending June 30, 2012, the District decreased its long-term liabilities by \$493,764.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

E. Results of Operations

For the fiscal year ended June 30, the results of operations, on a District-wide basis, were:

	<u>2012</u>	<u>2011</u>
General Revenues		
Property Taxes	\$ 1,623,793	\$ 1,697,841
Investment Earnings	5,363	8,746
State Sources	3,951,653	4,174,745
Other	<u>119,638</u>	<u>102,103</u>
Total General Revenues	<u>5,700,447</u>	<u>5,983,435</u>
Program Revenues		
Charges for Services	179,314	142,941
Operating Grants and Contributions	1,375,930	1,613,736
Capital Grants and Contributions	<u>0</u>	<u>46,457</u>
Total Program Revenues	<u>1,555,244</u>	<u>1,803,134</u>
Total Revenues	<u>7,255,691</u>	<u>7,786,569</u>
Expenses		
Instruction	3,663,890	4,301,598
Supporting Services	2,206,695	2,221,648
Community Activities	27,284	46,512
Food Service	375,449	342,082
Capital Outlay	13,481	11,121
Interest on Long-Term Debt	133,968	148,650
Other Transactions	673	739
Unallocated Depreciation	<u>245,679</u>	<u>250,679</u>
Total Expenses	<u>6,667,119</u>	<u>7,323,029</u>
Change in Net Assets	<u>\$ 588,572</u>	<u>\$ 463,540</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

F. Financial Analysis of the District's Funds

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

	<u>2012</u>	<u>2011</u>	<u>Increase (Decrease)</u>
Major Funds			
General Fund	\$ 997,038	\$ 847,038	\$ 150,000
Capital Projects Fund	504,061	433,595	70,466
Nonmajor Funds			
Food Service	130,293	97,625	32,668
Debt Fund	<u>132,383</u>	<u>196,416</u>	<u>(64,033)</u>
 Total Governmental Funds	 <u><u>\$ 1,763,775</u></u>	 <u><u>\$ 1,574,674</u></u>	 <u><u>\$ 189,101</u></u>

In 2011-2012, the General Fund balance increased primarily due to the reduction in staffing as well as other cost savings measures that have been put in place. In 2011/2012, staff members' contributions toward their health insurance increased thus saving the District money.

The Capital Projects Fund increased due to selling timber.

The Food Service Fund balance increased primarily due to an increase in federal aid received to enhance the food service program. The District continued to offer universal free breakfast which has increased participation. In addition, the District received a fresh fruit and vegetable grant that helped to get students to participate in the program. Finally, the offerings have been increased to entice students to purchase school lunch rather than bringing their own.

The Debt Retirement Fund decreased its fund balance due to payments increasing as we near the end of the loan.

G. General Fund Budgetary Highlights

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 its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 6,143,208</u>	<u>\$ 6,181,071</u>	<u>\$ 6,199,960</u>
 <u>EXPENDITURES</u>			
Instruction	\$ 3,732,476	\$ 3,637,355	\$ 3,660,956
Supporting Services	2,336,182	2,465,685	2,365,830
Community Activities	56,149	39,125	27,284
Total Expenditures	<u>\$ 6,124,807</u>	<u>\$ 6,142,165</u>	<u>\$ 6,054,070</u>

The change between original budget and final budget was a result of a more accurate picture of anticipated actual revenues and expenditures, especially the revenues and expenditures related to federal and state grants.

The total revenue variance of \$18,889 is less than 1% of total budgeted revenues. The total expenditures variance of \$(88,095) is 1.4% of total budgeted expenditures. The minimal variances will not have a significant effect on future services or the liquidity of the District.

H. Capital Asset and Debt Administration

1. Capital Assets

At June 30, 2012, the District has \$6,697,234 (net of depreciation) in a broad range of capital assets, including school buildings and facilities and various types of equipment. This represents a net decrease of \$93,287 over the prior fiscal year. Depreciation expense for the year amounted to \$245,679, bringing the accumulated depreciation to \$4,160,797 as of June 30, 2012.

2. Long-Term Debt

At June 30, 2012, the District had \$3,245,000 in bonded debt outstanding. This represents a decrease of \$495,000 from the amount outstanding at the close of the prior fiscal year. Other long-term debt includes compensated absences of \$229,268 and a capital lease on a copier in the amount of \$5,033.

I. Factors Bearing on the District's Future

Retirement rates have been projected to increase from the rate of 24.46% in June 2012 to 27.37% on October 1, 2012. On October 1, 2013, it is projected to be 31.21%. With a gross payroll of

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2012

approximately \$3,100,000, the District will experience additional costs of \$90,000 and \$119,000 each respective year.

Due to decreasing enrollments, the District is able to take advantage of using a 3 year blended count for determining their state aid. In 2013/2014, the year that drops out of the blend is larger than the remaining ones. This will result in approximately 30 less kids for the District in the 2013/2014 school year. At a steady foundation allowance of \$6,966, this is a decrease in revenue of \$208,980.

The union contracts for the District will both expire in August, 2013. The District will be negotiating with both unions while trying to figure out how to recover from an increase in retirement costs and the decrease in state aid. Historically, the staff has been very understanding and willing to do what is needed to keep the District in a good financial position.

Mesick Consolidated Schools is striving to meet the challenges facing them while remaining a school of excellence.

J. Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Wexford-Missaukee Intermediate School District, 9907 East 13th Street, Cadillac, Michigan 49601.

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MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 1,544,447
Restricted Cash	502,983
Investments	11
Accounts Receivable	20,088
Due from Other Governmental Units	951,182
Inventories	1,796
Total Current Assets	<u>3,020,507</u>

NON CURRENT ASSETS

Capital Assets	10,858,031
Less Accumulated Depreciation	(4,160,797)
Deferred Charges - Net of Accumulated Amortization	21,815
Total Non Current Assets	<u>6,719,049</u>
TOTAL ASSETS	<u>9,739,556</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	115,621
Salaries and Benefits Payable	549,235
State Aid Note Payable	500,000
Accrued Interest Payable	22,076
Deferred Revenue	89,279
Current Portion of Non Current Liabilities	520,003
Total Current Liabilities	<u>1,796,214</u>

NON CURRENT LIABILITIES

Bonds Payable	3,245,000
Capital Lease Payable	5,003
Compensated Absences	229,268
Less Current Portion of Non Current Liabilities	<u>(520,003)</u>
Total Non Current Liabilities	<u>2,959,268</u>
TOTAL LIABILITIES	<u>4,755,482</u>

NET ASSETS

Invested in Capital Assets Net of Related Debt	3,469,046
Restricted for Food Service	121,966
Restricted for Debt Service	112,904
Unrestricted	1,280,158
TOTAL NET ASSETS	<u>\$ 4,984,074</u>

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

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	CAPITAL GRANTS & CONTRIBUTIONS	ACTIVITIES
					NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 3,663,890	\$ 44,551	\$ 765,907	\$ 0	\$ (2,853,432)
Supporting Services	2,206,695	29,851	284,072	0	(1,892,772)
Community Activities	27,284	26,392	1,561	0	669
Food Service	375,449	78,520	324,390	0	27,461
Capital Outlay	13,481	0	0	0	(13,481)
Interest on Long Term Debt	133,968	0	0	0	(133,968)
Other Transactions	673	0	0	0	(673)
Unallocated Depreciation	245,679	0	0	0	(245,679)
Total Governmental Activities	<u>\$ 6,667,119</u>	<u>\$ 179,314</u>	<u>\$ 1,375,930</u>	<u>\$ 0</u>	<u>(5,111,875)</u>
<u>GENERAL REVENUES</u>					
Property Taxes - General Purposes					1,063,153
Property Taxes - Debt Service					560,640
Investment Earnings					5,363
State Sources					3,951,653
Other					119,638
Total General Revenues					<u>5,700,447</u>
Change in Net Assets					588,572
<u>NET ASSETS</u> - Beginning of Year					<u>4,395,502</u>
<u>NET ASSETS</u> - End of Year					<u>\$ 4,984,074</u>

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

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2012

	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS FUND</u>	<u>OTHER NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 789,757	\$ 504,061	\$ 250,629	\$ 1,544,447
Restricted Cash	502,983	0	0	502,983
Investments	11	0	0	11
Accounts Receivable	20,088	0	0	20,088
Due from Other Funds	0	0	18,392	18,392
Due from Other Governmental Units	947,636	0	3,546	951,182
Inventories	0	0	1,796	1,796
TOTAL ASSETS	<u>\$2,260,475</u>	<u>\$ 504,061</u>	<u>\$ 274,363</u>	<u>\$ 3,038,899</u>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 112,771	\$ 0	\$ 2,850	\$ 115,621
Salaries and Benefits Payable	542,571	0	6,664	549,235
Due to Other Funds	18,392	0	0	18,392
State Aid Note Payable	500,000	0	0	500,000
Accrued Interest Payable	2,597	0	0	2,597
Deferred Revenue	87,106	0	2,173	89,279
Total Liabilities	<u>1,263,437</u>	<u>0</u>	<u>11,687</u>	<u>1,275,124</u>
<u>FUND BALANCES</u>				
Nonspendable, Inventory	0	0	1,796	1,796
Restricted for Food Service	0	0	128,497	128,497
Restricted for Debt Service	0	0	132,383	132,383
Committed for Compensated Absences	185,880	0	0	185,880
Committed for Capital Projects	0	504,061	0	504,061
Assigned for Subsequent Year Budget Shortfall	27,470	0	0	27,470
Unassigned	783,688	0	0	783,688
Total Fund Balances	<u>997,038</u>	<u>504,061</u>	<u>262,676</u>	<u>1,763,775</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$2,260,475</u>	<u>\$ 504,061</u>	<u>\$ 274,363</u>	<u>\$ 3,038,899</u>

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

MESICK CONSOLIDATED SCHOOLS
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RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

JUNE 30, 2012

Total Governmental Fund Balances \$ 1,763,775

Amounts reported for governmental activities in the
Statement of Net Assets are different because:

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

The cost of the capital assets is	\$ 10,858,031	
Accumulated depreciation is	<u>(4,160,797)</u>	6,697,234

Long term liabilities are not due and payable in the current period and are not
reported in the funds

Bonds Payable		(3,245,000)
Capital Lease		(5,003)
Compensated Absences		(229,268)

Accrued interest on bonds is not included as a liability in government funds, it
is recorded when paid (19,479)

The issuance of Long-Term Debt provides current financial resources to
governmental funds, while the repayment of the principal of Long-Term Debt
consumes the current financial resources of governmental funds. Neither
transaction, however, has any effect on net assets. Also, governmental funds
report the effect of issuance costs, premiums, discounts and similar items when
debt is first issued, whereas these amounts are deferred and amortized in the
statement of activities over the life of the Long-Term bond issue.

Bond Issuance Costs, Premiums and Discounts	52,235	
Amortization of Bond Issuance Costs, Premiums and Discounts on Bonds	<u>(30,420)</u>	21,815

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 4,984,074

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

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

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

YEAR ENDED JUNE 30, 2012

	GENERAL FUND	CAPITAL PROJECTS FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES				
Local Sources	\$ 1,184,225	\$ 2,747	\$ 640,344	\$ 1,827,316
State Sources	4,305,304	0	16,029	4,321,333
Federal Sources	601,032	0	311,301	912,333
Other Transactions	109,399	0	0	109,399
Total Revenues	<u>6,199,960</u>	<u>2,747</u>	<u>967,674</u>	<u>7,170,381</u>
EXPENDITURES				
Instruction				
Basic Programs	2,801,567	0	0	2,801,567
Added Needs	859,389	0	0	859,389
Supporting Services				
Pupil	138,248	0	0	138,248
Instructional Staff	70,675	0	0	70,675
General Administration	258,491	0	0	258,491
School Administration	308,961	0	0	308,961
Business	97,399	0	0	97,399
Operation and Maintenance	612,027	0	0	612,027
Pupil Transportation Services	534,254	0	0	534,254
Central Services	193,489	0	0	193,489
Athletic Activities	152,286	0	0	152,286
Community Activities				
Community Activities	1,561	0	0	1,561
Custody and Care of Children	25,723	0	0	25,723
Food Service	0	0	370,404	370,404
Capital Outlay	0	13,481	0	13,481
Debt Service				
Principal	0	0	495,000	495,000
Interest	0	0	132,962	132,962
Other Transactions	0	0	673	673
Total Expenditures	<u>6,054,070</u>	<u>13,481</u>	<u>999,039</u>	<u>7,066,590</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>145,890</u>	<u>(10,734)</u>	<u>(31,365)</u>	<u>103,791</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	4,110	0	0	4,110
Sale of Timber	0	81,200	0	81,200
Total Other Financing Sources (Uses)	<u>4,110</u>	<u>81,200</u>	<u>0</u>	<u>85,310</u>
Net Change in Fund Balance	150,000	70,466	(31,365)	189,101
FUND BALANCE - Beginning of Year	<u>847,038</u>	<u>433,595</u>	<u>294,041</u>	<u>1,574,674</u>
FUND BALANCE - End of Year	<u>\$ 997,038</u>	<u>\$ 504,061</u>	<u>\$ 262,676</u>	<u>\$ 1,763,775</u>

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

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

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

YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances Total Governmental Funds	\$ 189,101
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlay as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(245,679)
Capital Outlay	152,392
Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:	
Accrued Interest Payable - Beginning of Year	22,160
Accrued Interest Payable - End of Year	(19,479)
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the Statement of Activities (where it is a reduction of liabilities)	502,863
The issuance of Long-Term Debt provides current financial resources to governmental funds, while the repayment of the principal of Long-Term Debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities over the life of the Long-Term bond issue.	
Amortization of Bond Issuance Costs, Premiums and Discounts on Bonds	(3,687)
Employees Early Retirement and Compensated Absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:	
Compensated Absences - Beginning of Year	220,169
Compensated Absences - End of Year	<u>(229,268)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 588,572</u>

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

MESICK CONSOLIDATED SCHOOLS
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STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 89,196
 <u>LIABILITIES</u>	
Due to Groups and Organizations	<u>89,196</u>
 <u>NET ASSETS</u>	<u>\$ 0</u>

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

MESICK CONSOLIDATED SCHOOLS

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The School District is located in Wexford and Manistee Counties with its administrative offices located in Mesick, Michigan. The District operates under an elected 7-member board of education and provides services to its 735 students in elementary, high school, special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. The District is not included in any other governmental reporting entity as defined by the 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 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. 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.

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*.

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

MESICK CONSOLIDATED SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

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

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, 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.)

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

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

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

Governmental Funds

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

The District reports the following major governmental funds:

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

The *CAPITAL PROJECTS FUND* accounts for the acquisition of fixed assets or construction of major capital projects.

Other Non-Major Funds

The *FOOD SERVICE SPECIAL REVENUE FUND* accounts for revenue sources that are legally restricted to expenditures for food service.

The *DEBT SERVICE FUND* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

MESICK CONSOLIDATED SCHOOLS

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Fiduciary Funds

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

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

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

Accrual Method

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

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

Modified Accrual Method

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

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

MESICK CONSOLIDATED SCHOOLS

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NOTES TO FINANCIAL STATEMENTS

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local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2012, the foundation allowance was based on pupil membership counts taken in February and October of 2011, and blended with the previous two years counts. For fiscal year ended June 30, 2012, the per pupil foundation allowance was \$6,846 for Mesick Consolidated Schools.

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

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

D. Other Accounting Policies

1. Cash and Investments

Cash includes amounts in demand deposits and certificates of deposit with original maturities of one year or less.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

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

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

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- (e) United States government or federal agency obligation repurchase agreements.
- (f) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- (g) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

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

2. Short-Term Interfund Receivables/Payables

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

3. Property Taxes

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

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

Fund	Mills
General Fund – Non-Principal Residence Exemption (PRE)	18.0000
General Fund – Commercial Personal Property	6.0000
2004 Debt Retirement – PRE, Non-PRE, Commercial Personal Property	3.8000

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. In the General Fund, the School District considers all supplies to be consumed when acquired and any inventories on hand at year-end are considered to be immaterial. The food service inventory consists of food products held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

MESICK CONSOLIDATED SCHOOLS

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

Buildings and additions	25 - 50 years
Furniture and other equipment	5 - 20 years

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

6. Compensated Absences

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

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. For bonds issued after the implementation of GASB 34, the following apply: Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

MESICK CONSOLIDATED SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

8. Fund Balance

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

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

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

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

Assigned – Includes amounts a government intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority. The Board has delegated the authority to assign fund balance to the District's Superintendent.

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

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

9. 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.

10. Restricted Assets

Certain cash resources are classified as restricted assets on the balance sheet because their use is limited by applicable debt covenants and they are maintained in separate bank accounts.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the District.

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

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

B. Excess of Expenditures Over Appropriations

Excess of expenditures over appropriations occurred in the following funds as follows:

General Fund:

Instruction:

Basic Program expenditures of \$2,801,567 exceeded appropriations of \$2,717,365.

Supporting Services:

Pupil expenditures of \$138,248 exceeded appropriations of \$136,462.

MESICK CONSOLIDATED SCHOOLS

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NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Food Service Fund expenditures of \$370,404 exceeded appropriations of \$366,766.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The District's deposits and investments are all on deposit with Citizens Bank, Honor State Bank, The Bank of New York Mellon and the Michigan School District Liquid Asset Fund Plus.

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

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

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

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2012, \$853,588 of the government's bank balance of \$2,367,212 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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

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Although the District's investment policy does not specifically address custodial credit risk, the District typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits and investments.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk, therefore, it is not addressed in the investment policy.

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

Investments not subject to categorization:

Investment Trust Funds \$ 11

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

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash & Restricted Cash	\$2,047,430	\$ 0	\$ 89,196	\$ 2,136,626
Investments	0	11	0	11
	<u>\$2,047,430</u>	<u>\$ 11</u>	<u>\$ 89,196</u>	<u>\$ 2,136,637</u>

B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

	General	Nonmajor and Other Funds	Total
Receivables:			
Accounts	\$ 20,088	\$ 0	\$ 20,088
Due from Other Governmental Units	947,636	3,546	951,182
Total	<u>\$ 967,724</u>	<u>\$ 3,546</u>	<u>\$ 971,270</u>

Amounts due from other governments include amounts due from federal, state and local sources for various projects and programs. The allowance for doubtful accounts is not considered to be material for disclosure.

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

	<u>Unavailable</u>	<u>Unearned</u>
Revenue Received, But Not Yet Earned	<u>\$ 0</u>	<u>\$ 89,279</u>

C. Capital Assets

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

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Assets Not Being Depreciated				
Land	\$ 200,631	\$ 0	\$ 0	\$ 200,631
Other Capital Assets:				
Land Improvements	410,960	0	0	410,960
Buildings and Additions	8,572,116	0	0	8,572,116
Machinery and Equipment	634,327	0	0	634,327
Textbooks and Library Books	127,850	0	0	127,850
Transportation Equipment	901,037	152,392	141,282	912,147
Subtotal	<u>10,646,290</u>	<u>152,392</u>	<u>141,282</u>	<u>10,657,400</u>
Accumulated Depreciation				
Other Capital Assets:				
Land Improvements	302,879	16,514	0	319,393
Buildings and Additions	2,450,543	154,901	0	2,605,444
Machinery and Equipment	541,463	17,726	0	559,189
Textbooks and Library Books	119,469	7,695	0	127,164
Transportation Equipment	642,046	48,843	141,282	549,607
	<u>4,056,400</u>	<u>245,679</u>	<u>141,282</u>	<u>4,160,797</u>
Net Capital Assets Being	<u>6,589,890</u>	<u>(93,287)</u>	<u>0</u>	<u>6,496,603</u>
Net Capital Assets	<u>\$ 6,790,521</u>	<u>\$ (93,287)</u>	<u>\$ 0</u>	<u>\$ 6,697,234</u>

Depreciation for the fiscal year ended June 30, 2012, amounted to \$245,679. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

MESICK CONSOLIDATED SCHOOLS

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NOTES TO FINANCIAL STATEMENTS

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D. Long-Term Debt

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Self-Liquidating Bonds were issued by the State of Michigan in the name of the District as part of a state-wide lawsuit settlement.

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

	LEASE PURCHASE AGREEMENT	COMPENSATED ABSENCES AND SEVERANCE PLAN	BONDS	TOTAL
Balance, July 1, 2011	\$ 12,866	\$ 220,169	\$ 3,740,000	\$ 3,973,035
Additions	0	200,740	0	200,740
Deletions	(7,863)	(191,641)	(495,000)	(694,504)
Balance, June 30, 2012	5,003	229,268	3,245,000	3,479,271
Less current portion	(5,003)	0	(515,000)	(520,003)
Total due after one year	\$ 0	\$ 229,268	\$ 2,730,000	\$ 2,959,268

At June 30, 2012, the School's Long-Term Debt consisted of the following:

General Obligation Serial Bonds

2004 refunding bonds due in annual installments of \$515,000 to \$550,000 through May 1, 2018, interest at 3.50% to 3.80%. \$ 3,245,000

Lease Purchase Agreement

\$38,601 lease purchase agreement dated December 19, 2007, due in monthly installments of \$715 through January 31, 2013. 5,003

Compensated Absences Payable

Accumulated Sick and Vacation Pay 229,268

TOTAL LONG-TERM DEBT \$ 3,479,271

MESICK CONSOLIDATED SCHOOLS

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The annual requirements to amortize debt outstanding as of June 30, 2012, including interest payments of \$419,226 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2013	\$ 520,003	\$ 116,876	\$ 636,879
2014	530,000	98,850	628,850
2015	550,000	80,300	630,300
2016	550,000	61,050	611,050
2017	550,000	41,250	591,250
2018	550,000	20,900	570,900
	<u>3,250,003</u>	<u>419,226</u>	<u>3,669,229</u>
Compensated absences	229,268	0	229,268
	<u>\$ 3,479,271</u>	<u>\$ 419,226</u>	<u>\$ 3,898,497</u>

The annual requirements to amortize the accrued compensated absences are uncertain because it is unknown when the employees will use the benefit. Compensated absences will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

E. Short-Term Debt

On August 19, 2011, the District issued a State Aid Note in the amount of \$500,000. The note matures on August 20, 2012 with interest at 0.600%. The District pledged its State Aid revenue for payment of this liability at maturity. The purpose of the note was to provide for cash flow needs at the beginning of the school year. Interest expense for the year was \$3,294. The balance at June 30, 2012 was \$502,597, which includes interest. The District has set aside \$502,983 at The Bank of New York Mellon in anticipation of this note maturing.

The following is a summary of the Short-Term Debt transactions for the School District for the year ended June 30, 2012:

Short-Term Debt at July 1, 2011	\$ 680,000
New Debt Issued	500,000
Debt Retired and Paid	<u>(680,000)</u>
Short-Term Debt at June 30, 2012	<u>\$ 500,000</u>

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

F. Interfund Receivables, Payables, and Transfers

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

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 0	\$ 18,392
Debt Service Fund - 2004 Debt Retirement	16,512	0
School Service Fund - Food Service Fund	1,880	0
	<u>\$ 18,392</u>	<u>\$ 18,392</u>

All remaining 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.

NOTE 4 – OTHER INFORMATION

A. Employee Retirement System

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

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.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2012, were 20.66% of payroll through September 30, 2011, and 24.46% effective October 1, 2011. For employees who first worked on or after July 1, 2010, the rate for the year ended June 30, 2012, was 19.16% for the first quarter and 23.23% for the remainder of the year. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2012, 2011, and 2010 were \$769,521, \$648,785, and \$589,682 respectively, and were equal to the required contribution for those years.

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

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

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

B. Single Audit Report

The School District is required to have an audit performed in accordance with the guidelines of the Single Audit Act of 1984, as amended. This audit is being performed and the reports based thereon will be issued under separate cover.

C. 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.

MESICK CONSOLIDATED SCHOOLS

MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2011 or any of the prior three years.

D. "Durant" Case Settlement

The school district accepted an offer made by the State of Michigan to all "non-plaintiff" school districts for settlement of the "Durant" case, which was a suit alleging underfunding by the State of Michigan for State mandated special education programs. Mesick Consolidated Schools will receive a total settlement from this case of \$88,208, and the State will pay it in the following manner:

- (a) 50% of the settlement (or \$44,104) will be paid to the District over a ten-year period beginning November 15, 1998. These funds are restricted and can be used only for school buses, electronic technology, instructional material and software, school security, textbooks, infrastructure or infrastructure improvement, training for technology, or to reduce or eliminate voter-approved debt that was issued prior to 11/19/97.
- (b) 50% of the settlement (or \$44,104) will be paid to the District over a fifteen-year period beginning May 15, 1999. These funds are also restricted and can be used only for the following items and in the order presented:
 - (i) reduce or eliminate voter-approved debt issued prior to 11/19/97.
 - (ii) reduce or eliminate other limited tax obligation debt.
 - (iii) deposit into a sinking fund.

The School District has approved using their settlement funds for technology and reduction of bonded indebtedness.

E. Commitments and Contingencies

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

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2012

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources	\$ 1,280,741	\$ 1,167,823	\$ 1,184,225
State Sources	4,134,898	4,265,897	4,305,304
Federal Sources	482,210	647,522	601,032
Other Transactions	245,359	99,829	109,399
Total Revenues	<u>6,143,208</u>	<u>6,181,071</u>	<u>6,199,960</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	2,809,849	2,717,365	2,801,567
Added Needs	922,627	919,990	859,389
Supporting Services			
Pupil	135,998	136,462	138,248
Instructional Staff	12,942	87,593	70,675
General Administration	291,811	277,642	258,491
School Administration	313,904	317,024	308,961
Business	114,615	108,527	97,399
Operation and Maintenance	625,025	631,243	612,027
Pupil Transportation Services	458,687	539,593	534,254
Central Services	200,771	210,521	193,489
Athletic Activities	182,429	157,080	152,286
Community Activities			
Community Activities	8,965	8,965	1,561
Custody and Care of Children	47,184	30,160	25,723
Total Expenditures	<u>6,124,807</u>	<u>6,142,165</u>	<u>6,054,070</u>
Excess (Deficiency) of Revenues Over Expenditures	18,401	38,906	145,890
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from the Sale of Capital Assets	2,200	2,200	4,110
Net Change in Fund Balance	20,601	41,106	150,000
<u>FUND BALANCE</u> - Beginning of Year	<u>845,624</u>	<u>847,038</u>	<u>847,038</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 866,225</u>	<u>\$ 888,144</u>	<u>\$ 997,038</u>

MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2012

	<u>FOOD SERVICE FUND</u>	<u>DEBT FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 134,758	\$ 115,871	\$ 250,629
Due from Other Funds	1,880	16,512	18,392
Due from Other Governmental Units	3,546	0	3,546
Inventories	1,796	0	1,796
	<hr/>		
TOTAL ASSETS	\$ 141,980	\$ 132,383	\$ 274,363
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<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts Payable	\$ 2,850	\$ 0	\$ 2,850
Salaries and Benefits Payable	6,664	0	6,664
Deferred Revenue	2,173	0	2,173
	<hr/>		
TOTAL LIABILITIES	11,687	0	11,687
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<u>FUND BALANCE</u>			
Nonspendable, Inventory	1,796	0	1,796
Restricted for Food Service	128,497	0	128,497
Restricted for Debt Service	0	132,383	132,383
	<hr/>		
Total Fund Balances	130,293	132,383	262,676
	<hr/>		
TOTAL LIABILITIES AND FUND BALANCES	\$ 141,980	\$ 132,383	\$ 274,363
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MESICK CONSOLIDATED SCHOOLS
MESICK, MICHIGAN

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

YEAR ENDED JUNE 30, 2012

	FOOD SERVICE FUND	DEBT FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>REVENUES</u>			
Local Sources	\$ 78,682	\$ 561,662	\$ 640,344
State Sources	13,089	2,940	16,029
Federal Sources	311,301	0	311,301
Total Revenues	403,072	564,602	967,674
<u>EXPENDITURES</u>			
Food Service	370,404	0	370,404
Debt Service			
Principal	0	495,000	495,000
Interest	0	132,962	132,962
Other Transactions	0	673	673
Total Expenditures	370,404	628,635	999,039
Excess (Deficiency) of Revenues Over Expenditures	32,668	(64,033)	(31,365)
<u>FUND BALANCE</u> - Beginning of Year	97,625	196,416	294,041
<u>FUND BALANCE</u> - End of Year	\$ 130,293	\$ 132,383	\$ 262,676

