Breckenridge Community School District

Financial Statements
With Supplemental Information
June 30, 2013

RPC
Roslund Prestage & Company
Certified Public Accountants

525 WEST WARWICK DRIVE, SUITE A, ALMA, MICHIGAN 48801

Breckenridge Community School District
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June 30, 2013

RPC
Roslund Prestage & Company
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Education
Breckenridge Community School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breckenridge Community School District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2013, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in the notes to the financial statements, during the year the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* As a result of the implementation of these Statements, the financial statements have been changed to reflect the new presentations required by GASB Statements No. 63 and No. 65, as applicable. Our opinion is not modified with respect to this matter.

Other Matters

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

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.

October 2, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

BRECKENRIDGE COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
2012-13

GENERAL INFORMATION

Breckenridge Community Schools currently operates one elementary school, one middle school, one high school, and one alternative education school. The school district's 2012-13 September enrollment was 831 students. Breckenridge Community Schools employs a staff of 47 teachers, 4 administrators, and 48 support personnel.

The Board of Education consists of seven members who are elected at large for four-year overlapping terms. The Board annually elects a President, Vice-President, Treasurer and Secretary. The Board is responsible for the selection and appointment of the Superintendent of Schools. The Board meets as a single body to set or amend policy, develop long-range educational goals and act upon recommendations of the Superintendent of Schools. The Board is also responsible for adopting and periodically amending the operating budget and evaluating school programs in accordance with governing laws.

USING THIS ANNUAL REPORT

The discussion and analysis of Breckenridge Community Schools' financial performance provides an overall review of the school district's financial activities for the fiscal year ended June 30, 2013. The intent of this report is to provide a look at the performance of the district as a whole, and includes financial statements, notes to the financial statements, and budgetary information.

OVERVIEW OF THE FINANCIAL STATEMENTS

District-wide Financial Statements

The district-wide financial statements are full accrual basis statements and provide information about the district's overall financial status. They are used to help determine the condition of the district as the result of the year's activities. The *Statement of Net Position* reports all of the district's assets and liabilities, both short-term and long-term, regardless of their availability. Capital assets and long-term obligations of the district are reported in this statement. All of the current year's revenues 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 position and how they have changed. Net position (the difference between the district's assets and liabilities) are one way to measure the district's financial condition. Over time, increases or decreases in the district's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

However, it is important to note that to assess the district's overall position; you need to consider additional non-financial factors such as changes in the district's property base, the quality of education provided, and the condition of the district's buildings.

In the district-wide statements, the district's activities are classified as *governmental activities*. This includes most of the district's basic services such as regular and special education, food service, athletics, transportation, and administration. These activities are financed mostly by state aid, federal aid, and property taxes.

Fund Financial Statements

The district's fund financial statements provide detailed information about the most significant funds, and are comparable to prior year financial statements. The fund level statements are reported on a modified accrual basis, which means that only those assets that are measurable and currently available are reported. Liabilities are recognized to the extent that they are expected to be paid with current financial resources. The fund statements are formatted to meet the requirements of the Michigan Department of Education's "Accounting Manual". Major instructional and instructional support activities are reported in the General Fund. Other activities are reported in their relevant funds including; Special Revenue Funds for Food Service and Debt Service, Capital Projects and Fiduciary Funds.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The net position of the district at June 30, 2013 were $1,716,419 and are shown in the following *Statement of Net Position.* The largest portion of the District's net position reflects investment in capital assets (buildings and improvements, and furniture and equipment) less any related debt used to acquire those assets that are still outstanding. The district uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the district's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay the debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the District's ability to use that net position for day-to-day operations.

The results of this year's operations for the District as a whole are reported in the *Statement of Activities,* which shows the changes in net position for fiscal year 2013. The district experienced an increase in net position during fiscal year 2013 of $162,174 or 10.4%.

A substantial portion of the district's revenues is received from State sources. This means that the financial stability of the district rests primarily with the economic health of the State of Michigan. Figure 1 depicts the breakdown of the sources of revenue for the district.

Figure 1

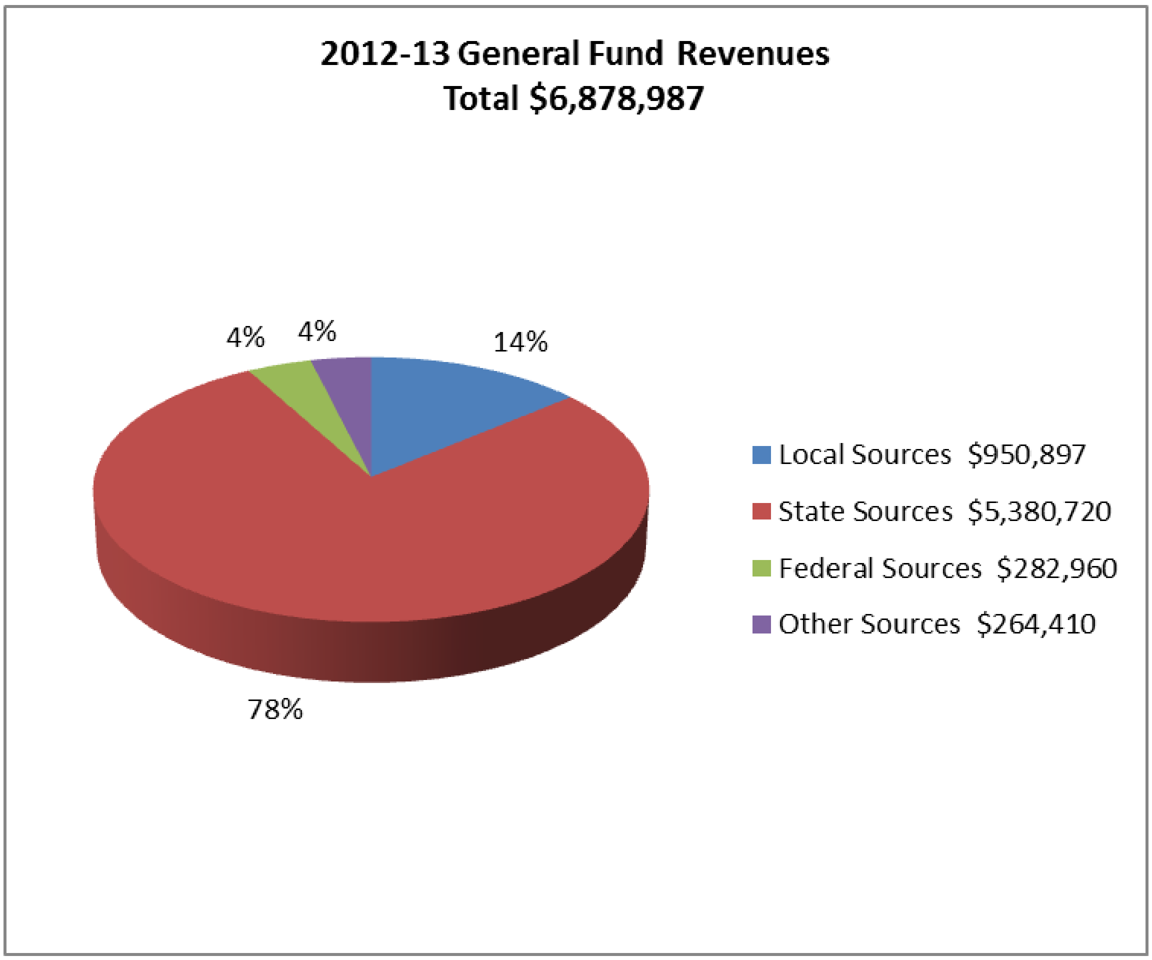
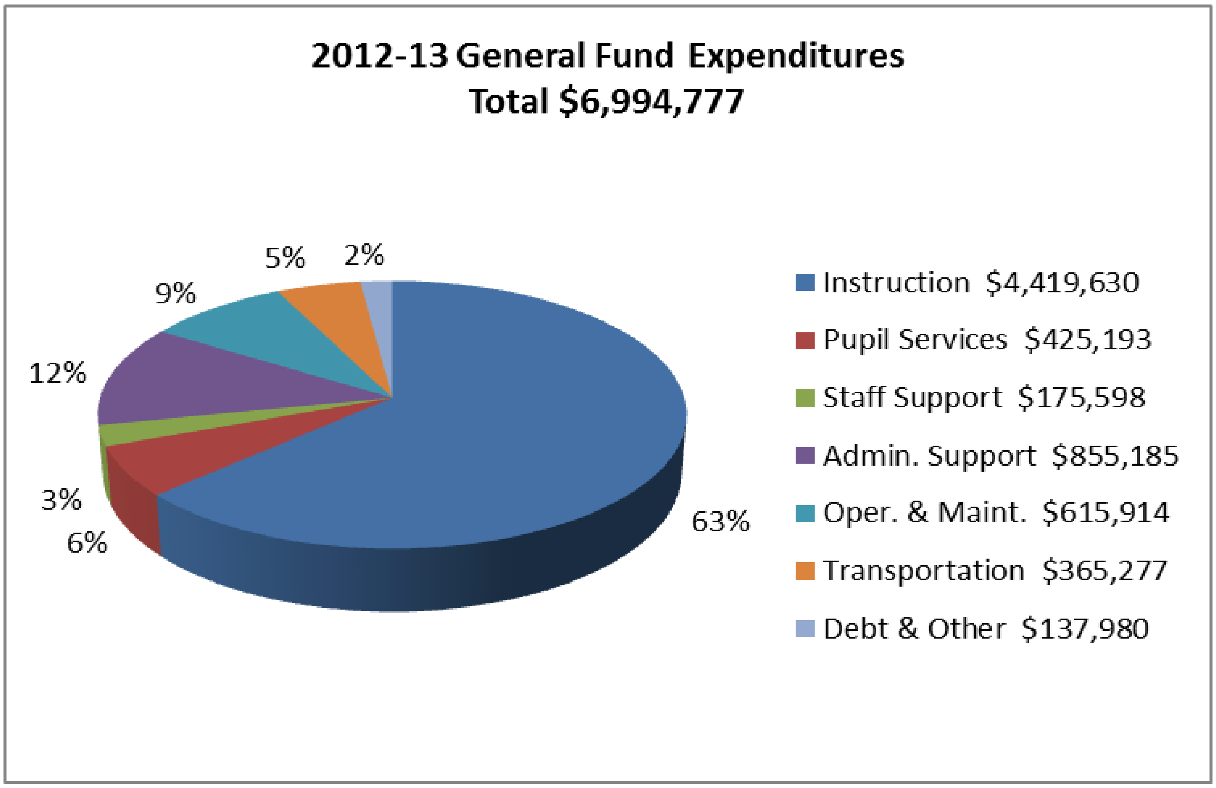


Figure 2 depicts how the district's resources are spent. Instructional services comprise most of the district's expenditures at 63%, while 12% went to administrative, 9% went to operation and maintenance, 5% was spent for transportation. The final 11% was spent on other support services.

Figure 2



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the district as a whole is reflected in its governmental funds as well. Governmental funds combined equity increased during the 2012-13 school year by $3,198,892. The primary reasons for this change are as follows:

General Fund

When taking into account revenue and expenditure activity for the 2012-13 year, the district fund balance levels decreased by $126,665. Though the district saw an increase of 35 students, corresponding to an increase in State revenues ($244,860), the increase in funding was consumed by increases in retirement costs and staff costs assumed by the general fund in conjunction with the reduction in Federal revenues ($63,872).

The result is 7.28% fund equity as a percentage of total expenditures including operating transfers out. On a percentage basis, fund balance reserves decreased below the 9.42% level maintained at the end of 2011-12.

Debt Service

The fund equity increased by $137,115. Though the debt levy remained at the same level as 2011, 3.4 mills, the increase in fund equity is attributed to the taxable value of all properties increase of 86% in comparison to last year. The taxable value increase is tied directly to the construction of the wind farms. Any fund equity will be used to pay down the balance of the debt owed when it becomes due.

Food Service - Special Revenue

The fund equity increased slightly by $5,920 during 2012-13, increasing fund balance reserves to $70,158. The district will direct hire the Food Service Director in 2013-14 which will offset future fund balance.

Capital Projects

As the result of the 2012 Bond issue, bond proceeds ($4,221,298) have been utilized to offset in –progress construction expense ($1,060,424) resulting in fund equity of $3,171,647 as of June 30, 2013.

GENERAL FUND BUDGETGARY HIGHLIGHTS

The Uniform Budget Act of the State of Michigan requires that the local Board of Education adopt an original budget for the upcoming fiscal year by July 1st. As a matter of practice, the district amends its budget once or twice during the fiscal year. These revisions are made in order to deal with unexpected changes in revenues and expenditures. The following analysis describes the significant changes in the budget during the year.

Changes in Revenues

Local revenues were adjusted to reflect changes in property taxes, investment interest, medicaid and after school program. State revenues were adjusted to reflect changes in the State aid foundation, special education and Young 4's payments. Federal revenues were adjusted to the amount of expenditures.

Changes in Expenditures

Expenditures were adjusted to reflect changes in staffing costs resulting from any staff retirements, as well as increase in retirement expense. Budget updates also reflect changes in utility and fuel costs attempting to match budget estimates closer to actual activity throughout the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, Breckenridge Community Schools had $5,631,136 (net of depreciation) invested in a broad range of capital assets, including buildings and improvements, equipment, and vehicles.

Debt

At June 30, 2013, Breckenridge Community Schools had $6,859,750 in long-term debt. The debt consisted of the following:

Commercial Controls	24,990
2008 Bonds	2,125,000
Retirement Incentive	79,760
2010 Bonds	1,090,000
2012 Bonds	3,540,000

STATE ECONOMIC AND LOCAL FACTORS

The district will see an increase in State revenues in 2013-14 due to a foundation allowance increase ($60/pupil) and a one-time equity payment ($50/pupil) resulting in additional revenues of $89,000. However, the district will lose performance funding ($40/pupil) resulting in a loss of $33,200.

Declining enrollment continues to be a challenge. Enrollment levels for 2013-14 were projected to decrease by 15 students. The districts preliminary September count is 792, a decrease of 39 students equating to a loss of State revenues of $174,000. Low enrollment in conjunction with increasing operating costs will result in a projected use of fund balance in the amount of $300,000. This will result in an ending fund equity, at June 30, 2014, of approximately 3% of annual expenditures in the General Fund. The Board will be considering a plan to reduce the deficit in 2013-2014.

REQUEST FOR INFORMATION

This financial report is designed to provide our stakeholders with a general overview of the district's finances and to show the 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:

Breckenridge Community Schools
Central Office
700 Wright Street
Breckenridge, MI 48615

DISTRICT-WIDE
FINANCIAL STATEMENTS

Breckenridge Community School District
Statement of Net Position
June 30, 2013

Assets	
Current assets	
Cash and cash equivalents	$ 5,689,347
Accounts receivable	45
Due from other governmental units	1,169,433
Prepaid expenses	62,500
Total current assets	6,921,325
Noncurrent assets	
Capital assets less accumulated depreciation	5,631,136
Total assets	12,552,461
Deferred outflows of resources	
Deferred outflows of resources	-
Liabilities	
Current liabilities	
Accounts payable	225,003
Accrued expenses	70,131
Salaries payable	267,991
Accrued interest on short-term note payable	12,406
Accrued interest on long-term debt	37,012
Payroll deductions and other withholdings	118,943
Unearned revenue	18,990
Short-term note payable	2,183,662
Current portion of retirement incentive	70,000
Current portion of long-term bonds payable	690,000
Current portion of long-term loans payable	24,990
Total current liabilities	3,719,128
Noncurrent liabilities	
Bonds payable	6,755,000
Loans payable	24,990
Compensated absences	121,177
Premium on bonds less accumulated amortization	135,987
Retirement incentive	79,760
Total noncurrent liabilities	7,116,914
Total liabilities	10,836,042
Deferred inflows of resources	
Deferred inflows of resources	-
Net position	
Invested in capital assets, net of related debt	1,091,387
Restricted for:	
Capital projects	3,171,647
Debt service	273,097
Food service	70,158
Unrestricted	(2,889,870)
Total net position	$ 1,716,419

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

Breckenridge Community School District
Statement of Activities
For the Year Ended June 30, 2013

		Program Revenues		Net (Expense)
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes Net Position
Governmental activities:				
Instruction	$ 4,421,477	$ -	$ 1,007,115	$ (3,414,362)
Support services	2,355,895	34,860	-	(2,321,035)
Food service	280,074	66,890	229,738	16,554
Community services	15,701	5,898	-	(9,803)
Interest and fees on long-term debt	224,693	-	-	(224,693)
Other expenditures	442,540	-	-	(442,540)
Amortization - unallocated	(12,831)	-	-	12,831
Depreciation - unallocated	319,149	-	-	(319,149)
Total governmental activities	$ 8,046,698	$ 107,648	$ 1,236,853	(6,702,197)
General revenues:				
Property taxes				1,815,973
State sources				4,902,420
Unrestricted interest and investment earnings				4,058
Restricted interest and investment earnings				11,028
Miscellaneous				114,884
Total general revenues				6,848,363
Change in net position				146,166
Net position - beginning (restated)				1,554,245
Prior period adjustment				16,008
Net position - ending				$ 1,716,419

FUND FINANCIAL STATEMENTS

Breckenridge Community School District
Balance Sheet
Governmental Funds
June 30, 2013

	Major Funds				
	General	Food Service	Debt Service	Capital Projects	Totals
Assets					
Cash and cash equivalents	$ 1,992,844	$ 81,370	$ 273,097	$ 3,342,036	$ 5,689,347
Accounts receivable	45	-	-	-	45
Due from other funds	-	-	95,148	-	95,148
Due from other governmental units	1,167,605	1,828	-	-	1,169,433
Prepaid expenses	62,500	-	-	-	62,500
Total assets	3,222,994	83,198	368,245	3,342,036	7,016,473
Deferred outflows of resources					
Deferred outflows of resources	-	-	-	-	-
Total assets and deferred outflows of resources	$ 3,222,994	$ 83,198	$ 368,245	$ 3,342,036	$ 7,016,473
Liabilities					
Accounts payable	$ 41,574	$ 13,040	$ -	$ 170,389	$ 225,003
Accrued expenses	70,131		-	-	70,131
Due to other funds	-	-	95,148	-	95,148
Accrued interest	12,406	-	-	-	12,406
Salaries payable	267,991	-	-	-	267,991
Payroll deductions and other withholdings	118,943	-	-	-	118,943
Unearned revenue	18,990	-	-	-	18,990
Short term note payable	2,183,662	-	-	-	2,183,662
Total liabilities	2,713,697	13,040	95,148	170,389	2,992,274
Deferred inflows of resources					
Deferred inflows of resources	-	-	-	-	-
Fund balances					
Nonspendable	62,500	-	-	-	62,500
Restricted for:					
Food service	-	70,158	-	-	70,158
Debt service	-	-	273,097	-	273,097
Capital projects	-	-	-	3,171,647	3,171,647
Unassigned	446,797	-	-	-	446,797
Total fund balances	509,297	70,158	273,097	3,171,647	4,024,199
Total liabilities, deferred inflows of resources and fund balance	$ 3,222,994	$ 83,198	$ 368,245	$ 3,342,036	$ 7,016,473

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

Breckenridge Community School District
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Position of Governmental Activities on the Statement of Net Position
For the Year Ended June 30, 2013

Total fund balance - governmental funds			$ 4,024,199
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Add:	Cost of capital assets	$ 12,048,776	
Deduct:	Accumulated depreciation	(6,417,640)	
			5,631,136
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:	2008 Refunding Bonds	(2,440,000)	
Deduct:	2010 Bonds	(1,165,000)	
Deduct:	2012 Bonds	(3,840,000)	
Deduct:	Compensated absences payable	(121,177)	
Deduct:	Commercial Controls	(49,980)	
Deduct:	Retirement incentive payable	(149,760)	
Deduct:	Accrued interest on long-term liabilities	(37,012)	
			(7,802,929)
Other amounts reported in the statement of activities that do not require current financial resources:			
Deduct:	Premium on bonds (net of amortization)		(135,987)
Total net position - governmental activities			$ 1,716,419

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

Breckenridge Community School District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	Major Funds				
	General	Food Service	Debt Service	Capital Projects	Totals
Revenues					
Local sources	$ 950,897	$69,050	$ 993,639	$ 10,773	$ 2,024,359
State sources	5,380,720	18,898	10,677	-	5,410,295
Federal sources	282,960	210,840	-	-	493,800
Other sources	264,410	-	-	-	264,410
Total revenues	6,878,987	$298,788	1,004,316	10,773	8,192,864
Expenditures					
Instruction					
Basic programs	3,682,126	-	-	-	3,682,126
Added needs	602,787	-	-	-	602,787
Adult / continuing education	134,717	-	-	-	134,717
Total instruction	4,419,630	-	-	-	4,419,630
Support services					
Pupil	254,011	-	-	-	254,011
Instructional staff	175,598	-	-	-	175,598
General administration	270,157	-	-	-	270,157
School administration	465,598	-	-	-	465,598
Business services	100,458	-	-	-	100,458
Operation and maintenance	615,914	-	-	-	615,914
Pupil transportation	365,277	-	-	-	365,277
Central	18,972	-	-	-	18,972
Other support services	171,182	-	-	-	171,182
Total support services	2,437,167	-	-	-	2,437,167
Food service	-	280,074	-	-	280,074
Community services	15,701	-	-	-	15,701
Debt service					
Principal payments	-	-	680,192	-	680,192
Interest, fees and other	-	-	186,559	25,844	212,403
Capital assets	-	12,794	-	714,769	727,563
Other expenditures	122,279	-	450	319,811	442,540
Total expenditures	6,994,777	292,868	867,201	1,060,424	9,215,270
Excess (deficiency) of revenues over expenditures	(115,790)	5,920	137,115	(1,049,651)	(1,022,406)
Other financing sources (uses)					
Bond proceeds	-	-	-	4,221,298	4,221,298
Excess (deficiency) of revenues and other sources over expenditures	(115,790)	5,920	137,115	3,171,647	3,198,892
Fund balances - beginning	635,962	64,238	135,982	-	836,182
Prior period adjustment	(10,875)	-	-	-	(10,875)
Fund balances - ending	$ 509,297	$ 70,158	$ 273,097	$ 3,171,647	$ 4,024,199

Breckenridge 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, 2013

Net change in fund balances - total governmental funds		$ 3,198,892
Amounts reported for governmental activities in the statement of activities are different because:		
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.		
Add:	Capital asset purchases	727,563
Deduct:	Depreciation expense	(319,149)
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.		
Deduct:	Increase in accrual for compensated absences	(1,847)
Deduct:	Increase in accrued interest on long term debt	(12,290)
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).		
Add:	Commercial control systems debt	24,991
Add:	2008 bonds	315,000
Add:	2010 bonds	60,000
Add:	2012 bonds	295,000
Add:	Durant issue	10,192
Add:	MMNet installment debt	22,441
Add:	Early retirement incentive	33,840
Long-term debt proceeds are reported as other financing sources in the governmental funds, thereby increasing fund balances. In the statement of net position, however, issuing long-term debt increases liabilities and has no effect on net position.		
Deduct:	Bond proceeds	(4,135,000)
Other amounts reported in the statement of activities that do not require current financial resources		
Deduct:	New bond premium	(86,298)
Add:	Amortization of premium	12,831
Change in net position - governmental activities		$ 146,166

Breckenridge Community School District
Fiduciary Funds - Statement of Net Position
For the Years Ended June 30, 2013

Agency Fund

Assets	
Cash and cash equivalents	$ 125,500
Total assets	$ 125,500
Liabilities	
Due to student and other groups	$ 125,500
Total liabilities	$ 125,500

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Breckenridge 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. 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.

The District receives funding from local, state and federal government sources and must comply with all of the requirements of these funding source entities.

District-wide and Fund Financial Statements

The District-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. 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 position is restricted when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources 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.

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 food service fund and the capital projects 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 position 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.

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 $292,123,930, which includes $44,824,489 attributable to non-homesteads. The District levied 18.0 mills for school general operations on the non-homestead taxable value, which totaled $806,841. The District also levied an additional 3.4 mills on all property in the District for the purpose of debt service, which totaled $993,221.

State Aid Revenue

The State of Michigan utilized 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 unearned 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.

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 & Improvements	10-50
Furniture & Equipment	5-20
Vehicles	5-8
Computer & Related Equipment	5

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

The District's policy allows full time, non-teacher employees to accumulate an unlimited amount of vacation days, and to carry the accumulation for an indefinite time into the future. Amounts accumulated are to be paid to the employee and recognized as an expense when vacation days are actually taken. Upon termination, no more than one year's accumulation will be paid to an employee and recognized as an expense. The vacation pay liability at June 30, 2013 is $34,270.

Sick pay is accumulated at a rate of ten (10) days per year (maximum of 130 days) for teachers, administrators and twelve-month employees. Other employees accumulate sick days at a rate of nine (9) days per year. Amounts accumulated are to be paid to the employee and recognized as an expense when sick leave is actually taken. Upon termination of employment, all sick leave benefits are forfeited. Upon retirement, providing that notice is given to the Board of Directors by May 1st of the year in which retirement is planned, teachers with a minimum of twelve (12) years of service in the Breckenridge School District, and who are eligible to receive retirement benefits from MPSERS, are paid sick leave at a rate of $80 for each unused sick day. The sick pay liability at June 30, 2013 is $86,907.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has no items that qualify for reporting in this category.

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 position.

Governmental Fund – 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

Budgets are adopted at the functional level and on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in governmental funds.

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

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). 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, in the general fund are noted in the required supplementary information section.
- Management is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2013. The District does not consider these amendments to be significant.

During the year the District recognized revenues which were under the amounts estimated to be earned and recognized expenditures over the amounts estimated to be spent in the General fund as follows:

Function	Budget	Actual	Variance
Revenues:			
State sources	$ 5,412,693	$ 5,380,720	($ 31,973)
Federal sources	322,592	282,960	(39,632)
Expenditures:			
Support services – pupil	251,503	254,011	(2,508)
Support services – instructional staff	173,767	175,598	(1,831)
Support services – school administration	463,714	465,598	(1,884)
Support services – business services	88,894	100,458	(11,564)
Support services – other support services	169,011	171,182	(2,171)

During the year the District recognized expenditures over the amounts estimated to be spent in the Food Service fund as follows:

Function	Budget	Actual	Variance
Expenditures:			
Food service	$ 268,868	$ 280,074	($ 11,226)
Capital outlay	-	12,794	(12,794)

DETAIL NOTES

NOTE 3 - CASH AND CASH EQUIVALENTS

At June 30, 2013, the carrying amount of the District's cash and cash equivalents was:

Cash and Cash Equivalents	Amount
Petty Cash	$ 1,449
Deposits With Financial Institutions: Interest Bearing Checking, Savings, and Money Market Accounts	2,498,869
Certificates of Deposit	3,189,029
Totals	$ 5,689,347

At year-end, the carrying amount of the District's deposits was $5,687,898 and the bank balance was $5,744,912. 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 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, it 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.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

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

Due From	Amount
General Fund:	
State of Michigan – State Aid	$ 1,027,997
Title II, Part A	28,556
Title I, Part A	98,592
Gratiot Isabella RESD, Great Start Readiness	12,460
Hot Lunch Fund:	
State of Michigan – State Aid	1,828
Totals	$ 1,169,433

NOTE 5 - ACCOUNTS RECEIVABLE

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

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at year-end were comprised of the following amounts:

Fund	Due To	Due From
Debt Service Fund – 2008 Bond	$ 95,148	$ -
Debt Service Fund – 2010 Bond	-	12,270
Debt Service Fund – 2012 Bond	-	82,878
Totals	$ 95,148	$ 95,148

NOTE 7 - PREPAIDS

Prepaid expenses represent payments for agreements that will benefit future periods.

NOTE 8 - CAPITAL ASSETS

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

Capital Assets	Beginning Balance	Additions/ Adjustments	Disposals	Ending Balance
Buildings & Improvements	$ 8,998,905	$ 551,145	$ -	$9,550,050
Computer & Related Equipment	546,719	-	-	546,719
Furniture & Equipment	1,115,595	39,677	-	1,155,272
Vehicles	633,111	163,624	-	796,735
Total Capital Assets	11,294,330	754,446	-	12,048,776
Accumulated Depreciation				
Buildings & Improvements	(4,126,534)	(238,747)	-	(4,365,281)
Computer & Related Equipment	(546,719)	-	-	(546,719)
Furniture & Equipment	(932,063)	(36,108)	-	(968,171)
Vehicles	(493,175)	(44,294)	-	(537,469)
Total Accumulated Depreciation	(6,098,491)	(319,149)	-	(6,417,640)
Net Capital Assets	$ 5,195,839	$ 435,297	$ -	$ 5,631,136

Depreciation for the year ended June 30, 2013 totaled $319,149. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 9 - ACCRUED WAGES

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 10 - SHORT-TERM NOTE PAYABLE

STATE AID LOAN

On August 20, 2012, the District borrowed $2,200,000 in two notes from the Municipal Bond Authority in the form of State Aid Anticipation Notes for the purpose of providing funds for school operations. The interest rates were stated at 0.270% and 1.460%. These notes are payable at maturity on August 20, 2013. The remaining balance on these notes is shown as a current liability in the General Fund.

On August 20, 2013 (after the end of the current fiscal year), the District borrowed $2,100,000 in two notes from the Municipal Bond Authority in the form of State Aid Anticipation Notes for the purpose of providing funds for school operations. The interest rates are stated at 1.378% and 1.050%. These notes are payable at maturity on August 20, 2014. These loans were acquired after the end of the fiscal year and, therefore, are not shown as current liabilities in the General Fund.

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.

2008 REFUNDING BONDS

During the fiscal year ended June 30, 2008, the District advance refunded a general obligation bond issue with a general obligation bond refunding. The District issued $4,055,000 of general obligation refunding bonds for the purpose of advance refunding a portion of the District's outstanding 1998 bonds and paying costs associated with the issuance of the bonds. The proceeds of the bonds, together with funds on hand, will be used to establish an escrow fund to provide for payment of principal and interest and redemption premiums on the prior bonds being refunded. The escrow fund will consist of cash and direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America.

The bonds are a full faith and credit unlimited tax general obligation of the District and the principal thereof and interest thereon will be payable from the proceeds of ad valorem taxes levied on all taxable property in the District without limitation as to rate or amount. The bonds are dated March 27, 2008.

See payment schedule in the back of this report.

2010 BONDS

During the fiscal year ended June 30, 2010, the District issued a general obligation bond in the amount of $1,300,000. The bonds are a full faith and credit unlimited tax general obligation of the District and the principal thereof and interest thereon will be payable from the proceeds of ad valorem taxes levied on all taxable property in the District without limitation as to rate or amount. The bonds are dated February 24, 2010.

See payment schedule in the back of this report.

2012 BONDS

During the fiscal year ended June 30, 2013, the District issued a general obligation bond in the amount of $4,135,000. The bonds are a full faith and credit unlimited tax general obligation of the District and the principal thereof and interest thereon will be payable from the proceeds of ad valorem taxes levied on all taxable property in the District without limitation as to rate or amount. The bonds are dated November 28, 2012.

See payment schedule in the back of this report.

INSTALLMENT PURCHASE

On November 13, 2007, the District entered into a contract with Commercial Controls, Inc. for the purchase, installation and maintenance of a temperature control system. The total cost of the contract was $199,920. The terms of the contract call for an initial payment of $24,990 due upon acceptance of the contract and seven annual payments of $24,990. There was no stated interest rate.

See payment schedule in the back of this report.

RETIREMENT INCENTIVE PAYABLE

Ten individuals are currently participating in the early retirement incentive program offered by the District. Under this program, the individuals will receive annual payments ranging from $1,760 to $15,000 each through the year 2017.

For additional information see the payment schedule included in the back of this report.

CHANGES TO LONG-TERM DEBT

The changes in long-term debt during the year ended June 30th are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
2008 Bonds	$ 2,755,000	$ -	($ 315,000)	$ 2,440,000	$ 315,000	$ 2,125,000
2010 Bonds	1,225,000	-	(60,000)	1,165,000	75,000	1,090,000
2012 Bonds	-	4,135,000	(295,000)	3,840,000	300,000	3,540,000
Durant Bonds	10,192	-	(10,192)	-	-	-
MMNET Loans	22,441	-	(22,441)	-	-	-
Early Retirement Inc.	183,600	46,760	(80,600)	149,760	70,000	79,760
Commercial Controls	74,970	-	(24,990)	49,980	24,990	24,990
Compensated abs.	119,330	1,847	-	121,177	-	121,177
Total	$ 4,390,533	$ 4,183,607	($ 808,223)	$ 7,765,917	$ 784,990	$ 6,980,927

NOTE 12 - EMPLOYEE RETIREMENT SYSTEM

Plan Description

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

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

Introduction

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

Pension Reform

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

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

Option 1
Members voluntarily elected to increase their contributions to the pension fund and retain the 1.5% pension factor in their pension formula. Basic Plan members were to contribute 4% and MIP (Fixed, Graded and Plus) members were to contribute 7%. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

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

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

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

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

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

Member Contributions

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP 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 between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 4.3% of all wages over $15,000. Members first hired July 1, 2008, or later including Pension Plus Plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first $5,000; 3.6% of $5,001 through $15,000; 6.4% of all wages over $15,000.

Basic Plan members make no contributions. Actuarial rate of interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member’s accumulated contributions plus interest, if any, are refundable.

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

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the period October 1 through September 30, the District pays an amount equal to a percentage of its employees’ wages to the Michigan Public School Employees Retirement System (“MPSERS”), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees’ wages. In addition, the District is required to match 50% up to 1% of the employee’s contribution in the Pension Plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS were equal to the required contribution for those years.

The District’s contributions to MPSERS were $957,213 for the year ending June 30, 2013, $843,227 for the year ending June 30, 2012 and $738,546 for the year ending June 30, 2011.

Included in the amounts paid above, the District received $72,010 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2013.

Other Postemployment Benefits

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

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

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 property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District participates in the SET/SEG risk pool for claims relating to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The District has purchased commercial insurance for medical claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 14 - JOINT VENTURE

During the year ended June 30, 1999 the District elected to join the Middle Michigan Network for Educational Telecommunications (MMNET). As a member of MMNET, the District was required to purchase a 12.5% undivided interest in various communication equipment and services as well as pay for annual administrative cost incurred by Gratiot-Isabella RESD, the administrative agent. Information regarding the purchase of equipment and services is shown in the above notes.

The MMNET Consortium was established by a previously approved inter local Consortium Agreement among the following entities: Beal City Public Schools, Breckenridge Community Schools, Clinton County RESA, Central Montcalm Public Schools, DeWitt Public Schools, Fulton Schools, Gratiot-Isabella RESD, Ovid-Elsie Area Schools, and St. Johns Public Schools.

The purpose of MMNET is to provide for interactive voice/video/data interconnections and services required for, or useful in, the instruction and training of students and other persons utilizing the participant services, the conducting of research, or the administrative operations of the participants; and to enable the participants to cooperatively share their resources for the ownership, financing, installation, administration and operation of MMNET.

Additional information on MMNET, including separate financial statements, is available by contacting the fiscal agent at:

Gratiot-Isabella Regional Education Service District
1131 East Center Street
Ithaca, Michigan 48847
Phone: 989-875-5101

NOTE 15. CHANGE IN ACCOUNTING PRINCIPLE

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new format to certain financial statements to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, when applicable.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items previously reported as assets and liabilities as outflows of resources and inflows of resources.

These statements impact the format and reporting of amounts in the statement of net position and the balance sheet at the government-wide level and the fund level, respectively.

The 2012 net position – beginning of year has been restated as a result of the GASB statement No. 65 noted above. The restatement is as follows:

	Governmental Activities
2012 Net position – beginning of year	$ 1,629,546
Restatement of debt issuance costs	(75,301)
2012 Net position – beginning of year (restated)	$ 1,554,245

NOTE 16. UPCOMING ACCOUNTING PRONOUNCEMENT

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

NOTE 17. PRIOR PERIOD ADJUSTMENTS

Amounts recognized in these financial statements for prior period adjustments represent:

Adjustments to capital assets	$ 26,833
Amounts paid back for over-request of Title I funds	(10,875)

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

Breckenridge Community School District
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance -
	Original	Final	Actual	Actual to Final Budget
Revenues				
Local sources	$ 662,922	$ 944,988	$ 950,897	$ 5,909
State sources	5,400,630	5,412,693	5,380,720	(31,973)
Federal sources	304,268	322,592	282,960	(39,632)
Other sources	203,000	244,500	264,410	19,910
Total revenues	6,570,820	6,924,773	6,878,987	(45,786)
Expenditures				
Instruction				
Basic programs	3,568,650	3,763,874	3,682,126	81,748
Added needs	604,194	652,619	602,787	49,832
Adult / continuing education	150,886	148,438	134,717	13,721
Total instruction	4,323,730	4,564,931	4,419,630	145,301
Support services				
Pupil	252,765	251,503	254,011	(2,508)
Instructional staff	164,864	173,767	175,598	(1,831)
General administration	285,823	278,343	270,157	8,186
School administration	465,967	463,714	465,598	(1,884)
Business services	94,860	88,894	100,458	(11,564)
Operation and maintenance	658,652	624,264	615,914	8,350
Pupil transportation	381,687	370,335	365,277	5,058
Central	33,140	23,623	18,972	4,651
Capital assets	-	-	-	-
Other support services	6,200	169,011	171,182	(2,171)
Total support services	2,343,958	2,443,454	2,437,167	6,287
Community services	10,928	22,513	15,701	6,812
Other	273,990	132,131	122,279	9,852
Total expenditures	6,952,606	7,163,029	6,994,777	168,252
Excess (deficiency) of revenues over expenditures	(381,786)	(238,256)	(115,790)	122,466
Fund balances - beginning	635,962	635,962	635,962	-
Prior period adjustment	-	-	(10,875)	(10,875)
Fund balances - ending	$ 254,176	$ 397,706	$ 509,297	$ 111,591

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

Breckenridge Community School District
Budgetary Comparison Schedule for the Food Service Fund
For the Year Ended June 30, 2013

	Budgeted Amounts Original	Budgeted Amounts Final	Actual	Variance - Actual to Final Budget
Revenues				
Local sources	$ -	$ 67,120	$ 69,050	$ 1,930
State sources	-	18,898	18,898	-
Federal sources	-	187,500	210,840	23,340
Total revenues	-	273,518	298,788	25,270
Expenditures				
Food service	-	268,848	280,074	(11,226)
Capital Outlay	-	-	12,794	(12,794)
Total expenditures	-	268,848	292,868	(24,020)
Excess (deficiency) of revenues over expenditures	-	4,670	5,920	1,250
Fund balances - beginning	64,238	64,238	64,238	-
Fund balances - ending	$ 64,238	$ 68,908	$ 70,158	$ 1,250

OTHER SUPPLEMENTAL INFORMATION

Breckenridge Community School District
General Fund
Balance Sheet
June 30, 2013

Assets		
Cash and investments	$	1,992,844
Accounts receivable		45
Due from other funds		-
Due from other governmental units		1,167,605
Prepaid expenses		62,500
Total assets	$	3,222,994
Liabilities		
Accounts payable	$	41,574
Accrued expenses		70,131
Accrued interest		12,406
Salaries payable		267,991
Payroll deductions and other withholdings		118,943
Unearned revenue		18,990
Short term note payable		2,183,662
Total liabilities		2,713,697
Fund balance		
Reserved for:		
Nonspendible		62,500
Unassigned		446,797
Total fund balance		509,297
Total liabilities and fund balance	$	3,222,994

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

Breckenridge Community School District
General Fund
Statement of Revenues
For the Year Ended June 30, 2013

Local sources	
Property taxes	$ 822,557
Interest	4,058
After school program	5,898
Other local revenues	118,384
Total local sources	950,897
State sources	
General state aid	4,891,743
Categorical:	
Special education	111,798
At risk	134,738
Vocational education	
School readiness	43,374
Other State revenues	199,067
Total state sources	5,380,720
Federal sources	
Title I	216,078
Medicaid	2,594
Improving teacher quality	63,831
Homeless grant	457
Total federal sources	282,960
Other sources	
Other governmental units	
County special education tax	235,178
Other	29,232
Total other sources	264,410
Other financing sources (uses)	
Incoming transfers - food service	-
Total general fund revenues	$ 6,878,987

Breckenridge Community School District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2013

Instruction	
Basic programs	
Elementary	
Salaries	$ 1,006,204
Employee benefits	622,790
Purchased services	58,018
Supplies, materials and other	20,132
Total elementary	1,707,144
Middle/junior high	
Salaries	521,631
Employee benefits	322,614
Purchased services	6,164
Supplies, materials and other	3,474
Total middle school	853,883
High school	
Salaries	503,398
Employee benefits	316,960
Purchased services	245,483
Supplies, materials and other	20,678
Total high school	1,086,519
Readiness program	
Salaries	24,762
Employee benefits	8,022
Purchased services	388
Supplies, materials and other	1,408
Total readiness program	34,580
Total basic programs	3,682,126
Added needs	
Special education	
Salaries	197,573
Employee benefits	93,274
Purchased services	12,666
Supplies, materials and other	1,557
Total special education	305,070

Breckenridge Community School District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2013

Instruction (continued)		
Added needs (continued)		
Title I		
Salaries	$	129,192
Employee benefits		53,160
Purchased services		2,011
Supplies, materials and other		14,237
Total Title I		198,600
Title II, Part A		
Salaries		-
Employee benefits		-
Purchased services		5,522
Supplies, materials and other		-
Total Title II, Part A		5,522
Vocational education		
Salaries		58,991
Employee benefits		24,899
Purchased services		-
Supplies, materials and other		9,705
Total vocational education		93,595
Total added needs		602,787
Adult / continuing education		
AIM program		
Salaries		89,312
Employee benefits		43,662
Supplies, materials and other		1,743
Total adult / continuing education		134,717
Total instruction		4,419,630

Breckenridge Community School District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2013

Support services	
Pupil services	
Guidance services	
Salaries	$ 33,610
Employee benefits	30,193
Purchased services	141
Supplies, materials and other	-
Total guidance services	63,944
Speech Pathology	
Salaries	56,896
Employee benefits	34,439
Supplies, materials and other	987
Total speech pathology	92,322
Other pupil services	
Salaries	72,670
Employee benefits	25,075
Total other pupil services	97,745
Total pupil services	254,011
Instructional staff	
Educational media services	
Salaries	57,395
Employee benefits	24,586
Purchased services	8,151
Supplies, materials and other	5,985
Total educational media services	96,117
Technology assisted instruction	
Salaries	14,771
Employee benefits	6,539
Purchased services	38,148
Supplies, materials and other	20,023
Total technology assisted instruction	79,481
Total instructional staff	175,598

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

Breckenridge Community School District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2013

Support services (continued)	
General administration	
Board of education	
Salaries	$ -
Purchased services	25,179
Supplies, materials and other	12,396
Total board of education	37,575
Executive administration	
Salaries	133,067
Employee benefits	72,911
Purchased services	16,944
Supplies, materials and other	9,660
Total executive administration	232,582
Total general administration	270,157
School administration	
Offices of the principals	
Salaries	284,032
Employee benefits	165,159
Purchased services	2,722
Supplies, materials and other	13,685
Total school administration	465,598
Business services	
Fiscal services	
Supplies, materials and other	27,079
Total fiscal services	27,079
Internal services	
Supplies, materials and other	101
Total internal services	101

Breckenridge Community School District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2013

Support services (continued)	
Business services	
Other business services	
Workmen's compensation	$ 7,508
Unemployment compensation	14,206
Interest	39,792
Taxes abated and written off	11,772
Total other business services	73,278
Total business services	100,458
Operation and maintenance	
Salaries	184,320
Employee benefits	115,436
Purchased services	171,759
Supplies, materials and other	144,399
Total operation and maintenance	615,914
Pupil transportation	
Salaries	144,986
Employee benefits	64,210
Purchased services	66,144
Supplies, materials and other	89,937
Capital outlay	-
Total pupil transportation	365,277
Central	
Communication services	
Purchased services	9,577
Data processing	
Purchased services	5,304
Supervision of Instructional Staff	
Salaries	3,100
Employee benefits	991
Total supervision of instructional staff	4,091
Total central	18,972

Breckenridge Community School District
General Fund
Statement of Expenditures
For the Year Ended June 30, 2013

Support services (continued)	
Other support services	
Purchased services	$ 4,175
Athletics	
Salaries	55,249
Employee benefits	25,748
Purchased services	62,818
Supplies, materials and other	23,192
Total other support services	171,182
Total support services	2,437,167
Community services	
Recreation	
Salaries	4,276
Employee benefits	1,503
Supplies, materials and other	826
Total recreation	6,605
Activities	
Supplies, materials and other	274
Custody and care of children	
Salaries	6,663
Employee benefits	2,159
Total custody and care of children	8,822
Total community services	15,701
Other transactions	
Payments to other schools	-
Leases	17,973
MMNET	31,979
Voc ed tuition	71,332
Other expenditures	995
Total other transactions	122,279
Total general fund expenditures	$ 6,994,777

Breckenridge Community School District
Food Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2013

Revenues	
Local sources	
Student lunches	$ 52,272
Adult lunches	1,371
Ala-carte	13,247
Interest	32
Miscellaneous	2,128
Total local sources	69,050
State sources	
School lunch program	18,898
Total state sources	18,898
Federal sources	
National school lunch program	192,159
USDA donated commodities	18,681
Total federal sources	210,840
Total revenues	298,788
Expenditures	
Salaries	37,717
Benefits	12,073
Purchased services	49,272
Supplies, materials and other	181,012
Capital outlay	12,794
Total expenditures	292,868
Excess (deficiency) of revenues over expenditures	5,920
Other financing sources (uses)	
Operating transfers (out)	-
Excess (deficiency) of revenues and other sources over expenditures	5,920
Fund balances - beginning	64,238
Prior period adjustment	-
Fund balances - ending	$ 70,158

Breckenridge Community School District
Debt Service Funds
Combining Balance Sheet
June 30, 2013

	2008 Bond	2010 Bond	2012 Bond	Totals
Assets				
Cash and investments	$ 273,097	$ -	$ -	$ 273,097
Accounts receivable, net	-	-	-	-
Due from other funds	-	12,270	82,878	95,148
Total assets	273,097	12,270	82,878	368,245
Deferred outflows of resources				
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	$ 273,097	$ 12,270	$ 82,878	$ 368,245
Liabilities				
Accounts payable	$ -	$ -	$ -	$ -
Due to other funds	95,148	-	-	95,148
Unearned revenue	-	-	-	-
Total liabilities	95,148	-	-	95,148
Deferred inflows of resources				
Deferred inflows of resources	-	-	-	-
Fund Balance				
Reserved for debt service	177,949	12,270	82,878	273,097
Total liabilities, deferred inflows of resources and fund balance	$ 273,097	$ 12,270	$ 82,878	$ 368,245

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

Breckenridge Community School District
Debt Service Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For The Year Ended June 30, 2013

	2008 Bond	2010 Bond	2012 Bond	Totals
Revenues				
Local sources				
Property tax levy	$ 465,080	$ 111,071	$ 417,265	$ 993,416
Interest on investments	175	10	38	223
Other revenues	-	-	-	-
Total local sources	465,255	111,081	417,303	993,639
State sources	10,677	-	-	10,677
Total revenues	475,932	111,081	417,303	1,004,316
Expenditures				
Bond principal	315,000	60,000	295,000	670,000
Durant principal	10,192	-	-	10,192
Bond interest	107,838	38,811	39,425	186,074
Durant interest	485	-	-	485
Other fees	450	-	-	450
Total expenditures	433,965	98,811	334,425	867,201
Revenues over (under) expenditures	41,967	12,270	82,878	137,115
Other financing sources (uses)				
Operating transfers in (out)	-	-	-	-
Revenues and other financing sources over (under) expenditures and other financing uses	41,967	12,270	82,878	137,115
Fund balance, beginning of year	135,982	-	-	135,982
Fund balance, end of year	$ 177,949	$ 12,270	$ 82,878	$ 273,097

Breckenridge Community School District
Capital Projects Funds
Combining Balance Sheet
June 30, 2013

	2012 Bond Proposal 1	2012 Bond Proposal 2	Totals
Assets			
Cash and investments	$ 3,173,141	$ 168,895	$ 3,342,036
Deferred outflows of resources			
Deferred outflows of resources	-	-	-
Total assets and deferred outflows of resources	$ 3,173,141	$ 168,895	$ 3,342,036
Liabilities			
Accounts payable	$ 154,518	$ 15,871	$ 170,389
Deferred inflows of resources			
Deferred inflows of resources	-	-	-
Fund Balance			
Reserved for debt service	3,018,623	153,024	3,171,647
Total liabilities, deferred inflows of resources and fund balance	$ 3,173,141	$ 168,895	$ 3,342,036

Breckenridge Community School District
Capital Projects Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For The Year Ended June 30, 2013

	2012 Bond Proposal 1	2012 Bond Proposal 2	Totals
Revenues			
Local sources			
Interest on investments	$ 9,588	$ 1,185	$ 10,773
Total revenues	9,588	1,185	10,773
Expenditures			
Purchased services	-	1,683	1,683
Supplies, materials and other	-	318,128	318,128
Debt service - issuance costs	23,001	2,843	25,844
Capital outlay	714,769	-	714,769
Total expenditures	737,770	322,654	1,060,424
Revenues over (under) expenditures	(728,182)	(321,469)	(1,049,651)
Other financing sources (uses)			
Proceeds from bond	3,746,805	474,493	4,221,298
Revenues and other financing sources over (under) over (under) expenditures and other financing uses	3,018,623	153,024	3,171,647
Fund balance, beginning of year	-	-	-
Fund balance, end of year	$ 3,018,623	$ 153,024	$ 3,171,647

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

Breckenridge Community School District
Schedule of Bonded Debt
For the Year Ended June 30, 2013

Fiscal Year	Interest Rate (%)	Annual Principal Due	Interest Due November	Interest Due May	Total
2008 Refunding Bonds - $4,055,000					
2014	4.00	315,000	48,800	48,800	412,600
2015	4.00	320,000	42,500	42,500	405,000
2016	4.00	315,000	36,100	36,100	387,200
2017	4.00	310,000	29,800	29,800	369,600
2018	4.00	305,000	23,600	23,600	352,200
2019	4.00	300,000	17,500	17,500	335,000
2020	4.00	290,000	11,500	11,500	313,000
2021	4.00	285,000	5,700	5,700	296,400
Total 2008 Refunding Bonds		$ 2,440,000	$ 215,500	$ 215,500	$ 2,871,000
2010 Bonds - $1,300,000					
2014	2.25	75,000	18,805	18,805	112,610
2015	2.50	85,000	17,961	17,961	120,922
2016	3.00	105,000	16,899	19,899	141,798
2017	3.00	130,000	15,324	15,324	160,648
2018	3.20	155,000	13,374	13,374	181,748
2019	3.40	180,000	10,894	10,894	201,788
2020	3.55	210,000	7,834	7,834	225,668
2021	3.65	225,000	4,106	4,106	233,212
Total 2010 Bonds		$ 1,165,000	$ 105,197	$ 108,197	$ 1,378,394
2012 Bonds - $4,135,000					
2014	2.00	300,000	43,431	43,431	386,862
2015	2.00	300,000	40,431	40,431	380,862
2016	2.00	270,000	37,431	37,431	344,862
2017	2.00	230,000	34,731	34,731	299,462
2018	2.00	205,000	32,431	32,431	269,862
2019	2.00	185,000	30,381	30,381	245,762
2020	2.25	170,000	28,532	28,532	227,064
2021	2.25	170,000	26,619	26,619	223,238
2022	2.25	335,000	24,706	24,706	384,412
2023	2.50	335,000	20,937	20,937	376,874
2024	2.50	335,000	16,750	16,750	368,500
2025	2.50	335,000	12,563	12,563	360,126
2026	2.50	335,000	8,375	8,375	351,750
2027	2.50	335,000	4,188	4,188	343,376
Total 2012 Bonds		$ 3,840,000	$ 361,506	$ 361,506	$ 4,563,012

Breckenridge Community School District
Schedule of Other Long-Term Debt
For the Year Ended June 30, 2013

Fiscal Year	Interest Rate (%)	Annual Principal Due	Interest Due November	Interest Due May	Total
Commercial Controls - $199,920					
2014	-	24,990	-	-	24,990
2015	-	24,990	-	-	24,990
Total Commercial Controls		$ 49,980	$ -	$ -	$ 49,980
Early Retirement Incentive					
2014	-	70,000	-	-	70,000
2015	-	55,000	-	-	55,000
2016		23,000	-	-	23,000
2017	-	1,760	-	-	1,760
Total Retirement Incentive		$ 149,760	$ -	$ -	$ 149,760

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Education
Breckenridge Community School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breckenridge Community School District (the District), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 2, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
October 2, 2013

Breckenridge Community School District
Financial Statements
June 30, 2013

MEMORANDUM

TO: Michigan Department of Education

FROM: Roslund, Prestage & Company, P.C.

REGARDING: Management Letter – Breckenridge Community School District

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According the requirements set forth in the Michigan School Audit Manual, this memorandum is to serve as notification that a management letter will not be issued for the fiscal year ended of June 30, 2013.

Communication with Those Charged with Governance at the Conclusion of the Audit

To the Board of Education
Breckenridge Community Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Breckenridge Community Schools for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you in our previously issued letter (*Communication with Those Charged with Governance during Planning*). Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to the financial statements. During the year, the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result of this implementation, the financial statements have been changed to reflect the new presentation required by GASB Statement No. 63, as applicable. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

> Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimated lives of capital assets is based on the expected life of the asset. We evaluated the key factors and assumptions used to develop the estimated lives of the capital assets in determining that is it reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education and management of Breckenridge Community Schools and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Roslund, Prestage & Company, P.C.

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