

Beal City Public Schools

Mt. Pleasant, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2013

Table of Contents

<u>Section</u>	<u>Page</u>	
1	Members of the Board of Education and Administration	1 - 1
2	Independent Auditors' Report	2 - 1
3	Administration's Discussion and Analysis	3 - 1
4	Basic Financial Statements	
	District-wide Financial Statements	
	Statement of Net Position	4 - 1
	Statement of Activities	4 - 3
	Fund Financial Statements	
	Governmental Funds	
	Balance Sheet	4 - 4
	Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position of Governmental Activities	4 - 5
	Statement of Revenues, Expenditures and Changes in Fund Balances	4 - 6
	Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	4 - 8
	Internal Service Fund	
	Statement of Net Position	4 - 9
	Statement of Revenues, Expenditures, and Changes in Fund Net Position	4 - 10
	Statement of Cash Flow	4 - 11
	Fiduciary Funds	
	Statement of Fiduciary Net Position	4 - 12
	Notes to Financial Statements	4 - 13
5	Required Supplemental Information	
	Budgetary Comparison Schedule – General Fund	5 - 1

<u>Section</u>		<u>Page</u>
6	Other Supplemental Information	
	Nonmajor Governmental Funds	
	Combining Balance Sheet	6 - 1
	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	6 - 2
	General Fund	
	Comparative Balance Sheet	6 - 3
	Schedule of Revenues Compared to Budget	6 - 4
	Schedule of Expenditures Compared to Budget	6 - 5
	Fiduciary Funds	
	Statement of Changes in Amounts Due to Student Groups	6 - 14
	Schedule of Outstanding Bonded Indebtedness	6 - 16
7	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	7 - 1

Beal City Public Schools
Members of the Board of Education and Administration
June 30, 2013

Members of the Board of Education

Terry Hutchinson – President

Rod Cole – Vice President

Denise McBride – Secretary

Robert Pasch – Treasurer

Ron Neyer – Trustee

Jane Finnerty – Trustee

Kari Rojas – Trustee

Administration

William Chilman – Superintendent

Jeff Jackson – High School Principal

Jason Wolf – Elementary Principal

Julie Freeze – Business Manager

Independent Auditors' Report

Management and the Board of Education
Beal City Public Schools

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 Beal City Public Schools, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School 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.

Auditors' 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 auditors' 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 Beal City Public Schools, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, during the year ended June 30, 2013, the District adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

Other Matters:

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the administration's discussion and analysis and budgetary comparison information, as identified in the table of contents, 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 supplemental 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 Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Beal City Public Schools' basic financial statements. The list of the Members of the Board of Education and Administration and other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplemental information, as identified in the table of contents, is the responsibility of management and, other than the prior year information, was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplemental 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, other than the prior year information, the other supplemental information, as identified in the table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The list of the Members of the Board of Education and Administration, which is the responsibility of management, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Prior Year Information

We also have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Beal City Public Schools' financial statements as of and for the year ended June 30, 2012, which are not presented with the accompanying financial statements. In our report dated October 2, 2012, we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Beal City Public Schools' financial statements as a whole. The 2012 information in the comparative supplemental schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2012 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2012 information in the comparative supplemental schedules are fairly stated in all material respects in relation to the financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2013 on our consideration of Beal City Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Beal City Public Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, MI
October 7, 2013

ADMINISTRATION'S DISCUSSION AND ANALYSIS

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

Beal City Public Schools (the District) Administration's discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and its ability to address financial challenges in the years to come. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Administration's Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2013.

The following is an outline of how this financial report is presented.

Section 3
AD&A

Administration's Discussion And Analysis
(required supplementary information)

Section 4
Basic Financial Statements

District – Wide Financial Statements
Fund Financial Statements
Internal Service Fund
Fiduciary Funds
Notes to Financial Statements

Section 5
Supplementary Information

Budgetary Comparison Schedule

Section 6
Other Supplementary Information

Combining Balance Sheets
Combining Statement of Revenues,
Expenditures and Changes in Fund
Balances
Comparative Balance Sheet
Schedule of Revenues Compared to Budget
Schedule of Expenses Compared to Budget
Fiduciary Fund Statement of Changes
in Amounts Due to Student Groups
Schedule of Outstanding Bonded Indebtedness

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

As noted above, Section 4 contains two basic types of financial statements: District Wide Financial Statements and Fund Financial Statements in accordance with GASB 34.

District Wide Financial Statements

The District wide financial statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are two District wide statements: the Statement of Net Position and the Statement of Activities.

The Statement of Net Position combines and consolidates governmental funds' current financial resources (short-term spendable resources) with capital assets and long-term obligations, regardless if they are currently available or not.

The Statement of Activities presents information showing how the school district's net assets changed during the fiscal year. To be consistent with full accrual basis accounting, all changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements and Internal Service Fund

The fund statements are reported using the modified accrual method of accounting. Under this method of accounting, revenues are recorded when received or when they are measurable and expenditures are accounted for in the period those goods and services were used to provide school programs. In addition, capital asset purchases are expensed in totality in the year purchased and not recorded as an asset. Debt payments are recorded as expenditures when they are paid and future debt obligations are not recorded.

Fund types include the General Fund, Special Revenue Fund, Debt Retirement Funds, Capital Project Fund, Internal Service Fund and Fiduciary Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived primarily from property taxes, state and federal distributions and grants. The Special Revenue Fund is used to record the activities of the food service operation. The Debt Funds are used to record the funding and payment of principal and interest on bonded debt. The Capital Project Fund is used to record the funding and payment of building construction and major site improvements. The Internal Service Fund is used to finance services provided to other funds in the School District on a cost-reimbursement basis. The Internal Service Fund accounts for medical, dental and vision insurance coverage. The Fiduciary Fund accounts for assets held by the District in a trustee capacity or as an agent for various student groups and related activities.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

Financial Analysis of the District as a Whole

Summary of Statement of Net Position

	<u>2012</u>	<u>2013</u>
Assets		
Current assets	\$ 2,500,568	\$ 2,605,742
Capital assets	10,721,908	10,749,428
less accumulated depreciation	<u>(4,875,472)</u>	<u>(5,177,603)</u>
Capital assets, net book value	<u>5,846,436</u>	<u>5,571,825</u>
Total assets	<u>8,347,004</u>	<u>8,177,567</u>
Deferred Outflows of Resources	<u>33,510</u>	<u>71,072</u>
Total assets and deferred outflows of resources	<u>8,380,514</u>	<u>8,248,639</u>
Liabilities		
Current liabilities	957,911	1,068,936
Long-term liabilities	<u>4,552,247</u>	<u>4,261,884</u>
Total liabilities	<u>5,510,158</u>	<u>5,330,820</u>
Net Position		
Net investment in capital assets	968,390	1,104,923
Restricted for debt service	92,769	105,261
Restricted for food service	53,114	49,625
Restricted for grants	20,357	22,902
Unrestricted	<u>1,735,726</u>	<u>1,635,106</u>
Total net position	<u>\$ 2,870,356</u>	<u>\$ 2,917,817</u>

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

Summary of Net Position

As indicated by the statement above, total net position is \$2,917,817. Net position can be separated into the following categories: net investment in capital assets, restricted for debt service, restricted for food service, restricted for grants, and unrestricted.

Net investment in capital assets is a combination of funds available for capital assets, plus capital assets at original cost less accumulated depreciation and related debt. The original cost of capital assets is \$10,749,428 which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. Total accumulated depreciation is \$5,177,603. Many capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due through property taxes approved by the voters and is recorded as a liability in the summary of net position statement.

Total net investment in capital assets is \$1,104,923. Net position restricted for debt service is \$105,261 and consists of cash balances in the debt service funds. Net position restricted for grants is \$22,902 and consist of tribal grant dollars awarded but not yet spent. Net position restricted for food service is \$49,625 and consist of net position available to the food service operations. The remaining \$1,635,106 of net position is unrestricted. The unrestricted net position is an accumulation of prior years' operating results. This balance is directly affected each year by the District's operating results.

Summary of Statement of Activities

	<u>2012</u>	<u>2013</u>
Revenues		
Charges for Services	\$209,789	\$229,651
Operating and Capital Grants and Contributions	773,975	824,227
General Revenues	<u>5,229,668</u>	<u>5,538,025</u>
Total Revenue	<u>6,213,432</u>	<u>6,591,903</u>
Expenses		
Instruction	3,453,465	3,800,773
Supporting services	2,300,146	2,232,817
Food services	294,541	292,218
Community Services	6,400	6,138
Interest on long-term debt	<u>215,030</u>	<u>178,986</u>
Total expenses	<u>6,269,582</u>	<u>6,510,932</u>
Increase (decrease) in net position	<u>(\$56,150)</u>	<u>\$80,971</u>

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

The total increase in revenue from 2011/2012 to 2012/2013 at the District wide level was \$378,471. The majority of that increase was in the General Fund where local, state, and interdistrict sources all saw an increase in revenues over last year. Local sources increased due to an increase in gate receipts, both regular and tournament, a grant from the Mt. Pleasant Community Foundation and an increase in grant money received from the Saginaw Chippewa Indian Tribe. State sources increased due to an increase in student enrollment.

The total increase in expenses from 2011/2012 to 2012/2013 at the District wide level was \$241,350. The majority of this increase was in the instructional area of the General Fund. Personnel costs saw an increase as we hired two new teachers. One to eliminate the split classes in the elementary and one to service our students with special education needs. General Fund expenses were also increased due to the increase in grant money received from the tribe.

Revenues

Local revenues are primarily made up of property taxes to fund operating expenses and retire debt of previous bond issues. Local revenues also include grant awards from the Saginaw Chippewa Indian Tribe in the amount of \$33,655. Other sources of local revenue include fees and charges for services such as hot lunch, athletic gate receipts, sports participation fees and driver's education tuition.

State revenues account for the majority of the district's revenues and consist primarily of the per student foundation allowance. State revenues made up 88% of the district's general fund revenues in 2012/2013. This ties the district directly to the overall economy of the State of Michigan.

Federal sources include Title grants in the General Fund and monies for the Food Service Fund. Federal revenues totaled less than \$500,000 alleviating the need for a single audit of federal funds.

Interdistrict sources of revenue consist of the County special education tax collected and distributed by the local Intermediate School District.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

Property Taxes

A major portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Funds. Property tax revenue totaled \$819,367. This amount was obtained through a combination of two voter approved millage levies totaling 18 mills on the taxable value of non-homestead properties and 6 mills on the taxable value of commercial personal property for the District's operation and a voter approved 7 mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments of bond issues. Tax revenues saw a small increase in 2012/2013. Unfortunately that increase was short lived and we should expect to see a decrease in tax revenue in the 2013/2014 year as taxable values have decreased in 2013 with a negative growth percentage. In fact it is the largest negative growth percentage we have seen. This is not a good sign. Taxable values determine the amount of local tax income for the operating revenues of the General Fund, and also determine the Debt Retirement Funds revenue generated each year. While the State of Michigan will make up the shortfall in operating revenue in the general fund, the Debt Retirement Fund is entirely dependent on the 7 mills allocated on taxable values to generate the funds necessary to pay off the districts long term debt.

TAXABLE VALUE HISTORY

YEAR	TAXABLE VALUE	GROWTH
2007	75,883,412	7.44%
2008	78,216,273	3.07%
2009	81,878,623	4.68%
2010	81,673,543	(.25%)
2011	81,544,258	(.16%)
2012	82,561,107	1.25%
2013	81,046,450	(1.83%)

State Aid Foundation Allowance

A significant portion of state funding to the District is received through the foundation allowance. The foundation allowance is funding from the state based on student enrollment. Student enrollment is blended at 90% of current year October count and 10% of prior year February count. The blended enrollment of Beal City Public Schools for 2012/2013 was 705.56 students an increase of 34.48 from the 2011/2012 student enrollment of 671.08. The State of Michigan establishes per student foundation allowance on an annual basis.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

Capital Assets and Debt Administration

Capital Assets

On June 30, 2013 the District had \$5,571,825 invested in a broad range of capital assets as illustrated below:

Assets

Land	\$ 187,593
Construction in Progress	8,892
Buildings and additions	7,076,470
Site improvements	1,725,248
Equipment and furniture	627,475
Buses and other vehicles	733,528
Fiber optic network	<u>390,222</u>
Subtotal	10,749,428
Less accumulated depreciation	<u>5,177,603</u>
Net capital assets	<u>\$ 5,571,825</u>

Long-term debt

At the end of the current fiscal year, the Beal City Public School district had total general obligation bonded debt outstanding of \$4,448,000. The general obligation bonded debt outstanding consists of three bond issues. The 2012 refunding issue of the 2002 bond issue for the sports complex, the 2004 refunding issue of the 1996 issue for the addition to the high school and the 2012 bond issue to pay off the school bond loan fund. Other long term debt includes, compensated absences and a capital lease of copy machine equipment. Total outstanding long term debt of the district at the end of the current year is \$4,691,496.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

General Fund Budgetary Highlights

Original vs. Actual Budget

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

The district amended its budget twice during the 2012/2013 school year. For the fiscal year 2012/2013, the budget was amended in March of 2013 and June of 2013.

**General Fund Revenues and Other Financing Sources
Budget vs. Actual Revenues**

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2012/2013	\$5,294,445	\$5,724,955	\$5,727,381	\$2,426

The District's actual general fund revenues were more than the final budget by \$2,426. The majority of this variance is due to an insurance claim that was received late in the year and an increase in the Special Education dollars received from the Gratiot-Isabella RESD from the county wide Special Education millage.

**General Fund Expenditures and Other Financing Uses Budget vs.
Actual Expenditures**

Fiscal Year	Original Budget	Final Budget	Final Actual	Variance of final to actual
2012/2013	\$5,602,946	\$5,857,805	\$5,767,213	\$(90,592)

The district's general fund expenditures were less than the final expenditure budget by \$90,592. Tribal grants received from the Saginaw Chippewa Indian Tribe make up a portion of the discrepancy in budgeted to actual expenditures. Many tribal grants were budgeted for, but not spent in the 2012/2013 fiscal year. Those tribal grant budget items remaining at the end of the 2012/2013 fiscal year will be carried over to the 2013/2014 budget. Another area where actual expenditures varied from budgeted is the employee benefits. These are difficult to budget with the self funded insurance as there is no way to know what monthly claims will be ahead of time. Also, we had a situation this Summer where the teachers were paying a significant amount of their health insurance due to the fact that their contract was unsettled.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

Economic Factors and Next Year's Budgets and Rates

The foundation allowance for 2013/2014 has been set at \$7,026 per student. The State is also offering a \$52 per pupil incentive to any district that meets seven out of eight "best practices" that the state has identified. The eight "best practices" include: the district be the policy holder of all employee health benefit packages; obtain a competitive bid for the provision of 2013-2014 non-instructional services; provide a dashboard of required financial information on district website; offer online instructional programs or blended learning opportunities to all eligible pupils and publish course syllabi; support opportunities for pupils to receive postsecondary credit while attending secondary school; provide physical education or health education consistent with State Board of Education policies; accept applications for enrollment by nonresident applicants under Section 105 or 105c; monitor individual pupil academic growth in each subject area at least twice during the school fiscal year using competency based online assessments. Seven out of these eight best practices were met last year. Administration will work to make any changes necessary to these best practices to ensure the district's eligibility for the best practices incentive in 2013/2014.

Under the direction of our State Governor, Mr. Rick Snyder, we have seen a number of education reform laws pass in the last two years. It is easy to get the feeling that educators are being attacked by our republican lead legislature. Many of the laws passed in the last two years seem to be more about punishing educators, and educator unions in particular, as they do about improving education in the State of Michigan.

The State legislator has also passed a retirement reform bill to try to ensure that the Michigan Public School Retirement System will be sustainable for years to come. The reforms affected all current, retired, and future school personnel. Retirees saw a decrease in the amount of insurance premium subsidy they received from the Michigan Public Schools Retirement System. New hires will no longer be offered an insurance premium subsidy upon retirement and all current public school employees in the State of Michigan were required to make choices about the amount they will contribute to their retirement benefits and the amount they will receive upon retirement. The reforms have complicated the reporting of retirement benefits as there are now multiple retirement scenarios an employee may fall under. In addition, the Office of Retirement Services is still struggling with online reporting. When the retirement reforms went into place last year the web reporting system was not yet capable of calculating all of the various retirement possibilities correctly. We are still waiting for minor adjustments to last year's retirement reports.

The legislature has agreed to limit the unfunded liability amount of the retirement rate to 20.96%. While this should help keep the cost of retirement down, there is the possibility that it will decrease other funding provided to public schools. The legislature only has so much money to work with. If they use dollars to keep the retirement rate down, they will have to make up for that use of dollars somewhere else in the budget. So while the retirement rate may be more stable, other funding may be decreased to make up for it.

Mr. William C. Chilman IV is now starting his seventh year as the Superintendent of Beal City Public Schools. Mr. Chilman believes the three most important jobs a Superintendent has are to first and for most, improve student achievement. Secondly, during these financially difficult times, maintain the district's fiscal integrity, which is becoming even more challenging with ongoing changes at the state level. Third, but not least of all, promote the school district and provide positive school and community relations throughout the region. These three jobs have become part of our three board goals, so the board members and Mr. Chilman are working together as a team. We continue to deficit spend, but we work hard to

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

reduce the overall effect on the budget. We must weather the long storm and hopefully we will see better days ahead if we can keep the ship above water long enough to get some help bailing the water out.

Beal City has two mottos that we live by. One is "Educational Teamwork Today Equals Educational Excellence Tomorrow". Our staff, students, parents and the community work together to create an environment where all parties can achieve excellence. The second motto is "a BIG education in a small school environment". Again, we all work hard each day to balance the financial part of education with the educational opportunities we provide to our students, and we are getting it done with true success. Beal City Public Schools continues to be recognized in the region and around the state as an educational leader academically, artistically, and athletically.

The Beal City Board of Education and the Beal City Education Association (BCEA) have been in contract negotiations since March of 2013. A tentative agreement has been ratified by the Board of Education and the BCEA will be conducting a ratification vote. The tentative agreement is for the next three years. Teachers will see small % increases each year and steps in the first and third year of the contract. Teachers will also be moving back to MESSA insurance. Beginning January of 2014 the teaching staff will have the option of MESSA choices II or the MESSA ABC plan which is a high deductible insurance plan with a health saving component. The remainder of the staff who receive health benefits have already moved to a high deductible plan with a health saving component offered by ASR. Both the ASR plan and the MESSA plan exceed the allowable cap established by our State legislature so all employees will be contributing to the cost of their health insurance. Those who receive dental and vision benefits will be paying 20% of the premium or illustrated rate for those insurance benefits also.

District administration has been diligent about learning the details of the Patient Protection and Affordable Care Act. It is not easy to keep up to speed on the provisions of the law and when they take effect. In fact, the effective date of some provisions of the law have been moved back to start later than originally planned. One of those provisions is the "play or pay" rule which states that an employer must offer affordable health care to all staff who work an average of 30 hours per week. This was to start at the beginning of the district's insurance plan year after January 1, 2014. That date has been pushed back to January 1, 2015. The district will be tracking hours for all current staff who do not receive health benefits to make sure they are not working more than an average of 30 hours per week. There is the potential of significant added costs to employee benefits as we have a number of employees not receiving health benefits who work at or over 30 hours per week.

Student count numbers for Fall of 2013 have not yet been determined. Kindergarten and alternative education numbers seem to be low at the moment but we do have a number of new students in other grades. As an overall district, we do anticipate stable enrollment.

The Board of Education is committed to ensuring the financial stability of the school district. As there seems to be no end in sight to the poor economic conditions of the State of Michigan, the Board feels the need to be very cautious with spending. The uncertainty of State funding is an ongoing problem. The instability and lack of state funding creates a real challenge to Michigan's public schools.

**Beal City Public School District
Administration's Discussion and Analysis
For the Year Ended June 30, 2013**

Contacting the District's Financial Management

This financial report is designed to provide a general overview of the finances for the Beal City Public Schools for all those with an interest in the district's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Beal City Public Schools Central Office, 3180 W Beal City Road, Mt. Pleasant, MI 48858.

BASIC FINANCIAL STATEMENTS

Beal City Public Schools
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
Assets	
Cash	\$ 1,590,893
Accounts receivable	1,304
Due from other governmental units	963,359
Interest receivable	901
Inventory	1,248
Prepaid items	48,035
Capital assets not being depreciated	196,485
Capital assets - net of accumulated depreciation	<u>5,375,340</u>
 Total assets	 <u>8,177,565</u>
 Deferred Outflows of Resources	
Deferred amount on debt refunding	<u>71,072</u>
 Total assets and deferred outflows of resources	 <u>8,248,637</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Statement of Net Position
June 30, 2013

	<u>Governmental Activities</u>
Liabilities	
Accounts payable	\$ 12,977
Accrued expenditures	280,496
Incurred but not report expenditures (IBNR)	35,325
Accrued salaries payable	298,755
Unearned revenue	11,771
Noncurrent liabilities	
Due within one year	429,612
Due in more than one year	<u>4,261,884</u>
Total liabilities	<u>5,330,820</u>
Net Position	
Net investment in capital assets	1,104,923
Restricted for:	
Debt service	105,261
Food service	49,625
Grants	22,902
Unrestricted	<u>1,635,106</u>
Total net position	<u><u>\$ 2,917,817</u></u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Statement of Activities
For the Year Ended June 30, 2013

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Functions/Programs					
Governmental activities					
Instruction	\$ 3,800,773	\$ 11,060	\$ 672,487	\$ -	\$ (3,117,226)
Supporting services	2,232,817	94,225	-	-	(2,138,592)
Food services	292,218	124,366	151,740	-	(16,112)
Community services	6,138	-	-	-	(6,138)
Interest on long-term debt	178,986	-	-	-	(178,986)
Total governmental activities	<u>\$ 6,510,932</u>	<u>\$ 229,651</u>	<u>\$ 824,227</u>	<u>\$ -</u>	<u>(5,457,054)</u>
General revenues					
Property taxes, levied for general purposes					243,282
Property taxes, levied for debt service					576,085
State aid - unrestricted					4,664,371
Interest and investment earnings					5,542
Other					44,735
Insurance recoveries					4,010
Total general revenues					<u>5,538,025</u>
Change in net position					80,971
Net position - beginning, as restated					<u>2,836,846</u>
Net position - ending					<u>\$ 2,917,817</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Governmental Funds
Balance Sheet
June 30, 2013

	General Fund	Capital Projects Fund Public Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 1,196,089	\$ 263,244	\$ 126,189	\$ 1,585,522
Accounts receivable	778	-	526	1,304
Due from other funds	-	-	29,656	29,656
Due from other governmental units	959,746	-	3,613	963,359
Interest receivable	653	248	-	901
Inventory	-	-	1,248	1,248
Prepaid items	35,035	-	-	35,035
Total assets	<u>\$ 2,192,301</u>	<u>\$ 263,492</u>	<u>\$ 161,232</u>	<u>\$ 2,617,025</u>
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 12,977	\$ -	\$ -	\$ 12,977
Due to other funds	141,039	-	-	141,039
Accrued expenditures	176,319	-	1,675	177,994
Accrued salaries payable	298,755	-	-	298,755
Unearned revenue	7,100	-	4,671	11,771
Total liabilities	<u>636,190</u>	<u>-</u>	<u>6,346</u>	<u>642,536</u>
Fund Balance				
Non-spendable				
Inventory	-	-	1,248	1,248
Prepaid items	35,035	-	-	35,035
Restricted for:				
Food service	-	-	48,377	48,377
Debt service	-	-	105,261	105,261
Grants	22,902	-	-	22,902
Assigned				
Future budget deficit	306,517	-	-	306,517
Capital projects	-	263,492	-	263,492
Unassigned	1,191,657	-	-	1,191,657
Total fund balance	<u>1,556,111</u>	<u>263,492</u>	<u>154,886</u>	<u>1,974,489</u>
Total liabilities and fund balance	<u>\$ 2,192,301</u>	<u>\$ 263,492</u>	<u>\$ 161,232</u>	<u>\$ 2,617,025</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
of Governmental Activities
June 30, 2013

Total fund balances for governmental funds	\$ 1,974,489
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	196,485
Capital assets - net of accumulated depreciation	5,375,340
Deferred outflows of resources resulting from debt refunding	71,072
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(26,444)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Compensated absences	(97,348)
Bonds payable	(4,478,103)
Other loans payable and liabilities	(116,045)
Internal Service Fund assets and liabilities are included in governmental activities in the statement of net position	<u>18,371</u>
Net position of governmental activities	<u><u>\$ 2,917,817</u></u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013

	General Fund	Capital Projects Fund Public Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 453,441	\$ 404	\$ 705,764	\$ 1,159,609
State sources	5,027,514	-	22,231	5,049,745
Federal sources	67,824	-	136,085	203,909
Interdistrict sources	174,592	-	-	174,592
	<u>5,723,371</u>	<u>404</u>	<u>864,080</u>	<u>6,587,855</u>
Expenditures				
Current				
Education				
Instruction	3,573,632	-	-	3,573,632
Supporting services	2,020,729	-	-	2,020,729
Food services	-	-	290,065	290,065
Community services	6,138	-	-	6,138
Capital outlay	41,822	86,744	-	128,566
Debt service				
Principal	15,617	-	396,166	411,783
Interest and other expenditures	8,275	-	172,480	180,755
	<u>5,666,213</u>	<u>86,744</u>	<u>858,711</u>	<u>6,611,668</u>
Excess (deficiency) revenues over expenditures	<u>57,158</u>	<u>(86,340)</u>	<u>5,369</u>	<u>(23,813)</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013

	General Fund	Capital Projects Fund Public Improvement	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)				
Insurance recoveries	\$ 4,010	\$ -	\$ -	\$ 4,010
Transfers in	-	100,000	-	100,000
Transfers out	(101,000)	-	-	(101,000)
Total other financing sources (uses)	(96,990)	100,000	-	3,010
Net change in fund balance	(39,832)	13,660	5,369	(20,803)
Fund balance - beginning	1,595,943	249,832	149,517	1,995,292
Fund balance - ending	<u>\$ 1,556,111</u>	<u>\$ 263,492</u>	<u>\$ 154,886</u>	<u>\$ 1,974,489</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
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	\$	(20,803)
Total change in net position reported for governmental activities in the statement of activities is 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 and reported as depreciation expense.		
Depreciation expense		(347,070)
Capital outlay		78,735
Loss on sale of capital assets (net book value)		(6,276)
Expenses are recorded when incurred in the statement of activities.		
Interest		2,408
Retirement incentive payable		(44,174)
Compensated absences		(11,364)
Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. When debt refunding occurs, the difference in the carrying value of the refunding debt and the amount applied to the new debt is reported the same as regular debt proceeds or repayments, as financing source or expenditure in the governmental funds. However, in the statement of net position, debt refunding may result in deferred inflows of resources or deferred outflows of resources, which are then amortized in the statement of activities.		
Repayments of long-term debt		411,783
Amortization of premiums		2,150
Amortization of deferred amount on refunding		(2,789)
Internal Service Fund revenues and expenses are included in the governmental activities in the statement of activities		18,371
Change in net position of governmental activities	\$	80,971

Beal City Public Schools
Proprietary Fund
Internal Service Fund
Statement of Net Position
June 30, 2013

Assets

Cash	\$ 5,371
Due from other funds	111,383
Prepaid items	<u>13,000</u>
 Total assets	 <u>129,754</u>

Liabilities

Current liabilities	
Accrued expenditures	76,058
Incurred but not reported expenditures (IBNR)	<u>35,325</u>
 Total liabilities	 <u>111,383</u>
 Total unrestricted net position	 <u><u>\$ 18,371</u></u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Proprietary Fund
Internal Service Fund
Statement of Revenues, Expenditures and Changes in Fund Net Position
For the Year Ended June 30, 2013

Operating revenues

Charges to other funds \$ 974,651

Operating expenses

Health, dental, and vision insurance premiums and claims 957,318

Operating income 17,333

Nonoperating revenues

Interest income 38

Transfer in 1,000

Total nonoperating revenues 1,038

Net change in net position 18,371

Net position - beginning -

Net position - ending \$ 18,371

Beal City Public Schools
Proprietary Fund
Internal Service Fund
Statement of Cash Flows
For the Year Ended June 30, 2013

Cash flows from operating activities

Receipts from General Fund	\$ 974,651
Claims paid	(970,318)
	4,333
Net cash provided by operating activities	4,333

Cash flows from investing activities

Interest received	38
	38

Cash flows from noncapital financing activities

Transfer in from General Fund	1,000
	1,000

Net change in cash	5,371
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Cash - beginning	-
	-

Cash - ending	\$ 5,371
	5,371

Reconciliation of operating gain to net cash provided by operating activities

Operating gain	\$ 17,333
Adjustments to reconcile operating gain to net cash provided by operating activities - changes in assets and liabilities	
Increase in due from other funds	(111,383)
Increase in prepaid items	(13,000)
Increase in accrued expenditures	76,058
Increase in incurred but not reported expenditures (IBNR)	35,325
	35,325

Net cash provided by operating activities	\$ 4,333
	4,333

Beal City Public Schools
Fiduciary Funds
Statement of Fiduciary Net Position
June 30, 2013

	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 116,021</u>
Liabilities	
Due to student groups	<u>\$ 116,021</u>

See Accompanying Notes to Financial Statements

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Beal City Public Schools (School District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the School District's significant accounting policies:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. 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 School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

The School District's basic financial statements include both district-wide (reporting for the district as a whole) and fund financial statements (reporting the School District's major funds). The district-wide financial statements categorize all nonfiduciary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position is reported in three parts (1) net investment in capital assets, (2) restricted net position,

and (3) unrestricted net position. The School District first utilizes restricted resources to finance qualifying activities.

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The School District does not allocate indirect costs. In creating the district-wide financial statements the School District has eliminated interfund transactions.

The district-wide focus is on the sustainability of the School District as an entity and the change in the School District's net position resulting from current year activities.

Fund Financial Statements

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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Proprietary fund and fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses. The only proprietary fund maintained is an Internal Service Fund that is used to account for the financing of risk management services provided to other funds on a cost reimbursement basis. The Internal Service Fund maintained by the School District is the Self Insurance Fund, which includes transactions related to the School District's risk management programs for medical claims.

The School District reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not required to be provided for in other funds.

Capital Improvements Fund – The Capital Improvements Fund is used to account for financial resources to be used for construction or major renovation of facilities and is funded by General Fund transfers and interest earnings.

Additionally, the School District reports the following fund types:

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School District's Special Revenue Fund includes the Food Service Fund. The annual operating deficit generated by these activities is generally transferred from the General Fund.

Debt Service Funds – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Internal Service Fund – The School District's proprietary fund is the Internal Service Fund. The purpose of the fund is to finance services provided to other funds of the School District on a cost-reimbursement basis. The Internal Service Fund maintained by the School District accounts for medical, dental, and vision insurance coverage. It is funded through transfers primarily from the General Fund in amounts equal to normal estimated risk management claims.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations. This fund is used to record the transactions of student groups for school and school-related purposes.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

Assets, Liabilities and Net Position or Equity

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2013, the rates are as follows per \$1,000 of assessed value.

General Fund	
Non principal residence exemption	18.00000
Commercial personal property	6.00000
Debt Service Funds	7.00000

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District’s boundaries. Approximately 97% of the School District’s tax roll lies within the Townships of Nottawa, Isabella and Deerfield.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before July 31. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Isabella and remitted to the School District by May 15.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The School District defines capital assets as assets with an initial individual cost in excess of \$5,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Site improvements	10-20 years
Equipment and furniture	5-10 years
Buses and other vehicles	5-10 years

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period.

Deferred inflows of resources – A deferred inflow of resources is an acquisition of net position by the government that is applicable to a future reporting period. For governmental funds this includes unavailable revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. There were no current year deferred inflows of resources.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

Compensated Absences – Retiring teachers are paid four (4) percent of the teacher’s current annual salary, provided the teacher has been employed in the school district for at least ten (10) years. This liability is measured using the Termination Method.

Sick days are earned by teachers at the rate of ten (10) days per year. A maximum of one hundred eighty-three (183) unused sick days may be accumulated. Upon retirement or termination of employment, unused sick days are paid at 50% of the sub rate up to 100 days. There is no contractual provision for payment of unused personal days. The current portion of any accrued sick or personal pay cannot be reasonably estimated and, as such, is not included as a current liability.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period.

In the School District’s fund financial statements, the face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses.

Fund Equity – In the fund financial statements, governmental funds report fund balance in the following categories:

Non-spendable – amounts that are not available in a spendable form.

Restricted – amounts that are legally imposed or otherwise required by external parties to be used for a specific purpose.

Committed – amounts that have been formally set aside by the Board of Education for specific purposes. A fund balance commitment may be established, modified, or rescinded by a resolution of the board of education.

Assigned – amounts intended to be used for specific purposes, as determined by the board of education. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature. The District does not have any assigned fund balance at year end.

Unassigned – all other resources; the remaining fund balances after non-spendable, restrictions, commitments and assignments.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District’s policy is to consider restricted funds spent first.

When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts could be used, the District’s policy is to consider the funds to be spent in the following order: (1) committed, (2) assigned, (3) unassigned.

Use of 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 and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

Eliminations and Reclassifications

In the process of aggregating data for the statement of net position and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Adoption of New Accounting Standards

The Government Accounting Standards Board issued Statements 63 and 65, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and *Items Previously Reported as Assets and Liabilities*, which the government adopted effective July 1, 2012. The new standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of net position and related disclosures.

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued *Statements 67, Financial Reporting for Pension Plans* and *68 Accounting and Financial Reporting for Pensions*. Statement 67 changes how public employee pension plans calculate and report their total pension liability. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The effect of these changes has not been determined. Statement 67 is effective for the year ending June 30, 2014 and Statement 68 is effective for the year ending June 30, 2015.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end, thereby canceling all encumbrances. These appropriations are reestablished at the beginning of the year.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. State law requires the School District to have its budget in place by July 1. A district is not considered in violation of the law if reasonable procedures are in use by the School District to detect violations.

The Superintendent is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

Budgeted amounts are as originally adopted or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

Excess of Expenditures over Appropriations

The School District did not have significant expenditure budget variances.

NOTE 3 - DEPOSITS

The School District's deposits were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 1,590,893	\$ 116,021	\$ 1,706,914

The breakdown between deposits and investments for the School District is as follows:

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 1,706,914
--	--------------

Credit risk – State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles.

Concentration of credit risk – The District has no policy that would limit the amount that may be invested with any one issuer.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year end, the District's bank balance was \$1,834,830. Of the bank balance, \$1,584,830 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

NOTE 4 - CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Beginning			Ending
	Balance	Increases	Decreases	Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 187,593	\$ -	\$ -	\$ 187,593
Construction in progress	-	8,892	-	8,892
Total capital assets not being depreciated	187,593	8,892	-	196,485
Capital assets being depreciated				
Buildings and additions	7,076,470	-	-	7,076,470
Site improvements	1,725,248	-	-	1,725,248
Equipment and furniture	665,996	12,694	51,215	627,475
Fiber optic network	390,222	-	-	390,222
Buses and other vehicles	676,379	57,149	-	733,528
Total capital assets being depreciated	10,534,315	69,843	51,215	10,552,943
Less accumulated depreciation for				
Buildings and additions	2,878,604	137,619	-	3,016,223
Site improvements	777,310	86,263	-	863,573
Equipment and furniture	427,698	52,169	44,939	434,928
Fiber optic network	282,909	19,511	-	302,420
Buses and other vehicles	508,951	51,508	-	560,459
Total accumulated depreciation	4,875,472	347,070	44,939	5,177,603
Net capital assets being depreciated	5,658,843	(277,227)	6,276	5,375,340
Net capital assets	\$ 5,846,436	\$ (268,335)	\$ 6,276	\$ 5,571,825

Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 220,747
Support services	124,170
Food services	2,153
Total governmental activities	<u>\$ 347,070</u>

NOTE 5 - INTERFUND RECEIVABLE AND PAYABLE AND TRANSFERS

Individual interfund receivable and payable balances at year end were:

Due From Fund	Due to Fund	Amount
General	Food Service	\$ 29,656
General	Internal Service	111,383
		<u>\$ 141,039</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and payments between funds are made.

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

Interfund transfers consist of the following:

Transfers in	Transfers Out
	General Fund
Public Improvement Fund	\$ 100,000
Internal Service Fund	1,000
	\$ 101,000

The transfer to the Public Improvement Fund was made to cover the costs of School District improvements. The transfer to the Internal Service Fund was made to initially set up that fund.

NOTE 6 – UNEARNED REVENUE

Governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the components of unearned revenue are as follows:

Student deposits	\$ 4,671
Technology grant	7,100
	\$ 11,771

NOTE 7 – LEASES

Capital Lease

The School District has a capital lease for copy machines. The future minimum lease payments are as follows:

Year ending June 30,	
2014	\$ 23,891
2015	23,891
2016	23,891
Total minimum lease payments	71,673
Less amount representing interest	(11,802)
Present value of minimum lease payments	\$ 59,871

The assets acquired through capital leases are as follows:

Assets	
Machinery and equipment	\$ 90,235
Less accumulated depreciation	(36,096)
Total	\$ 54,139

NOTE 8 – LONG-TERM DEBT

The School 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 are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include compensated absences, claims and judgments, termination benefits, and certain risk liabilities.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
General obligation bonds	\$ 4,841,000	\$ -	\$ 393,000	\$ 4,448,000	\$ 412,000
Durant bonds	3,166	-	3,166	-	-
Capital lease	75,488	-	15,617	59,871	17,612
Compensated absences	85,984	11,364	-	97,348	-
Retirement incentives	12,000	56,174	12,000	56,174	-
Premium on bonds	32,253	-	2,150	30,103	-
Total	\$ 5,049,891	\$ 67,538	\$ 425,933	\$ 4,691,496	\$ 429,612

For governmental activities, compensated absences and retirement incentives are primarily liquidated by the general fund.

General obligation bonds payable at year end, consists of the following:

\$1,157,000 serial bond due in annual installments of \$71,000 to \$82,000 through May 1, 2027, interest at 3.45%.	\$ 1,088,000
\$4,570,000 serial bond due in annual installments of \$285,000 to \$300,000 through May 1, 2021, interest at 3.5% to 4.1%.	2,370,000
\$1,009,000 serial bond due in annual installments of \$30,000 to \$240,000 through May 1, 2021, interest at 1.95% to 3.95%.	<u>990,000</u>
Total general obligation bonded debt	\$ <u>4,448,000</u>

Future principal and interest requirements for bonded debt are as follows:

	Principal	Interest	Total
Year Ending June 30,			
2014	\$ 412,000	\$ 127,223	\$ 539,223
2015	432,000	113,895	545,895
2016	457,000	100,599	557,599
2017	491,000	86,891	577,891
2018	531,000	72,914	603,914
2019-2023	1,831,000	161,333	1,992,333
2024-2027	294,000	25,082	319,082
Total	\$ 4,448,000	\$ 687,937	\$ 5,135,937

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$105,261 to pay this debt. Future debt and interest will be payable from future tax levies.

Other bonds consist of the Durant bonds which were paid off during the current year. These bond obligations issued by PA 142 were payable solely from and are secured solely by an assignment by each School District of certain categorical State School Aid payments.

Compensated Absences

Accrued compensated absences at year end, consists of \$72,946 of termination pay and \$24,402 in accrued sick time benefits. The entire vested amount is considered long-term as the amount expended each year is expected to be offset by sick time earned for the year.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

Retirement Incentive

In the event a teacher retires from the district, as soon as he/she is eligible for full benefits under the Michigan Public Schools Retirement System or at the end of the school year during which he/she becomes eligible for full benefits, the teacher shall be paid \$3,000 per year on January 1 following his/her retirement for three consecutive years. The School District has recorded a long term liability for the amount expected to be paid based on teacher employment at year end.

NOTE 9 – RISK MANAGEMENT

The School District participates in a public entity risk pool through the School Employers Group. With the exception of unemployment described below, this program provides substantially all the insurance needs of the School District. The possibility of additional liabilities in excess of current year contributions exists, however, since the amounts are indeterminable and believed to be immaterial, no contingent liabilities or assets have been recognized on the School District's financial statements.

The School 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 School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had \$3,376 of unemployment compensation expense for the year. No provision has been made for possible future claims.

The School District is self-insured for health, dental, and vision benefits paid on behalf of its employees. Payments are made to the insurance administrator based on actual claims and administration fees. The health portion is self funded for only the deductible portion which is a maximum of \$2,500 per policy. There is no stop-loss provision for the dental and vision portion. For governmental

activities, the liability for health benefits is primarily liquidated by the general fund.

This was the first year that the School District was self-insured. Changes in estimated liabilities for claims for benefits for the year are as follows:

Estimated liability at the beginning of the year	\$ -
Estimated claims incurred including changes in estimates	347,382
Claim payments	<u>(312,057)</u>
 Estimated liability end of year	 <u>\$ 35,325</u>

NOTE 10 – PENSION PLANS AND POST EMPLOYMENT BENEFITS

Plan Description

The School District has a group of defined benefit and defined contribution retirement plans covering substantially all employees. The plans are operated by the State of Michigan's Public School Employees' Retirement System (MPERS), which is a cost-sharing multiple-employer public employee retirement system (PERS).

The plans provide retirement, survivor and disability benefits to plan members and their beneficiaries.

MPERS operates within the Michigan Department of Technology, Management and Budget, Office of Retirement Services, under the authority established by the Michigan Public School Employees Retirement Act (Retirement Act), as enacted and amended by the Michigan Legislature. The Michigan Legislature has the authority to amend the Retirement Act. The Michigan Department of Technology, Management and Budget issues a publicly-available financial report that includes financial statements and required supplemental information for MPERS. The report provides information for the plans as a whole and information helpful for

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671, calling 800-381-5111 or on the web at <http://www.michigan.gov/orsschools>.

In 2010 the Michigan legislature created a new Pension Plus plan under MPSERS. All eligible Michigan public school employees who began work on or after July 1, 2010, are enrolled in the Pension Plus plan. The Pension Plus plan includes two components: (a) a defined benefit pension component including an employee contribution, and (b) a defined contribution savings component.

In September 2012, the Michigan legislature enacted additional changes (2012 Retirement Reform) to the Retirement Act, with different aspects becoming effective in late 2012 and early 2013. With these changes MPSERS offers eight retirement plans: Basic, Member Investment Plan (MIP), Basic 4%, MIP 7%, Basic DC Converted, MIP DC Converted, Pension Plus, and the Defined Contribution (DC) plan. Multiple options exist within some of these plans.

Full details on each of these plans are available on the MPSERS website at the address provided above.

Funding Policy

For the defined benefit plans the District is required by state law to contribute to MPSERS an actuarially determined percentage of payroll for all eligible participating employees. The District's actual contributions match the required contributions. Additionally, employees participating in the various defined benefit pension plans contribute the following amounts of their pretax salaries: (a) Member Investment Plan participants contribute 3% to 6.4%; (b) Basic 4% participants contribute 4%; and (c) MIP 7% participants contribute 3.9% to 7%. The following table discloses pertinent information relative to MPSERS defined benefit pension retirement plan funding

for the three-year period beginning July 1, 2010 through June 30, 2013.

	2013	2012	2011
Funding percentage range	12.78 - 16.25 %	10.66 - 15.96 %	8.63 - 12.16 %
School district defined benefit pension contributions	<u>\$ 438,550</u>	<u>\$ 448,970</u>	<u>\$ 332,439</u>

Defined Contribution Savings Plans

For the Pension Plus savings plan, eligible participants are automatically enrolled and 2% of their pay is withheld and deposited into the account. Participants may elect to not contribute, or may elect to increase their personal contribution up to the annual limits established by the IRS. The District matches 50 percent of the employee contributions into the Pension Plus savings plan, up to 1 percent. Participants opting to not contribute receive no employer matching contribution. Participants in the Basic DC Converted and MIP DC Converted plans receive 4% employer contributions to a tax-deferred 401(k) plan. The Defined Contribution Plan provides a 50% employer match (up to 3% of salary) on employee contributions. Participants in any of these defined contribution options may elect to make contributions to a tax-deferred 457 account up to the maximum amounts permitted by the IRS.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

Contributions by the District and participants during the year ended June 30, 2013, were:

	School District	Participants
Contributions to the:		
Pension Plus Savings Plan	\$ 411	\$ 751
Basic DC Converted and MIP DC Converted Plans	133	-
Defined Contribution Plan	972	1,784
Total	\$ 1,516	\$ 2,535

Post Employment Benefits

In addition to the pension benefits described above, state law requires the School District to provide post-retirement healthcare benefits for eligible retirees and beneficiaries through the Michigan Public School Employees Retirement System (MPSERS).

The 2012 Retirement Reform included changes to retiree healthcare benefits. New employees hired after the effective date who elect this benefit are enrolled in the defined contribution Personal Healthcare Fund. This establishes a portable tax-deferred account in which the participant contributes 2% of their salary, and receives a 2% employer match. These funds can be used to pay for healthcare expenses in retirement.

Employees working prior to the enactment of the 2012 Retirement Reform have two options: (a) the Personal Healthcare Fund, or (b) the defined benefit Premium Subsidy benefit.

Employees electing the defined benefit Premium Subsidy benefit contribute 3% of their compensation, and the employer contributes an actuarially determined percent of payroll for all participants. Upon retirement members receive a premium subsidy towards health, dental and vision insurance. The subsidy is a percent of the premium cost, with the percentage varying based on several factors.

The District's actual contributions match the required contributions.

The following table discloses pertinent information relative to the District's MPSERS defined benefit post employment benefits funding for the three-year period beginning July 1, 2010 through June 30, 2013.

	2013	2012	2011
Funding percentage range	8.18 - 9.11 %	8.50 %	6.81 - 8.50 %
School district defined benefit post employment benefit plan contributions	<u>\$ 261,197</u>	<u>\$ 233,044</u>	<u>\$ 232,327</u>

Contributions by the District and participants to the MPSERS defined contribution Personal Healthcare Fund during the year ended June 30, 2013, were:

	School District	Participants
Contributions to the Personal Healthcare Fund	<u>\$ 2,295</u>	<u>\$ 2,295</u>

Unfunded Accrued Actuarial Liability

During the year ended June 30, 2013, the District had contributions in the amount of \$55,539 to the Michigan Public School Employee Retirement System (MPSERS). This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was 4.56% for the year. These contributions are not included in the above tables.

Beal City Public Schools
Notes to Financial Statements
June 30, 2013

NOTE 11 – CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subjected to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE 12 – CHANGE IN ACCOUNTING PRINCIPLE

As indicated in Note 1, the District has adopted Government Accounting Standards Board Statements 63 and 65. These statements require bond issuance costs to be expensed. Previously these costs were capitalized in the statement of net position and amortized. The standards require this change be applied retroactively. The impact of this change is to reduce beginning net position in the statement of activities as of July 1, 2012, by \$33,510, restating it from \$2,870,356 to \$2,836,846.

REQUIRED SUPPLEMENTAL INFORMATION

Beal City Public Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 380,643	\$ 456,379	\$ 453,441	\$ (2,938)
State sources	4,691,726	5,035,307	5,027,514	(7,793)
Federal sources	72,016	70,913	67,824	(3,089)
Interdistrict sources	150,060	162,356	174,592	12,236
Total revenues	5,294,445	5,724,955	5,723,371	(1,584)
Expenditures				
Instruction				
Basic programs	2,592,446	2,855,923	2,828,747	(27,176)
Added needs	675,486	649,908	645,188	(4,720)
Adult and continuing education	108,089	100,536	99,697	(839)
Supporting services				
Pupil	86,734	90,515	89,889	(626)
Instructional staff	144,451	130,310	125,346	(4,964)
General administration	194,768	197,815	191,881	(5,934)
School administration	337,023	328,030	319,821	(8,209)
Business	109,971	112,598	112,370	(228)
Operations and maintenance	451,265	437,030	420,198	(16,832)
Pupil transportation services	390,499	391,149	393,895	2,746
Central	98,601	96,286	94,299	(1,987)
Athletics	250,290	283,808	273,030	(10,778)
Community services	1,343	6,138	6,138	-
Capital outlay	38,088	52,867	41,822	(11,045)
Debt service				
Principal	15,617	15,617	15,617	-
Interest and fiscal charges	8,275	8,275	8,275	-
Total expenditures	5,502,946	5,756,805	5,666,213	(90,592)

Beal City Public Schools
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Excess (deficiency) of revenues over expenditures	\$ (208,501)	\$ (31,850)	\$ 57,158	\$ 89,008
Other Financing Sources (Uses)				
Insurance recoveries	-	-	4,010	4,010
Transfers out	(100,000)	(101,000)	(101,000)	-
Total other financing sources (uses)	(100,000)	(101,000)	(96,990)	4,010
Net change in fund balance	(308,501)	(132,850)	(39,832)	93,018
Fund balance - beginning	1,595,943	1,595,943	1,595,943	-
Fund balance - ending	<u>\$ 1,287,442</u>	<u>\$ 1,463,093</u>	<u>\$ 1,556,111</u>	<u>\$ 93,018</u>

OTHER SUPPLEMENTAL INFORMATION

Beal City Public Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2013

	Special	Debt Service Funds				Total
	Revenue Fund					Nonmajor Governmental Funds
	Food Services	2012	2004	2012 SBLF Refunding	Durant	
Assets						
Cash	\$ 20,928	\$ 26,308	\$ 57,374	\$ 21,579	\$ -	\$ 126,189
Accounts receivable	526	-	-	-	-	526
Due from other funds	29,656	-	-	-	-	29,656
Due from other governmental units	3,613	-	-	-	-	3,613
Inventory	1,248	-	-	-	-	1,248
Total assets	\$ 55,971	\$ 26,308	\$ 57,374	\$ 21,579	\$ -	\$ 161,232
Liabilities and Fund Balance						
Liabilities						
Accrued expenditures	\$ 1,675	\$ -	\$ -	\$ -	\$ -	\$ 1,675
Unearned revenue	4,671	-	-	-	-	4,671
Total liabilities	6,346	-	-	-	-	6,346
Fund Balance						
Non-spendable						
Inventory	1,248	-	-	-	-	1,248
Restricted for:						
Food service	48,377	-	-	-	-	48,377
Debt service	-	26,308	57,374	21,579	-	105,261
Total fund balance	49,625	26,308	57,374	21,579	-	154,886
Total liabilities and fund balance	\$ 55,971	\$ 26,308	\$ 57,374	\$ 21,579	\$ -	\$ 161,232

Beal City Public Schools
Other Supplemental Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013

	Special	Debt Service Funds				Total
	Revenue Fund					Nonmajor Governmental Funds
	Food Services	2012	2004	2012 SBLF Refunding	Durant	
Revenues						
Local sources	\$ 127,942	\$ 113,103	\$ 408,625	\$ 56,094	\$ -	\$ 705,764
State sources	18,915	-	-	-	3,316	22,231
Federal sources	136,085	-	-	-	-	136,085
Total revenues	282,942	113,103	408,625	56,094	3,316	864,080
Expenditures						
Current						
Education						
Food services	290,065	-	-	-	-	290,065
Debt service						
Principal	-	69,000	305,000	19,000	3,166	396,166
Interest and other expenditures	-	43,665	100,563	28,102	150	172,480
Total expenditures	290,065	112,665	405,563	47,102	3,316	858,711
Net change in fund balance	(7,123)	438	3,062	8,992	-	5,369
Fund balance - beginning	56,748	25,870	54,312	12,587	-	149,517
Fund balance - ending	\$ 49,625	\$ 26,308	\$ 57,374	\$ 21,579	\$ -	\$ 154,886

Beal City Public Schools
Other Supplemental Information
General Fund
Comparative Balance Sheet
June 30, 2013

	2013	2012
Assets		
Cash	\$ 1,196,089	\$ 1,199,465
Accounts receivable	778	9,809
Due from other funds	-	7,834
Due from other governmental units	959,746	866,206
Interest receivable	653	-
Prepaid items	35,035	39,120
Total assets	\$ 2,192,301	\$ 2,122,434
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 12,977	\$ 21,379
Due to other funds	141,039	26,323
Accrued expenditures	176,319	202,713
Accrued salaries payable	298,755	276,076
Unearned revenue	7,100	-
Total liabilities	636,190	526,491
Fund Balance		
Non-spendable		
Prepaid items	35,035	39,120
Restricted for:		
Grants	22,902	20,357
Assigned		
Future budget deficit	306,517	-
Unassigned	1,191,657	1,536,466
Total fund balance	1,556,111	1,595,943
Total liabilities and fund balance	\$ 2,192,301	\$ 2,122,434

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 244,103	\$ 243,281	\$ 243,282	\$ 1
Tuition	12,800	11,000	11,060	60
Transportation fees	2,000	1,777	2,525	748
Earnings on investments	7,040	4,585	3,328	(1,257)
Student activities	58,000	91,408	92,590	1,182
Other local revenues	56,700	104,328	100,656	(3,672)
Total revenues from local sources	<u>380,643</u>	<u>456,379</u>	<u>453,441</u>	<u>(2,938)</u>
Revenues from state sources				
Grants - unrestricted	4,408,570	4,679,866	4,681,678	1,812
Grants - restricted	283,156	355,441	345,836	(9,605)
Total revenues from state sources	<u>4,691,726</u>	<u>5,035,307</u>	<u>5,027,514</u>	<u>(7,793)</u>
Revenues from federal sources				
Grants	72,016	70,913	67,824	(3,089)
Interdistrict sources				
ISD collected millage	149,060	159,156	171,085	11,929
Other	1,000	3,200	3,507	307
Total interdistrict sources	<u>150,060</u>	<u>162,356</u>	<u>174,592</u>	<u>12,236</u>
Other financing sources				
Insurance recoveries	-	-	4,010	4,010
Total revenue and other financing sources	<u>\$ 5,294,445</u>	<u>\$ 5,724,955</u>	<u>\$ 5,727,381</u>	<u>\$ 2,426</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 762,654	\$ 888,925	\$ 888,311	\$ (614)
Employee benefits	449,684	567,334	565,286	(2,048)
Purchased services	37,281	13,000	12,841	(159)
Supplies and materials	25,437	25,937	21,852	(4,085)
Total elementary	<u>1,275,056</u>	<u>1,495,196</u>	<u>1,488,290</u>	<u>(6,906)</u>
Basic program - high school				
Salaries	788,929	772,352	770,425	(1,927)
Employee benefits	464,826	503,862	500,358	(3,504)
Purchased services	49,786	48,461	47,327	(1,134)
Supplies and materials	13,849	36,052	22,347	(13,705)
Total high school	<u>1,317,390</u>	<u>1,360,727</u>	<u>1,340,457</u>	<u>(20,270)</u>
Added needs - special education				
Salaries	233,530	202,813	202,467	(346)
Employee benefits	115,964	109,420	108,531	(889)
Purchased services	21,730	44,000	42,310	(1,690)
Supplies and materials	1,300	2,400	2,271	(129)
Total special education	<u>372,524</u>	<u>358,633</u>	<u>355,579</u>	<u>(3,054)</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Added needs - compensatory education				
Salaries	\$ 86,146	\$ 72,733	\$ 73,563	\$ 830
Employee benefits	49,215	46,359	43,872	(2,487)
Purchased services	600	-	-	-
Supplies and materials	400	300	226	(74)
	<u>136,361</u>	<u>119,392</u>	<u>117,661</u>	<u>(1,731)</u>
Added needs - career and technical education				
Salaries	18,672	28,030	28,203	173
Employee benefits	8,497	13,075	13,108	33
Purchased services	282	750	679	(71)
Supplies and materials	150	600	530	(70)
Other	139,000	129,428	129,428	-
	<u>166,601</u>	<u>171,883</u>	<u>171,948</u>	<u>65</u>
Adult and continuing education - basic				
Salaries	61,853	60,911	60,270	(641)
Employee benefits	32,036	20,391	20,399	8
Purchased services	2,200	500	451	(49)
Supplies and materials	12,000	18,734	18,577	(157)
	<u>108,089</u>	<u>100,536</u>	<u>99,697</u>	<u>(839)</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - guidance services				
Salaries	\$ 50,699	\$ 50,699	\$ 50,468	\$ (231)
Employee benefits	34,251	37,649	37,326	(323)
Supplies and materials	100	-	-	-
Total guidance services	<u>85,050</u>	<u>88,348</u>	<u>87,794</u>	<u>(554)</u>
Pupil - speech services				
Purchased services	441	441	430	(11)
Pupil - other support services				
Salaries	920	1,300	1,240	(60)
Employee benefits	323	426	425	(1)
Total other pupil support services	<u>1,243</u>	<u>1,726</u>	<u>1,665</u>	<u>(61)</u>
Instructional staff - improvement of education				
Salaries	1,000	800	753	(47)
Employee benefits	364	410	405	(5)
Purchased services	27,831	20,500	18,614	(1,886)
Supplies and materials	1,650	825	563	(262)
Total improvement of education	<u>30,845</u>	<u>22,535</u>	<u>20,335</u>	<u>(2,200)</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Instructional staff - educational media services				
Salaries	\$ 500	\$ -	\$ -	\$ -
Employee benefits	229	15	15	-
Purchased services	17,540	18,069	17,367	(702)
Supplies and materials	4,599	7,775	6,341	(1,434)
	<u>22,868</u>	<u>25,859</u>	<u>23,723</u>	<u>(2,136)</u>
Instructional staff - technology assisted instruction				
Salaries	46,383	46,355	46,360	5
Employee benefits	28,655	31,261	31,306	45
Purchased services	10,000	3,200	3,117	(83)
Other	200	100	1	(99)
	<u>85,238</u>	<u>80,916</u>	<u>80,784</u>	<u>(132)</u>
Instructional staff - academic student assessment				
Supplies and materials	5,500	1,000	504	(496)
General administration - board of education				
Purchased services	26,400	26,515	21,121	(5,394)
Supplies and materials	-	1,190	1,190	-
Other	9,500	8,650	8,083	(567)
	<u>35,900</u>	<u>36,355</u>	<u>30,394</u>	<u>(5,961)</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
General administration - executive administration				
Salaries	\$ 101,704	\$ 101,704	\$ 101,704	\$ -
Employee benefits	53,464	54,856	55,115	259
Purchased services	1,500	1,000	881	(119)
Supplies and materials	2,000	2,600	2,567	(33)
Other	200	1,300	1,220	(80)
	<u>158,868</u>	<u>161,460</u>	<u>161,487</u>	<u>27</u>
School administration - office of the principal				
Salaries	210,007	207,568	205,771	(1,797)
Employee benefits	112,396	107,662	103,422	(4,240)
Purchased services	2,900	2,000	2,346	346
Supplies and materials	7,500	6,500	5,967	(533)
Other	1,300	1,300	1,016	(284)
	<u>334,103</u>	<u>325,030</u>	<u>318,522</u>	<u>(6,508)</u>
School administration - other				
Supplies and materials	2,920	3,000	1,299	(1,701)
Business - fiscal services				
Salaries	50,593	51,026	51,113	87
Employee benefits	37,340	40,980	41,489	509
Purchased services	4,000	4,000	3,681	(319)
Supplies and materials	100	225	217	(8)
Other	230	150	149	(1)
	<u>92,263</u>	<u>96,381</u>	<u>96,649</u>	<u>268</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Business - internal services				
Purchased services	\$ 4,108	\$ 3,108	\$ 3,953	\$ 845
Business - other				
Purchased services	6,100	5,609	5,609	-
Other	7,500	7,500	6,159	(1,341)
Total other business	13,600	13,109	11,768	(1,341)
Operations and maintenance - operating building services				
Salaries	142,484	143,910	140,278	(3,632)
Employee benefits	78,495	77,636	76,096	(1,540)
Purchased services	127,086	134,084	131,336	(2,748)
Supplies and materials	103,100	81,100	72,265	(8,835)
Other	100	300	223	(77)
Total operating building services	451,265	437,030	420,198	(16,832)
Pupil transportation services				
Salaries	123,262	113,326	112,476	(850)
Employee benefits	161,062	169,406	170,840	1,434
Purchased services	80,325	79,982	81,825	1,843
Supplies and materials	25,600	28,300	28,619	319
Other	250	135	135	-
Total transportation services	390,499	391,149	393,895	2,746

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Central - communication services				
Purchased services	\$ 13,000	\$ 16,200	\$ 16,526	\$ 326
Central - staff/personnel services				
Salaries	25,375	25,375	25,375	-
Employee benefits	16,698	18,211	18,317	106
Purchased services	8,650	7,500	6,305	(1,195)
Other	1,300	500	456	(44)
Total staff/personnel services	<u>52,023</u>	<u>51,586</u>	<u>50,453</u>	<u>(1,133)</u>
Central - support services technology				
Salaries	11,574	11,574	11,574	-
Employee benefits	7,204	7,826	7,841	15
Purchased services	14,500	8,600	7,533	(1,067)
Other	300	500	372	(128)
Total support services technology	<u>33,578</u>	<u>28,500</u>	<u>27,320</u>	<u>(1,180)</u>
Athletic activities				
Salaries	80,505	86,321	85,713	(608)
Employee benefits	46,161	50,638	48,593	(2,045)
Purchased services	101,524	93,734	90,813	(2,921)
Supplies and materials	13,250	11,250	5,435	(5,815)
Other	8,850	41,865	42,476	611
Total athletic activities	<u>250,290</u>	<u>283,808</u>	<u>273,030</u>	<u>(10,778)</u>

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Community services - non-public school pupils				
Salaries	\$ -	\$ -	\$ 3,630	\$ 3,630
Employee benefits	-	-	1,165	1,165
Purchased services	1,343	6,138	1,343	(4,795)
Total non-public school pupils	1,343	6,138	6,138	-
Capital outlay				
Basic program - elementary	2,895	5,828	4,201	(1,627)
Basic program - high school	3,000	3,835	4,835	1,000
Added needs - special education	850	1,550	940	(610)
Added needs - compensatory education	150	200	171	(29)
Instructional staff - educational media services	4,000	4,000	4,000	-
Instructional staff - technology assisted instruction	10,843	18,224	10,411	(7,813)
School administration - office of the principal	1,850	-	500	500
Operations and maintenance - operating building services	5,000	2,000	2,501	501
Central - support services technology	500	2,000	1,767	(233)
Athletics	9,000	13,195	12,496	(699)
Other support services	-	2,035	-	(2,035)
Total capital outlay	38,088	52,867	41,822	(11,045)

Beal City Public Schools
Other Supplemental Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Debt service				
Principal	\$ 15,617	\$ 15,617	\$ 15,617	\$ -
Interest and other expenditures	8,275	8,275	8,275	-
Total debt service	<u>23,892</u>	<u>23,892</u>	<u>23,892</u>	<u>-</u>
Other financing uses				
Transfers out	<u>100,000</u>	<u>101,000</u>	<u>101,000</u>	<u>-</u>
Total expenditures and financing uses	<u><u>\$ 5,602,946</u></u>	<u><u>\$ 5,857,805</u></u>	<u><u>\$ 5,767,213</u></u>	<u><u>\$ (90,592)</u></u>

Beal City Public Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2013

	Due to (From) Student Groups June 30, 2012	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2013
Athletic account	\$ 3,667	\$ 1,100	\$ 665	\$ 4,102
Art	1,098	3,515	2,495	2,118
Band	181	-	-	181
Baseball	3,377	4,965	6,718	1,624
Baseball field improvement	922	33,892	177	34,637
Basketball - Boys	1,945	6,358	4,782	3,521
Basketball - Girls	3,764	8,043	7,979	3,828
Camp	11,931	34,719	31,931	14,719
Cheerleading	203	473	270	406
Class of 2003	54	-	-	54
Class of 2005	663	-	-	663
Class of 2008	18	-	-	18
Class of 2012	1,803	-	-	1,803
Class of 2013	1,685	187	603	1,269
Class of 2014	771	3,811	4,047	535
Class of 2015	2,146	1,017	502	2,661
Class of 2016	1,272	-	-	1,272
Class of 2017	1,562	2,046	-	3,608
Class of 2018	-	1,128	-	1,128
Close up	53	-	-	53
Cross country	676	42	366	352
Dance	143	-	-	143
Drama	4,077	3,886	4,239	3,724
Miscellaneous - elementary	2,755	16,290	15,232	3,813
Elementary teachers account	6,259	10,893	9,389	7,763
Educational Foundation Fund	1,701	4,881	4,528	2,054
Football	3,903	14,412	10,343	7,972
FFA	101	8,828	8,923	6

Beal City Public Schools
Other Supplemental Information
Fiduciary Funds
Statement of Changes in Amounts Due to Student Groups
For the Year Ended June 30, 2013

	Due to (From) Student Groups June 30, 2012	Cash Receipts	Cash Disbursements	Due to (From) Student Groups June 30, 2013
Key account	\$ 500	\$ 300	\$ 100	\$ 700
Media center	665	377	106	936
Media services	323	-	-	323
National honor society	447	7,082	6,621	908
Natural helpers	456	-	-	456
Principal	411	4,319	3,920	810
Project Pals	754	588	347	995
Softball	2,248	4,931	5,717	1,462
Spanish club	-	12,888	12,818	70
Student council	2,230	7,439	8,165	1,504
Spry science	-	862	542	320
Track - men's	140	-	-	140
Track - women's	944	256	715	485
Volleyball	991	8,207	7,118	2,080
Yearbook	1,844	7,849	8,998	695
Youth in government - junior high	-	1,750	1,750	-
Youth in government	(14)	9,549	9,425	110
Total	\$ 68,669	\$ 226,883	\$ 179,531	\$ 116,021

Beal City Public Schools
Other Supplemental Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2013

Year Ending June 30,	2004	2012 Series A	2012 Series B	Total
2014	\$ 300,000	\$ 82,000	\$ 30,000	\$ 412,000
2015	300,000	81,000	51,000	432,000
2016	300,000	80,000	77,000	457,000
2017	300,000	79,000	112,000	491,000
2018	300,000	78,000	153,000	531,000
2019	295,000	77,000	198,000	570,000
2020	290,000	81,000	240,000	611,000
2021	285,000	80,000	129,000	494,000
2022	-	79,000	-	79,000
2023	-	77,000	-	77,000
2024	-	76,000	-	76,000
2025	-	74,000	-	74,000
2026	-	73,000	-	73,000
2027	-	71,000	-	71,000
Total	<u>\$ 2,370,000</u>	<u>\$ 1,088,000</u>	<u>\$ 990,000</u>	<u>\$ 4,448,000</u>
Principal payments due the first day of	May	May	May	
Interest payments due the first day of	May and November	May and November	May and November	
Interest rate	3.5% - 4.10%	3.45%	1.95% - 3.95%	
Original issue	<u>\$ 4,570,000</u>	<u>\$ 1,157,000</u>	<u>\$ 1,009,000</u>	

**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***

Independent Auditors' Report

Management and the Board of Education
Beal City Public Schools

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 Beal City Public Schools as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Beal City Public Schools' basic financial statements, and have issued our report thereon dated October 7, 2013.

Internal Control Over Financial Reporting

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

Yeo & Yeo, P.C.

Alma, MI
October 7, 2013



7810 N. Alger Rd.
Alma, MI 48801
(989) 463-6108
Fax (989) 463-8560

October 7, 2013

Management and the Board of Education
Beal City Public Schools
3117 Elias Road
Mt. Pleasant, MI 48858

We have completed our audit of the financial statements of Beal City Public Schools as of and for the year ended June 30, 2013, and have issued our report dated October 7, 2013. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

- I. Auditors' Communication of Significant Matters with Those Charged with Governance
- II. Other Comments

We discussed these matters with various personnel in the district during the audit and management on August 14, 2013. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board of Education, and others within the district, and are not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Alma, Michigan

Appendix I
Auditors' Communication of Significant Matters with Those Charged with Governance

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated May 22, 2013. 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 are described in Note 1 of the financial statements. The district has adopted Government Accounting Standards *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, effective July 1, 2012. The new standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. We noted no transactions entered into by the district during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized 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 Beal City Public Schools' financial statements were:

Management's estimate of the useful lives of fixed assets, which is based on the length of time management believes those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of incurred but not reported claims is based on past claim history, and knowledge of claim invoices received subsequent to year end. We evaluated the key factors and assumptions used to develop incurred but not reported claims in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the retirement incentive payable is based on the number of teachers employed by the District at year end, along with an estimated number of years until retirement. These factors, along with the incentive amount per the contract are used to determine the present value of the estimate using a discount rate. We evaluated the key factors and assumptions

used to develop the retirement incentive payable estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Disclosures in the financial statements 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 that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

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 the financial statements taken as a whole.

Management has determined that the effects of the uncorrected misstatements below are immaterial both individually and in the aggregate, qualitatively and quantitatively, to the financial statements taken as a whole.

Change in net position before the effects of the uncorrected misstatement	\$144,247
Uncorrected misstatement: retirement incentive payable	<u>(56,174)</u>
Change in net position after the effects of the uncorrected misstatement	<u>\$ 88,073</u>

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report we had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other 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 district'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 district'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 Reports

Other information that is required to be reported to you is included in the: Independent Auditors' 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*. Please read all information included in that report to ensure you are aware of relevant information.

Report on Required Supplemental Information

With respect to the required supplemental information accompanying the financial statements, which includes administration's discussion and analysis and budgetary comparison information, we 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.

Report on Other Supplemental Information

With respect to the supplemental information accompanying the financial statements, other than list of the Members of the Board of Education and Administration, 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 supplemental information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Appendix II Other Comments

In planning and performing our audit of the financial statements of Beal City Public Schools as of and for the year ended June 30, 2013, we considered Beal City Public Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion 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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, and improving operating efficiency. This letter does not affect our report dated October 7, 2013, on the financial statements of Beal City Public Schools. Our comments and recommendations regarding those matters are:

STUDENT ACTIVITY ACCOUNT PROCEDURES

Situation

The District currently has a policy to govern the use of student activity accounts. Implementing changes within the policy and adding further monitoring procedures would help strengthen internal controls over these accounts, and provide advisors of these accounts with more guidance.

Recommendation

We recommend that the District include "practical considerations" within the policy to communicate management's thoughts on more specific situations. The advisor of each fund should be provided with and sign a copy of the policy indicating that they have read, understand, and will comply with the policy. Periodically throughout the year account advisors should be provided with a statement of their fund's activity. A process should be implemented to document that the advisors are reviewing the statements.

GRANT CODES

Situation

We noted that the District does not consistently use the grant code in its expense account structure. The Michigan Department of Education accounting manual requires that a grant code be used within a general ledger account number for reporting all restricted grant related expenditures. They recommend using it on all corresponding restricted grant revenue records as a good financial management practice.

Recommendation

We recommend that the District record restricted grant related expenditures to the proper general ledger account number which include the grant code. This will allow for reports to be generated from the general ledger software to monitor expenditures of those grants, and will lessen the work required at year end to reconcile grant expenditures.

RETIREMENT INCENTIVE PAYABLE

Situation

The District's contract with teachers includes a provision where teachers who retire as soon as they are eligible for full benefits under the Michigan Public Schools Retirement System or at the end of the school year during which they become eligible for full benefits are entitled to an incentive payment of \$9,000, paid in three installments. Historically, the District has only recorded a liability in the government wide statements for the amount actually owed to teachers who have retired. For the year ended June 30, 2013, the District calculated the liability for those teachers who were still employed by the District at year end. The estimated liability totaled \$56,174. Because the liability should have initially been recorded in the year the contract was approved, and adjusted annually for changes in teacher employment, the change in net position for the year was affected as described in Appendix 1.

Recommendation

We recommend that the District review the retirement incentive liability annually, and adjust as necessary based on circumstances at year end. Monitoring and adjusting this liability annually will provide the District with better knowledge of its overall long term obligations.