

**Frankfort - Elberta Area Schools**

FINANCIAL STATEMENTS  
AND REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2013

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## **Management's Discussion and Analysis For the year ended June 30, 2013**

Our discussion and analysis of the Frankfort-Elberta Area Schools' (the "School District") financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2013. Please read this analysis in conjunction with the School District's financial statements, which immediately follow this section.

### **Description of Reporting Entity and Services Provided**

Frankfort-Elberta Area Schools, located in Frankfort, Michigan in Benzie County, is nestled on the shores of Lake Michigan, 45 miles west of Traverse City. The school population for the 2012-2013 school year is approximately 534 students who are eager to learn. Because of small class sizes, students are given more individual attention in the classroom. Educators are dedicated and caring and always look out for the student's best interest. MEAP and standardized test scores are consistently above average. The community has been extremely supportive over the years and parents are very involved in the schools in a positive way whether it is fund raising, volunteering in the classrooms, or attending the many events at the school. Frankfort-Elberta Area Schools boasts outstanding athletic, drama and music programs that allow students to learn outside of the classroom.

### **Overview of the Financial Statements**

This annual report consists of three sections presented in the following order: Management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School District:

- The first two statements are *government-wide financial statements* that provide comprehensive *short-term* and *long-term* financial information about the School District as a whole.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School District, reporting the School District's operations *in more detail* than the district-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about assets held by the School District in a *trustee* or *agent* capacity.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data and supporting documentation. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged.

**Figure A-1**

**District Financial Report Organization**

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

**Basic Financial Statements**

District-wide Financial Statements/Fund Financial Statements

**Notes to Basic Financial Statements**

Budgetary Information for Funds  
(Required Supplemental Information)

Other Supplemental Information

**District-Wide Statements**

The government-wide statements provide comprehensive information about the entire School District using the accrual basis of accounting, which is similar to the method used by private-sector companies. The statement of net position includes all of the School District’s assets and liabilities and the difference between the two, which is net position. The statement of activities accounts for all of the current year’s revenues and expenses regardless of when cash is received or paid.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the School District’s services, including instruction and supporting services. Unrestricted State Aid and property taxes finance most of these activities.

The two government-wide statements report the School District’s *net position* and how they have changed. Examining net position is one way to measure the School District’s financial health or *position*. Over time, increases or decreases in the School District’s net position are an indicator of whether its financial position is improving or declining. The relationship between revenues and expenses is the School District’s operating results, or in other terms, whether the School District had a profit or a loss at year-end. However, the School District’s mission is not simply to generate profits, as may be the case for a commercial entity.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the School District's funds. Each major fund is presented in a separate column. Non-major funds are aggregated and displayed in a single column. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The School District has two kinds of funds:

### *Governmental Funds:*

All of the School District's basic services are included in governmental funds. Governmental fund reporting generally focuses on how dollars flow in and out of the funds and the balances left at year-end. These balances are reported using the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. Expenditures are recorded when the related fund liability is incurred. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are presented in a reconciliation displayed further in our documentation. The School District's major governmental funds are the General and 2012 Debt Service Fund.

### *Fiduciary Funds:*

The School District is the Trustee, or fiduciary, for assets that belong to others. The School District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the government-wide financial statements because the School District cannot use these assets to finance its operations. The Student Activities Accounts are accounted for as fiduciary funds.

## The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position as of June 30, 2013:

**TABLE 1**

	Governmental Activities 2012-2013	Governmental Activities 2011-2012
Assets		
Current and other assets	\$1,795,405	\$1,524,882
Capital assets	<u>\$8,387,881</u>	<u>8,655,795</u>
Total assets	<u>\$10,183,286</u>	<u>\$10,180,677</u>
Liabilities		
Current liabilities	\$1,390,881	\$1,286,898
Long-term liabilities	<u>\$3,480,097</u>	<u>4,271,799</u>
Total liabilities	<u>\$4,870,978</u>	<u>5,558,697</u>
Net Position		
Invested in property and equipment - net of related debt	4,116,082	3,646,329
Restricted	264,843	195,057
Unrestricted	<u>931,383</u>	<u>780,594</u>
Total net position	<u>\$5,312,308</u>	<u>\$4,621,980</u>

The above analysis focuses on the net position (see Table 1). The School District's net position was \$5,312,308 at June 30, 2013. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use that net position for day-to-day operations. The School District has \$264,843 restricted net position. The remaining amount of net position, \$931,383 was unrestricted.

The \$931,383 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills today, including all of our non-capital liabilities, we would have \$931,383 remaining. The operating results of the School District will have a significant impact on the change in unrestricted net position from year-to-year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net position for fiscal year 2013.

**TABLE 2**

	Governmental Activities 2012-2013	Governmental Activities 2011-2012	% Change
Revenue			
Program Revenue			
Charges for services	\$ 176,181	\$178,614	(1.4)
Operating grants and contributions	833,607	785,636	6.1
General Revenue			
Property taxes	5,424,158	5,307,222	2.2
State school aid - unrestricted	157,446	117,065	34.5
Other	68,654	80,002	(14.2)
Total revenues	<u>6,660,046</u>	<u>6,468,539</u>	<u>3.0</u>
Functions/Program Expenses			
Instruction	3,391,337	3,514,222	(3.5)
Support services	1,709,259	1,704,494	.3
Food services	425,179	553,452	(23.2)
Interest expense	122,463	254,112	(51.8)
Other transactions	-	1,472	(100.0)
Depreciation (unallocated)	321,480	315,739	1.8
Total expenses	<u>5,969,718</u>	<u>6,343,491</u>	<u>(5.9)</u>
Change in net position	<u>\$ 690,328</u>	<u>\$125,048</u>	

As reported in the statement of activities, the cost of all of our governmental activities this year was \$5,969,718. Certain activities were partially funded from those who benefited from the programs, \$176,181, or by other grants and contributions of \$833,607. We paid for the remaining "public benefit" portion of our governmental activities with \$5,424,158 in taxes, \$157,446 in State Aid, and with our other revenues of \$68,654 which includes interest and general entitlements.

The School District experienced an increase in net position of \$690,328 for the year. The prior year increase in net position was \$125,048. The key reason for the change in net position as compared to the prior year was the School District's increase in tax revenues and decreases in benefits, food service supplies, and interest expense.

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

## **The School District's Funds**

As noted earlier, the School District uses fund accounting to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health. The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. The General Fund is the main operating fund of the School District. All other funds would be used to account for the proceeds from specific revenue sources that are legally restricted to certain types of expenditures.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1,217,517, which is an increase of \$208,701 from the prior year.

## **Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with numerous changes in expected revenues and expenditures. The Uniform Budget Act of the State of Michigan requires that the Board of Education adopt a budget for the upcoming school year prior to July 1, which is the start of the new fiscal year. The School District revised its budget three times during the fiscal year. Under normal circumstances, the School District adjusts its budget to reflect a wide variety of Federal and State programs, many of which are not finalized until well after the School District's original budget is required to be adopted.

A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Changes to the general fund budget were as follows:

- Final budgeted revenues were increased by \$248,376 over the original budget due to TBAISD payouts and increased tax revenue.
- Final budgeted expenditures increased by \$234,748 from the original budget due to contract settlements with bargaining units and increased MSPERS expenses.



## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2013, the School District had \$8,387,881 invested in a range of capital assets including buildings, land, furniture, equipment and vehicles summarized as follows:

	June 30, 2013	June 30, 2012
Building and improvements	\$10,578,925	\$10,578,925
Office equipment	40,392	40,392
Equipment	30,599	30,599
Classroom equipment	284,076	262,675
Buses	394,422	394,422
Vehicles	116,932	95,887
Land	381,996	381,996
 Total capital assets	 11,827,342	 11,784,896
 Less: accumulated depreciation	 (3,439,461)	 (3,129,101)
 Total capital assets, net	 <u>\$8,387,881</u>	 <u>\$8,655,795</u>

### Long-term Debt

At June 30, 2013, the long-term debt ending balance was \$4,274,499. This was composed of \$1,335,000 in 2005 School Improvement Bonds; \$400,000 in 2009 School Improvement Bonds; \$2,585,000 in 2012 School Improvement Bonds; \$(48,201) in unamortized financing costs; and \$2,700 in accumulated leave liabilities. A summary of the change in long-term debt is as follows:

<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>
\$5,012,166	\$0	\$737,667	\$4,274,499

## **Economic Factors and Next Year's Budgets and Rates**

At the time these financial statements were prepared and audited, the School District was aware of a number of circumstances that could significantly affect the financial health of Frankfort-Elberta Area Schools.

- Recent enacted legislation caps the retirement rate for future years. State Aid dollars will be used to maintain this rate cap. Therefore, future increase in foundation allowance is questionable. Containment of costs within the retirement system, as well as the lack of foundation increases, continues to be a concern for all Michigan school districts.
- The School District is out-of-formula for per pupil funding based on their local property tax collection. We are concerned about the ongoing erosion of our tax base and the effect of potential board of reviews and tax tribunals. As a result, we will continue our conservative spending practices.
- Federal sequestration could result in a decrease in the School District's Title grant funding in the upcoming fiscal year. The full financial impact of the sequestration has yet to be determined.
- The School District has settled both bargaining unit contracts for the 2013/14 school year. The current Superintendent plans to continue working for the School District through December 2013. In January 2014 a new Superintendent will be hired.

## **Contacting the School District's Financial Management**

This financial report is designed to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Thomas Stobie, Superintendent, 534 11<sup>th</sup> St., Frankfort, MI 49635-9351. We can be reached by telephone at (231) 352-4641.



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Frankfort-Elberta Area 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 **Frankfort-Elberta Area Schools** (the "School District") 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.

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluation 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 Frankfort-Elberta Area Schools as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *viii*, and budgetary comparison information on page 25, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

*Summarized Comparative Information*

We have previously audited the School District's 2012 financial statements, and our report dated November 2, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Dennis, Gartland & Niergarth*

September 20, 2013

# Frankfort - Elberta Area Schools

## STATEMENT OF NET POSITION

June 30, 2013

(With comparative totals for June 30, 2012)

	Governmental Activities	
	2013	2012
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,602,005	\$ 1,336,637
Due from other governments	188,507	157,647
Inventory	4,893	30,598
Total current assets	1,795,405	1,524,882
Non-current assets		
Capital assets, net of accumulated depreciation	8,387,881	8,655,795
Total assets	<u>\$ 10,183,286</u>	<u>\$ 10,180,677</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 48,851	\$ 72,497
Salaries payable and related liabilities	547,628	439,757
Due to other governments	-	24,000
Unearned revenue	-	10,277
Current portion of long-term debt	794,402	740,367
Total current liabilities	1,390,881	1,286,898
Non-current portion of long-term obligations	3,480,097	4,271,799
Total liabilities	<u>4,870,978</u>	<u>5,558,697</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	4,116,082	3,646,329
Restricted		
Capital projects	101,742	101,679
Debt service	163,101	93,378
Unrestricted	931,383	780,594
Total net position	<u>5,312,308</u>	<u>4,621,980</u>
Total liabilities and net position	<u>\$ 10,183,286</u>	<u>\$ 10,180,677</u>

The accompanying notes are an integral part of these statements.

# Frankfort - Elberta Area Schools

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

(With comparative totals for June 30, 2012)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities	
		Charges for Services	Operating Grants and Contributions	2013	2012
Governmental activities					
Instruction	\$ 3,391,337	\$ 12,030	\$ 494,282	\$ (2,885,025)	\$ (3,080,167)
Supporting services	1,709,259	43,615	61,229	(1,604,415)	(1,666,951)
Food service	425,179	120,536	278,096	(26,547)	(60,800)
Other transactions	-	-	-	-	(1,472)
Interest on long-term debt	122,463	-	-	(122,463)	(254,112)
Depreciation - unallocated	321,480	-	-	(321,480)	(315,739)
Total governmental activities	<u>\$ 5,969,718</u>	<u>\$ 176,181</u>	<u>\$ 833,607</u>	<u>(4,959,930)</u>	<u>(5,379,241)</u>
General purpose revenues					
Property taxes					
Levied for general purposes				4,468,923	4,367,247
Levied for Debt Service				955,235	939,975
State school aid - unrestricted				157,446	117,065
Grants and contributions not restricted to specific programs				8,881	11,610
Investments earnings and other				59,773	68,392
Total general purpose revenues				<u>5,650,258</u>	<u>5,504,289</u>
Change in net position				690,328	125,048
Net position, beginning of year				<u>4,621,980</u>	<u>4,496,932</u>
Net position, end of year				<u>\$ 5,312,308</u>	<u>\$ 4,621,980</u>

☞ The accompanying notes are an integral part of these financial statements.

# Frankfort - Elberta Area Schools

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2013

(With comparative totals for June 30, 2012)

	General Fund	2012 Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds	
				2013	2012
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,318,466	\$ 123,990	\$ 159,549	\$ 1,602,005	\$ 1,336,637
Due from other governments and other receivables	164,598	-	23,909	188,507	157,647
Due from other funds	27,577	-	-	27,577	99,107
Inventories - supplies and materials	-	-	4,893	4,893	30,598
Total assets	<u>\$ 1,510,641</u>	<u>\$ 123,990</u>	<u>\$ 188,351</u>	<u>\$ 1,822,982</u>	<u>\$ 1,623,989</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 28,930	\$ -	\$ 1,330	\$ 30,260	\$ 42,032
Accrued expenditures	547,628	-	-	547,628	439,757
Due to other funds	-	-	27,577	27,577	99,107
Due to other governments	-	-	-	-	24,000
Unearned revenue	-	-	-	-	10,277
Total liabilities	<u>576,558</u>	<u>-</u>	<u>28,907</u>	<u>605,465</u>	<u>615,173</u>
<b>FUND BALANCES</b>					
Nonspendable	-	-	4,893	4,893	30,598
Restricted					
Capital projects	-	-	101,742	101,742	101,679
Debt service	-	123,990	57,702	181,692	123,843
Unassigned	934,083	-	(4,893)	929,190	752,696
Total fund balances	<u>934,083</u>	<u>123,990</u>	<u>159,444</u>	<u>1,217,517</u>	<u>1,008,816</u>
Total liabilities and fund balances	<u>\$ 1,510,641</u>	<u>\$ 123,990</u>	<u>\$ 188,351</u>		

### Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$11,827,342 and the accumulated depreciation is \$3,439,461.

8,387,881 8,655,795

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(4,320,000)	(5,080,000)
Unamortized financing costs	48,201	70,534
Accrued interest on bonds	(18,591)	(30,465)
Accumulated leave liability	(2,700)	(2,700)

Total net position - governmental activities

\$ 5,312,308 \$ 4,621,980

The accompanying notes are an integral part of these financial statements.



# Frankfort - Elberta Area Schools

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

Year Ended June 30, 2013

(With comparative totals for June 30, 2012)

	General Fund	2012 Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds	
				2013	2012
<b>Revenues</b>					
Property taxes	4,468,923	\$ 742,842	\$ 210,538	\$ 5,422,303	\$ 5,307,222
Interest	6,544	619	258	7,421	11,620
State revenues	419,086	-	20,356	439,442	362,645
Federal revenues	178,287	-	246,048	424,335	511,660
Other	232,462	1,515	132,568	366,545	275,392
Total revenues	5,305,302	744,976	609,768	6,660,046	6,468,539
<b>Expenditures</b>					
Instruction	3,391,337	-	-	3,391,337	3,509,646
Supporting services	1,673,296	-	-	1,673,296	1,704,007
Other transactions	2,138	3,489	374	6,001	1,472
Food service	-	-	425,179	425,179	553,452
Bond issuance costs	-	-	-	-	45,305
Debt service					
Principal	-	635,000	125,000	760,000	665,000
Interest	-	65,369	68,968	134,337	161,277
Capital outlay	56,408	-	4,787	61,195	5,063
Total expenditures	5,123,179	703,858	624,308	6,451,345	6,645,222
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	182,123	41,118	(14,540)	208,701	(176,683)
<b>Other financing sources (uses)</b>					
Operating transfers in	-	80,354	31,334	111,688	60,801
Operating transfers out	(31,334)	-	(80,354)	(111,688)	(60,801)
Proceeds from bond issue	-	-	-	-	3,220,000
Payments to escrow agent	-	-	-	-	(3,241,781)
Total other financing sources (uses)	(31,334)	80,354	(49,020)	-	(21,781)
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	150,789	121,472	(63,560)	208,701	(198,464)
Fund balance, beginning of year	783,294	2,518	223,004	1,008,816	1,207,280
Fund balance, end of year	\$ 934,083	\$ 123,990	\$ 159,444	\$ 1,217,517	\$ 1,008,816

The accompanying notes are an integral part of these financial statements.

# Frankfort - Elberta Area Schools

## RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

(With comparative totals for June 30, 2012)

	<u>2013</u>	<u>2012</u>
<b>Total net change in fund balances - governmental funds</b>	\$ 208,701	\$ (198,464)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for governmental activities, those costs are allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Capital outlays	53,566	
Depreciation expense	<u>(321,480)</u>	(267,914)
		(315,739)
In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	-	900
Repayment of bond principal (including refunding) is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.	760,000	3,840,000
The amount financed by the bond proceeds, net of issue costs, is reported in the governmental funds as a source of financing. On the other hand, the bond proceeds are not revenues in the statement of activities but rather constitute long-term liabilities in the statement of net position.	-	(3,174,695)
The difference between the reacquisition price and the net carrying amount of defeased debt.	-	24,528
Amortization of deferred financing costs.	(22,333)	(59,078)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The reduced amount of interest reported in the statement of activities is the net result of the decrease in accrued interest on bonds payable.	<u>11,874</u>	<u>7,596</u>
<b>Change in net position of governmental activities</b>	<u>\$ 690,328</u>	<u>\$ 125,048</u>

The accompanying notes are an integral part of these financial statements.

# Frankfort - Elberta Area Schools

## STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

(With comparative totals for June 30, 2012)

	Agency Funds	
	2013	2012
<b>ASSETS</b>		
Cash and cash equivalents	\$ 63,259	\$ 57,611
<b>LIABILITIES</b>		
Due to student groups	\$ 63,259	\$ 57,611

The accompanying notes are an integral part of these financial statements.

# **Frankfort - Elberta Area Schools**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Introduction***

Frankfort-Elberta Area Schools (the “School District”) is a Michigan public school district consisting of one elementary school and a junior and senior high school. The School District primarily serves the Western Benzie County area. As of June 30, 2013, the School District employed 38 professional staff and 24 non-professional staff, and has approximately 534 students enrolled within its School District.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of Frankfort-Elberta Area Schools are discussed in subsequent sections of this note. The remainder of the notes is organized to provide explanations, including required disclosures, of the School District’s financial activities for the fiscal year ended June 30, 2013.

#### ***The Financial Reporting Entity***

Frankfort-Elberta Area School’s Board of Education (the “Board”) is the basic level of government which has oversight responsibility and control over all activities related to the public school education. The Board receives funding from local, State and Federal governmental sources and must comply with the concomitant requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Governmental Accounting Standards Board (“GASB”) Statement No. 14, since Board members are elected by the public and have decision-making authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, under the criteria of the GASB pronouncements, student, parent and teacher organizations are not included, except to the extent that the schools hold assets in the capacity of an agent.

#### ***Government-Wide and Fund Financial Statements***

##### ***Government-Wide Financial Statements***

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

*Fund Financial Statements*

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the government-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Fiduciary fund financial statements also report using this same focus and basis of accounting, although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Fund Types and Major Funds***

***Activities in Major Funds***

The *General Fund* is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The *2012 Debt Service Fund* is used to account for the accumulation of resources for and the payment of, bond principal, interest and related costs.

***Other Governmental Funds***

The *Food Service Fund* is a special revenue fund that is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for special purposes.

The *Capital Project Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

The *2002 and 2005 and 2009 Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

***Fiduciary Fund Types***

***Agency Fund***

The Agency Fund accounts for assets held by the School District as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The Student Activity Fund is an Agency Fund.

***Cash and Investments***

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

***Inventories***

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost, which is recorded as an expenditure at the time individual inventory items are used.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Capital Assets***

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	25-50
Improvements, other than buildings	15-20
Vehicles	7-10
Furniture, machinery and equipment	3-20

***Long-Term Debt, Deferred Debt Expense and Bond Discounts/Premiums***

In the government-wide financial statements, outstanding debt is reported as a liability. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

***Encumbrance Accounting***

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Fund Equity***

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

***Spending Policy***

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

***Use of Estimates in the Preparation of Financial Statements***

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

***Allocation of Expenses***

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

***Program Revenues***

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Title I, At-Risk and School Lunch Programs, which are reported as operating grants and contributions.



**NOTE B - BUDGETARY POLICY AND PRACTICE**

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring) the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget hearing. He does this by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budget presented in these financial statements is as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

***Excess of Expenditures over Budgeted Funds***

Michigan Public School Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2013, the School District was in compliance with the Act.

***Deficit in Food Service Fund***

The Food Service Fund shows a deficit in unassigned fund balance of \$4,893, which is entirely offset by nonspendable fund balance related to inventories. The School District uses the consumption method of accounting for inventories; therefore, the deficit in unassigned fund balance does not represent expenditures in excess of revenues and available fund balance.

**NOTE C - CASH AND EQUIVALENTS**

At June 30, 2013, the School District's cash and equivalents included the following:

Bank deposits and cash on hand	\$ 836,132
Money markets accounts	68,863
Investments pools ("MILAF")	<u>760,269</u>
	<u>\$1,665,264</u>

*Custodial Credit Risk - Deposits*

In the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2013, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$1,665,264 and the bank balance was \$1,738,145. As of June 30, 2013, \$1,361,579 of the bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

***Investments***

Michigan law permits investments in the following vehicles:

1. Bonds and other obligations of the United States Government.
2. Certificates of deposit and savings accounts of banks or credit unions who are members of the FDIC and FSLIC, respectively.
3. Certain commercial paper.
4. United States Government repurchase agreements.
5. Banker's acceptance of United States banks.
6. Certain mutual funds.

	Current Maturities (in years)				
	Fair Value	Current	1-5	6-10	More than 10
Investment pools	\$760,269	\$760,269	\$ -	\$ -	\$ -

*Interest Rate Risk*

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

## NOTES TO FINANCIAL STATEMENTS - Continued

### NOTE C - CASH AND EQUIVALENTS - Continued

#### *Credit Risk*

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized rating organizations. The School District has no investment policy that would further limit its investment choices. The School District's investments in the MILAF were rated AAAM by Standard & Poor's.

### NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

#### *Property Taxes Receivable, Unearned Revenue and Property Tax Calendar*

Property taxes are levied, billed and attached as enforceable liens on July 1 of the School District's fiscal year. Townships within the School District collect and remit taxes until September 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as Unearned Revenue. In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value in the School District of \$246.7 million was levied and \$6 per \$1,000 of commercial personal property values in the School District of \$2.5 million was levied for general operating purposes. For Debt Service purposes, \$2.40 per \$1,000 of equalized principal, non-principal residence and commercial personal property values in the School District of \$396.9 million was levied.

#### *Intergovernmental Receivables and Unearned Revenue*

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue received after 60 days is fully recognized as revenue in the government-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, were as follows:

	2013	2012
Due from State of Michigan – State Aid	\$116,399	\$ 55,511
Due from Federal grants	49,343	81,368
Due from townships – property taxes	-	430
Food service receivables	12,538	18,942
Other receivables	10,227	1,396
	<u>\$188,507</u>	<u>\$157,647</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE E - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consisted of the following:

	Beginning Balance	Additions	Deletions	Ending Balance
Buildings and improvements	\$10,578,925	\$ -	\$ -	\$10,578,925
Office equipment	40,392	-	-	40,392
Equipment	30,599	-	-	30,599
Classroom equipment	262,675	21,401	-	284,076
Buses	394,422	-	-	394,422
Vehicles	95,887	32,165	(11,120)	116,932
Total	11,402,900	53,566	(11,120)	11,445,346
Less accumulated depreciation	(3,129,101)	(321,480)	11,120	(3,439,461)
Land	381,996	-	-	381,996
Total capital assets, net	<u>\$ 8,655,795</u>	<u>\$(267,914)</u>	<u>\$ -</u>	<u>\$ 8,387,881</u>

Depreciation expense of \$321,480 was unallocated.

**NOTE F - LONG-TERM LIABILITIES**

Changes in long-term debt during the year ended June 30, 2013 were as follows:

	Beginning Balance	New Debt	Payments	Ending Balance	Current Portion
General obligation bonds	\$5,080,000	\$ -	\$(760,000)	\$4,320,000	\$810,000
Unamortized financing costs	(52,190)	-	15,880	(36,310)	(13,088)
Deferred loss on refunding	(18,344)		6,453	(11,891)	(5,210)
Compensated absences	2,700	-	-	2,700	2,700
	<u>\$5,012,166</u>	<u>\$ -</u>	<u>\$(737,667)</u>	<u>\$4,274,499</u>	<u>\$794,402</u>

Payments on general obligation bonds are made by the Debt Service Fund. The accumulated leave liability will be liquidated primarily from the General Fund.

# NOTES TO FINANCIAL STATEMENTS - Continued

## NOTE F - LONG-TERM LIABILITIES - Continued

At June 30, 2013, the School District's long-term debt consisted of the following:

2005 School Improvement Bonds. Remaining installments due annually of \$70,000 to \$160,000, through May 1, 2024; average remaining interest rate of 4.06%.	\$1,335,000
2009 School Improvement Bonds. Remaining installments due annually of \$100,000 to \$165,000, through May 1, 2016; average remaining interest rate of 2.55%.	400,000
2012 School Improvement Bonds. Remaining installments due annually of \$625,000 to \$680,000, through May 1, 2017; average remaining interest rate of 1.79%.	<u>2,585,000</u>
Total general obligation bonds	4,320,000
Unamortized financing costs	(36,310)
Deferred loss on refunding of bonds	(11,891)
Accumulated leave liability	<u>2,700</u>
Total long-term debt	<u>\$4,274,499</u>

Total annual requirements to amortize bonds as of June 30, 2013 were as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 810,000	\$ 111,549
2015	850,000	96,689
2016	870,000	79,197
2017	765,000	59,976
2018	125,000	42,976
2019-2023	740,000	130,806
2024	<u>160,000</u>	<u>6,880</u>
	<u>\$ 4,320,000</u>	<u>\$ 528,073</u>

Interest expense for the year ended June 30, 2013 was \$122,463 and interest paid was \$134,337.

**NOTE F - LONG-TERM LIABILITIES - Continued**

***Prior Year Defeasance of Debt***

On February 22, 2012, the School District issued \$3.22 million in general obligation bonds with an average interest rate of 1.7% to advance refund \$3.175 million of outstanding 2002 general obligation bonds with an average remaining interest rate of 4.18%. The net proceeds of \$3.18 million (after payment of \$45,305 for underwriters discount, issuance costs and miscellaneous fees) plus \$67,086 contribution from Debt Service Funds were deposited with an escrow agent to provide all future debt service payments on the refunded portion of the 2002 general obligation bonds. The outstanding principal of the defeased bonds is \$2.585 million at June 30, 2013.

**NOTE G - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance and risk management pools.

The School District pays unemployment claims on a reimbursement basis. No significant claims are known to exist.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, liability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund. Such contributions as received by SET-SEG's General Fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

**NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY**

***Receivables and Payables***

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE H - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY -**  
Continued

Interfund receivables and payables as reported in the governmental fund financial statements at June 30, 2013 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds		
General Fund	\$ 27,577	\$ -
Non-Major Funds		
Food Service Fund	-	27,577
	<u>\$ 27,577</u>	<u>\$ 27,577</u>

***Transfers and Payments***

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The government-wide statement of activities eliminates transfers as reported within the segregated governmental and business-type activities columns. Only transfers between the two columns appear in this statement.

The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Funds		
General Fund	\$ -	\$ 31,334
2012 Debt Service Fund	80,354	-
Non-Major Funds		
Food Service Fund	31,334	-
2002 Debt Service Fund	-	80,354
	<u>\$111,688</u>	<u>\$111,688</u>

## NOTE I - PENSION PLAN

The School District contributes to the Michigan Public School Employees' Retirement Systems ("MPSERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). Effective December 1, 2012, members could elect to no longer contribute to the pension fund, and begin contributing to a defined contribution plan. MPSERS provides retirement, disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants received enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7671, by calling (517) 322-5103 or on the State of Michigan's website at [www.Michigan.gov](http://www.Michigan.gov).

### *Funding Policy*

#### *Defined Benefit Plan*

Plan members who participate in MIP are required to contribute 3% to 7% of their annual covered salary; plan members who participate in the Basic Plan contribute 3%; and Frankfort-Elberta Area Schools is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rates were 24.46% and 23.23%, dependent on entrance date, for the period of July 1, 2012 to September 30, 2012. From October 1, 2012 through January 31, 2013, the rates were 27.37% and 26.14%, dependent on entrance date. Beginning February 1, 2013, the rates ranged between 20.96% and 24.32% based on individual retirement elections made by each employee. The contribution requirements of plan members and Frankfort-Elberta Area Schools are established and may be amended by the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2013, 2012 and 2011 were \$707,211, \$633,703 and \$516,930, respectively, which is equal to the required contribution for the year.

#### *Defined Contribution Plan*

Plan members who participate in the plan may contribute up to the maximum amounts permitted by the Internal Revenue Service to their 457 account. Frankfort-Elberta Area School is required to contribute 4% to a tax-deferred 401(k) account. The School District's contribution to the plan was \$4,799 for the year ended June 30, 2013.

### *Post-Employment Benefits*

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverages. Required employer contributions for post-employment health care are included as part of the School District's total contribution to the MPSERS plan discussed above.



**NOTE J - COMMITMENTS AND CONTINGENCIES**

*Federal and State Grants*

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

## **REQUIRED SUPPLEMENTARY INFORMATION**

# Frankfort - Elberta Area Schools

## BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

For the Year Ended June 30, 2013

(With comparative totals for June 30, 2012)

	Budgeted Amounts		Actual (GAAP Basis) 2013	Variances - Positive (Negative)		Actual (GAAP Basis) 2012
	Original	Final		Original to Final	Final to Actual Total	
Revenues						
Local and intermediate sources	\$ 4,505,667	\$ 4,567,450	\$ 4,475,467	\$ 61,783	\$ (91,983)	\$ 4,377,724
State revenues	302,079	414,436	419,086	112,357	4,650	342,766
Federal revenues	162,897	183,567	178,287	20,670	(5,280)	168,999
Incoming transfers and other transactions	42,805	96,371	232,462	53,566	136,091	142,763
Total revenues	5,013,448	5,261,824	5,305,302	248,376	43,478	5,032,252
Expenditures						
Instruction	3,326,349	3,440,539	3,391,337	(114,190)	49,202	3,514,222
Supporting services	1,653,638	1,772,696	1,729,704	(119,058)	42,992	1,704,494
Payments to other governmental agencies	2,500	4,000	2,138	(1,500)	1,862	797
Total expenditures	4,982,487	5,217,235	5,123,179	(234,748)	94,056	5,219,513
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	30,961	44,589	182,123	13,628	137,534	(187,261)
Other financing uses						
Operating transfers out	(19,927)	(41,836)	(31,334)	(21,909)	10,502	(60,801)
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	11,034	2,753	150,789	(8,281)	148,036	(248,062)
Fund balance, beginning of year	783,294	783,294	783,294	-	-	1,031,356
Fund balance, end of year	\$ 794,328	\$ 786,047	\$ 934,083	\$ (8,281)	\$ 148,036	\$ 783,294

**COMBINING FINANCIAL STATEMENTS OF  
NON-MAJOR GOVERNMENTAL FUNDS**

# Frankfort - Elberta Area Schools

## COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2013

(With comparative totals for June 30, 2012)

	Special Revenue Fund	Capital Project Fund	Debt Service Funds			Total Non-Major Governmental Funds	
	Food Service	Public Improvement	2002	2005	2009	2013	2012
<b>ASSETS</b>							
Cash and cash equivalents	\$ 105	\$ 101,742	\$ -	\$ 35,242	\$ 22,460	\$ 159,549	\$ 147,124
Due from other governments and other receivables	23,909	-	-	-	-	23,909	-
Inventories - supplies and materials	4,893	-	-	-	-	4,893	-
Total assets	<u>\$ 28,907</u>	<u>\$ 101,742</u>	<u>\$ -</u>	<u>\$ 35,242</u>	<u>\$ 22,460</u>	<u>\$ 188,351</u>	<u>\$ 147,124</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Accounts payable and accrued expenditures	\$ 1,330	\$ -	\$ -	\$ -	\$ -	\$ 1,330	\$ -
Due to other funds	27,577	-	-	-	-	27,577	1,956
Total liabilities	<u>28,907</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,907</u>	<u>1,956</u>
<b>FUND BALANCES</b>							
Nonspendable	4,893	-	-	-	-	4,893	-
Restricted							
Capital projects	-	101,742	-	-	-	101,742	101,679
Debt service	-	-	-	35,242	22,460	57,702	43,489
Unassigned	(4,893)	-	-	-	-	(4,893)	-
Total fund balances	<u>-</u>	<u>101,742</u>	<u>-</u>	<u>35,242</u>	<u>22,460</u>	<u>159,444</u>	<u>145,168</u>
Total liabilities and fund balances	<u>\$ 28,907</u>	<u>\$ 101,742</u>	<u>\$ -</u>	<u>\$ 35,242</u>	<u>\$ 22,460</u>	<u>\$ 188,351</u>	<u>\$ 147,124</u>

# Frankfort - Elberta Area Schools

## COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2013

(With comparative totals for June 30, 2012)

	Special Revenue Fund	Capital Project Fund	Debt Service Funds			Total Non-Major Governmental Funds	
	Food Service	Public Improvement	2002	2005	2009	2013	2012
Revenues							
Property taxes	\$ -	\$ -	\$ -	\$ 139,384	\$ 71,154	\$ 210,538	\$ 199,591
Interest	-	63	-	127	68	258	299
State revenues	20,356	-	-	-	-	20,356	-
Federal revenues	246,048	-	-	-	-	246,048	-
Other	132,228	-	-	224	116	132,568	2,518
Total revenues	398,632	63	-	139,735	71,338	609,768	202,408
Expenditures							
Food services	425,179	-	-	-	-	425,179	-
Other transactions	-	-	-	374	-	374	-
Debt service							
Principal	-	-	-	70,000	55,000	125,000	110,000
Interest	-	-	-	57,455	11,513	68,968	72,268
Capital outlay	4,787	-	-	-	-	4,787	-
Total expenditures	429,966	-	-	127,829	66,513	624,308	182,268
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(31,334)</b>	<b>63</b>	<b>-</b>	<b>11,906</b>	<b>4,825</b>	<b>(14,540)</b>	<b>20,140</b>
Other financing sources (uses)							
Operating transfers in	31,334	-	-	-	-	31,334	-
Operating transfers out	-	-	(80,354)	-	-	(80,354)	-
Net other financing sources (uses)	31,334	-	(80,354)	-	-	(49,020)	-
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>63</b>	<b>(80,354)</b>	<b>11,906</b>	<b>4,825</b>	<b>(63,560)</b>	<b>20,140</b>
Fund balance, beginning of year	-	101,679	80,354	23,336	17,635	223,004	125,028
Fund balance, end of year	\$ -	\$ 101,742	\$ -	\$ 35,242	\$ 22,460	\$ 159,444	\$ 145,168



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

Board of Education  
Frankfort-Elberta Area 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 **Frankfort-Elberta Area Schools** (the "School District") as of and for the year ended June 30, 2013, which collectively comprise the School District's basic financial statements and have issued our report thereon dated September 20, 2013.

***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

September 20, 2013