

**MESICK CONSOLIDATED SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**JUNE 30, 2014**



CERTIFIED PUBLIC ACCOUNTANTS  
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MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2014

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# Baird, Cotter & Bishop, P.C.

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July 16, 2014

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Mesick Consolidated Schools  
Mesick, Michigan

### ***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 Mesick Consolidated Schools, Mesick, Michigan as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mesick Consolidated Schools, Mesick, Michigan as of June 30, 2014, 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 and budgetary comparison information on pages iv through x and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mesick Consolidated Schools' basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining 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 fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2014, on our consideration of Mesick Consolidated Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Mesick Consolidated Schools' internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

This section of Mesick Consolidated Schools' (the "District") annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

**A. Government-Wide Financial Statements**

The *Government-Wide Financial Statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents the information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods.

Both of the government-wide statements distinguish functions of the District that are principally supported by state aid and property taxes (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, food service activities, athletic activities, community services, interest and other transactions.

**B. Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Mesick Consolidated Schools, like other state and local governments, uses fund accounting to ensure compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories, governmental funds and fiduciary funds.

***Governmental Funds*** Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.



MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

### Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in both the government-wide and the fund financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

### C. Summary of Net Position

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

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current Assets	\$ 2,303,555	\$ 3,238,087
Non Current Assets		
Capital Assets	12,146,178	11,993,867
Less Accumulated Depreciation	<u>(4,627,548)</u>	<u>(4,368,494)</u>
Total Non Current Assets	<u>7,518,630</u>	<u>7,625,373</u>
Total Assets	<u>9,822,185</u>	<u>10,863,460</u>
<b>Deferred Outflows of Resources</b>		
Deferred Charges - Net of Amortization	<u>0</u>	<u>18,128</u>

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>	<u>2013</u>
<b>Liabilities</b>		
Current Liabilities	1,363,851	2,127,631
Non Current Liabilities	<u>2,785,605</u>	<u>3,435,603</u>
Total Liabilities	<u>4,149,456</u>	<u>5,563,234</u>
<b>Net Position</b>		
Net Investment in Capital Assets	4,305,809	3,956,998
Restricted for Food Service	36,455	49,174
Restricted for Debt Service	56,742	79,100
Unrestricted	<u>1,273,723</u>	<u>1,233,082</u>
Total Net Position	<u>\$ 5,672,729</u>	<u>\$ 5,318,354</u>

**D. Analysis of Financial Position**

During the fiscal year ended June 30, 2014, the District's net position increased by \$354,375. A few of the more significant factors affecting net position during the year are discussed below:

**1. Depreciation Expense**

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

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2014, \$310,354 was recorded for depreciation expense.

**2. Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2014, \$203,611 of expenditures were capitalized and recorded as assets of the District. These additions to the District's capital assets will be depreciated over time as explained above.

**3. Issuance of Debt and Payment of Long-Term Liabilities**

During the year ending June 30, 2014, the District decreased its bonded debt by \$597,140. Principal paid on debt amounted to \$607,140, while the District issued refunding bonds in the amount of \$2,210,000 to refund bonds in the amount \$2,200,000. The liability for compensated absences decreased by approximately \$23,000.

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**E. Results of Operations**

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

	<u>2014</u>	<u>2013</u>
<b>General Revenues</b>		
Property Taxes	\$ 1,742,508	\$ 1,693,868
Investment Earnings	2,633	4,439
State Sources	3,625,415	3,808,616
Gain on Sale of Capital Assets	1,425	1,100
Other	97,395	48,726
	<u>5,469,376</u>	<u>5,556,749</u>
<b>Program Revenues</b>		
Charges for Services	131,731	147,517
Operating Grants and Contributions	1,459,137	1,459,318
	<u>1,590,868</u>	<u>1,606,835</u>
Total Revenues	<u>7,060,244</u>	<u>7,163,584</u>
<b>Expenses</b>		
Instruction	3,762,593	3,751,953
Supporting Services	2,063,826	2,236,135
Community Activities	3,096	16,912
Food Service	368,437	414,519
Interest on Long-Term Debt	150,329	143,058
Other Transactions	47,234	18,251
Unallocated Depreciation	310,354	248,476
	<u>6,705,869</u>	<u>6,829,304</u>
Change in Net Position	<u>\$ 354,375</u>	<u>\$ 334,280</u>

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**F. Financial Analysis of the District's Funds**

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

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
<b>Major Funds</b>			
General Fund	\$ 982,237	\$ 1,029,009	\$ (46,772)
Capital Projects Fund	492,490	434,951	57,539
2014 Debt Retirement Fund	61,043	0	61,043
<b>Nonmajor Funds</b>			
Food Service	52,428	58,139	(5,711)
2012 Capital Projects Fund	0	123,993	(123,993)
2004 Debt Retirement Fund	<u>0</u>	<u>95,575</u>	<u>(95,575)</u>
 Total Governmental Funds	 <u>\$ 1,588,198</u>	 <u>\$ 1,741,667</u>	 <u>\$ (153,469)</u>

In 2013-2014, the General Fund balance decreased. This was planned by the board to maintain all programs at the same level as in the past.

The Capital Projects Fund increased due to payments received from the harvest of timber on the District's property. Energy rebates were also received during the fiscal year as a result of the energy improvements implemented in the past two fiscal years.

The 2014 Debt Retirement Fund increased due to the refunding of the 2004 bonds. All resources were of the 2004 Debt Retirement Fund were transferred to the 2014 Debt Retirement Fund.

The 2012 Capital Projects fund decreased due to the energy enhancements being completed. The fund was closed in 2013-2014 as all the resources of the fund were spent.

The Food Service Fund balance decreased primarily due to a decrease in catering to outside programs.

**G. General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

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

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 5,735,832</u>	<u>\$ 6,032,624</u>	<u>\$ 6,009,571</u>
 <u>EXPENDITURES</u>			
Instruction	\$ 3,671,054	\$ 3,794,088	\$ 3,775,222
Supporting Services	2,009,404	2,252,870	2,156,236
Community Activities	1,000	4,511	3,096
Debt Service	<u>123,214</u>	<u>123,214</u>	<u>123,214</u>
 Total Expenditures	 <u>\$ 5,804,672</u>	 <u>\$ 6,174,683</u>	 <u>\$ 6,057,768</u>

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

The total revenue variance of \$23,053 is due primarily to some revenues being less than anticipated and grants not being completely spent. We cannot recognize the revenue when there are not expenses to match. The total expenditure variance of \$116,915 is due to some staffing costs being lower than anticipated, individuals being frugal with their budgets and not completely spending them, and grants not being completely spent at June 30. The minimal variances will not have a significant effect on future services or the liquidity of the District.

## **H. Capital Asset and Debt Administration**

### **1. Capital Assets**

At June 30, 2014, the District has \$7,518,630 (net of depreciation) in a broad range of capital assets, including school buildings and facilities and various types of equipment. This represents a net decrease of \$106,743 over the prior fiscal year. Depreciation expense for the year amounted to \$310,354, bringing the accumulated depreciation to \$4,627,548 as of June 30, 2014.

### **2. Long-Term Debt**

At June 30, 2014, the District had \$3,212,821 in bonded debt outstanding. This represents a decrease of \$597,140 from the amount outstanding at the close of the prior fiscal year. Other long-term debt includes compensated absences of \$209,924.

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**I. Factors Bearing on the District's Future**

The change in the pupil count days to the February of the school year rather than the prior February leaves the District not knowing the number of students they will be paid for during the 2014-2015 year. By the time the count days come, it is difficult to adjust staffing levels if student numbers have seen large changes.

Due to decreasing enrollments, the District is able to take advantage of using a 3 year blended count for determining their state aid. In 2014-2015, the year that drops out of the blend is larger than the remaining ones. This will result in approximately 24 less kids for the District in the 2014-2015 school year. At an anticipated foundation allowance of \$7,251, this is a decrease in revenue of \$174,024.

Retirement costs continue to be a concern for the district. In 2013-2014, the district paid approximately \$907,414 for employee retirement costs. This is approximately 15% of their total budget.

Beginning in 2015, the district will need to comply with GASB 68. Based on current estimates, Mesick Consolidated Schools will have to show a pension liability of \$8,707,000. This will result in a negative net position for the district.

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

**J. Contacting the District's Financial Management**

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

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2014

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 1,508,503
Investments	11
Accounts Receivable	1,885
Due from Other Governmental Units	788,823
Inventories	4,333
Total Current Assets	<u>2,303,555</u>

NON CURRENT ASSETS

Capital Assets	12,146,178
Less Accumulated Depreciation	<u>(4,627,548)</u>
Total Non Current Assets	<u>7,518,630</u>
Total Assets	<u>9,822,185</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	12,774
Salaries and Benefits Payable	525,454
Accrued Interest Payable	11,354
State Aid Anticipation Note Payable	133,383
Unearned Revenue	43,746
Current Portion of Non Current Liabilities	<u>637,140</u>
Total Current Liabilities	<u>1,363,851</u>

NON CURRENT LIABILITIES

Bonds Payable	3,212,821
Compensated Absences	209,924
Less Current Portion of Non Current Liabilities	<u>(637,140)</u>
Total Non Current Liabilities	<u>2,785,605</u>
Total Liabilities	<u>4,149,456</u>

NET POSITION

Net Investment in Capital Assets	4,305,809
Restricted for Food Service	36,455
Restricted for Debt Service	56,742
Unrestricted	<u>1,273,723</u>
TOTAL NET POSITION	<u>\$ 5,672,729</u>

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

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	CAPITAL GRANTS & CONTRIBUTIONS	ACTIVITIES
					NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 3,762,593	\$ 56,404	\$ 928,490	\$ 0	\$ (2,777,699)
Supporting Services	2,063,826	21,668	178,902	0	(1,863,256)
Community Activities	3,096	0	3,096	0	0
Food Service	368,437	53,659	306,356	0	(8,422)
Interest on Long-Term Debt	150,329	0	42,293	0	(108,036)
Other Transactions	47,234	0	0	0	(47,234)
Unallocated Depreciation	310,354	0	0	0	(310,354)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 6,705,869</b>	<b>\$ 131,731</b>	<b>\$ 1,459,137</b>	<b>\$ 0</b>	<b>(5,115,001)</b>
<u>GENERAL REVENUES</u>					
Property Taxes - General Purposes					1,117,570
Property Taxes - Debt Service					624,938
Investment Earnings					2,633
State Sources					3,625,415
Gain on Sale of Capital Assets					1,425
Other					97,395
<b>Total General Revenues</b>					<b>5,469,376</b>
Change in Net Position					354,375
<u>NET POSITION</u> - Beginning of Year					5,318,354
<u>NET POSITION</u> - End of Year					<b>\$ 5,672,729</b>

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



MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2014

	GENERAL FUND	CAPITAL PROJECTS FUND	2014 DEBT FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>					
Cash and Cash Equivalents	\$ 926,410	\$ 492,490	\$ 31,682	\$ 57,921	\$ 1,508,503
Investments	11	0	0	0	11
Accounts Receivable	1,885	0	0	0	1,885
Due from Other Funds	303	0	29,361	0	29,664
Due from Other Governmental Units	788,823	0	0	0	788,823
Inventories	0	0	0	4,333	4,333
<b>TOTAL ASSETS</b>	<b>\$1,717,432</b>	<b>\$ 492,490</b>	<b>\$ 61,043</b>	<b>\$ 62,254</b>	<b>\$ 2,333,219</b>
<u>LIABILITIES AND FUND BALANCES</u>					
<u>LIABILITIES</u>					
Accounts Payable	\$ 12,624	\$ 0	\$ 0	\$ 150	\$ 12,774
Salaries and Benefits Payable	518,380	0	0	7,074	525,454
Due to Other Funds	29,361	0	0	303	29,664
State Aid Anticipation Note Payable	133,383	0	0	0	133,383
Unearned Revenue	41,447	0	0	2,299	43,746
<b>Total Liabilities</b>	<b>735,195</b>	<b>0</b>	<b>0</b>	<b>9,826</b>	<b>745,021</b>
<u>FUND BALANCES</u>					
Nonspendable, Inventory	0	0	0	4,333	4,333
Restricted for Food Service	0	0	0	48,095	48,095
Restricted for Debt Service	0	0	61,043	0	61,043
Committed for Compensated Absences	191,737	0	0	0	191,737
Committed for Capital Projects	0	492,490	0	0	492,490
Assigned for Subsequent Year Budget Shortfall	199,967	0	0	0	199,967
Unassigned	590,533	0	0	0	590,533
<b>Total Fund Balances</b>	<b>982,237</b>	<b>492,490</b>	<b>61,043</b>	<b>52,428</b>	<b>1,588,198</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$1,717,432</b>	<b>\$ 492,490</b>	<b>\$ 61,043</b>	<b>\$ 62,254</b>	<b>\$ 2,333,219</b>

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

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total Governmental Fund Balances		\$ 1,588,198
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 are not reported in the funds		
The cost of the capital assets is	\$ 12,146,178	
Accumulated depreciation is	<u>(4,627,548)</u>	7,518,630
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Bonds Payable		(3,212,821)
Compensated Absences		(209,924)
Accrued interest on bonds is not included as a liability in government funds, it is recorded when paid		<u>(11,354)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 5,672,729</u></u>

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

MESICK CONSOLIDATED SCHOOLS  
MESICK, MICHIGAN

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

YEAR ENDED JUNE 30, 2014

	GENERAL FUND	CAPITAL PROJECTS FUND	2014 DEBT FUND	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>					
Local Sources	\$ 1,218,888	\$ 19,755	\$ 0	\$ 679,023	\$ 1,917,666
State Sources	4,183,875	0	0	12,459	4,196,334
Federal Sources	449,168	0	0	293,897	743,065
Other Transactions	157,640	0	0	0	157,640
Total Revenues	<u>6,009,571</u>	<u>19,755</u>	<u>0</u>	<u>985,379</u>	<u>7,014,705</u>
<u>EXPENDITURES</u>					
Instruction					
Basic Programs	2,869,628	0	0	0	2,869,628
Added Needs	905,594	0	0	0	905,594
Supporting Services					
Pupil	164,201	0	0	0	164,201
Instructional Staff	51,503	0	0	0	51,503
General Administration	266,415	0	0	0	266,415
School Administration	221,401	0	0	0	221,401
Business	68,269	0	0	0	68,269
Operation and Maintenance	586,461	0	0	0	586,461
Pupil Transportation Services	425,560	0	0	0	425,560
Central Services	203,562	0	0	0	203,562
Athletic Activities	168,864	0	0	0	168,864
Community Activities					
Community Activities	3,096	0	0	0	3,096
Food Service	0	0	0	365,762	365,762
Capital Outlay	0	0	0	124,105	124,105
Debt Service					
Principal	77,140	0	0	530,000	607,140
Interest	46,074	0	40,150	58,694	144,918
Bond Issuance Costs	0	0	40,850	0	40,850
Other Transactions	0	6,330	0	54	6,384
Total Expenditures	<u>6,057,768</u>	<u>6,330</u>	<u>81,000</u>	<u>1,078,615</u>	<u>7,223,713</u>
Excess (Deficiency) of Revenues Over Expenditures	(48,197)	13,425	(81,000)	(93,236)	(209,008)
<u>OTHER FINANCING SOURCES (USES)</u>					
Transfers In	0	0	132,043	0	132,043
Transfers Out	0	0	0	(132,043)	(132,043)
Proceeds from Sale of Capital Assets	1,425	0	0	0	1,425
Sale of Timber	0	44,114	0	0	44,114
Face Value of Bonds Issued	0	0	2,210,000	0	2,210,000
Payment to Escrow Agent	0	0	(2,200,000)	0	(2,200,000)
Total Other Financing Sources (Uses)	<u>1,425</u>	<u>44,114</u>	<u>142,043</u>	<u>(132,043)</u>	<u>55,539</u>
Net Change in Fund Balance	(46,772)	57,539	61,043	(225,279)	(153,469)
<u>FUND BALANCE</u> - Beginning of Year	<u>1,029,009</u>	<u>434,951</u>	<u>0</u>	<u>277,707</u>	<u>1,741,667</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 982,237</u>	<u>\$ 492,490</u>	<u>\$ 61,043</u>	<u>\$ 52,428</u>	<u>\$ 1,588,198</u>

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

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

YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances Total Governmental Funds \$ (153,469)

Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(310,354)
Capital Outlay	203,611

Accrued interest on bonds is recorded in the Statement of Activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued Interest Payable - Beginning of Year	24,071
Accrued Interest Payable - End of Year	(11,354)

Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in the Statement of Activities (where it is a reduction of liabilities) 607,140

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities over the life of the long-term bond issue.

Amortization of Bond Premiums and Discounts on Bonds	(18,128)
Issuance of Debt	(2,210,000)
Defeasance of Debt	2,200,000

Employees Early Retirement and Compensated Absences are reported on the accrual method in the Statement of Activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Compensated Absences - Beginning of Year	232,782
Compensated Absences - End of Year	<u>(209,924)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 354,375

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

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STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

JUNE 30, 2014

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	\$ 107,209
<u>LIABILITIES</u>	
Due to Groups and Organizations	<u>107,209</u>
<u>NET POSITION</u>	<u><u>\$ 0</u></u>

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

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The School District (the "District") is located in Wexford and Manistee Counties with its administrative offices located in Mesick, Michigan. The District operates under an elected 7-member board of education and provides services to its students in elementary, high school, special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

**B. Description of Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The School District does not have any business-type activities or component units.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

The *Capital Projects Fund* accounts for the acquisition of fixed assets or construction of major capital projects.

The *2014 Debt Retirement Fund* accounts for the resources received to service the District's debt obligations.

Other Non-Major Funds:

The *special revenue (School Service) fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service activities in a special revenue fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of government funds.

The *capital projects fund* accounted for bond proceeds received and the expenditures related to those proceeds for energy enhancements. This fund was closed in fiscal year 2013-2014.

Additionally, the District reports the following fund type:

*Fiduciary funds* are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

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NOTES TO FINANCIAL STATEMENTS  
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The District reports the following fiduciary fund:

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

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

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

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



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activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

**F. Budgetary Information**

**1. Budgetary Basis of Accounting**

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

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other

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commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year end, value outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

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

- a) In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to June 30, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the school district, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted in June 2013, or as amended by the School Board of Education throughout the year.

**2. *Excess of Expenditures Over Appropriations***

General Fund:

Supporting Services:

- a) Pupil expenditures of \$164,201 exceeded appropriations of \$163,174.
- b) School Administration expenditures of \$221,401 exceeded appropriations of \$220,386.
- c) Athletic Activities expenditures of \$168,864 exceeded appropriations of \$164,576.

These overages were funded available fund balance.

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**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***1. Cash and Investments***

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

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

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.
- (e) United States government or federal agency obligation repurchase agreements.
- (f) Bankers' acceptances issued by a bank that is a member of the federal deposit insurance corporation.
- (g) Mutual funds composed entirely investment vehicles that are legal for direct investment by a school district.
- (h) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.

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

***2. Inventory and Prepaid Items***

Inventory is valued at cost. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

Certain payments made to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

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The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year-end to indicate the portion of the governmental fund balances that are nonspendable.

**3. Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

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

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

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

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

**4. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

**5. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on

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debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**6. *Compensated Absences***

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

**7. *Net Position Flow Assumption***

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**8. *Fund Balance Flow Assumptions***

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**9. *Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The governing board has by resolution authorized the superintendent to assign fund balance. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**10. Use of Estimates**

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**H. Revenues and Expenditures/Expenses**

**1. State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2014 the foundation allowance was based on pupil membership counts taken in February 2014 and October of 2013, and blended with the two prior years counts. For fiscal year ended June 30, 2014, the per pupil foundation allowance was \$7,026 for Mesick Consolidated Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2013 to August 2014. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

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**2. Program Revenues**

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

**3. Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are billed as of December 1. The due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2014, the District levied the following amounts per \$1,000 of taxable valuation:

Fund	Mills
General Fund – Non-Principal Residence Exemption (PRE)	18.0000
General Fund – Commercial Personal Property	6.0000
2004 Debt Retirement – PRE, Non-PRE, Commercial Personal Property	4.1500

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Violations of Legal or Contractual Provisions**

Note 1.F.2, on the Excess of expenditures over appropriations, describes a budgetary violation that occurred for the year ended June 30, 2014.

**NOTE 3 – DETAILED NOTES ON ALL ACTIVITIES AND FUNDS**

**A. Deposits and Investments**

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

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

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

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2014, the District's bank balance was \$1,787,826 and \$854,779 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. Since the District utilizes pooled checking accounts, the concentration of this risk is spread amongst all funds. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

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

*Custodial Credit Risk –Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year-end all of the District's investments were uncategorized as to risk.

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

Investments not subject to categorization:

Investment Trust Funds

\$ 11



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The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2014, the fair value of the District’s investments is the same as the value of the pool shares.

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$1,508,503	\$ 0	\$ 107,209	\$ 1,615,712
Investments	0	11	0	11
TOTAL	\$1,508,503	\$ 11	\$ 107,209	\$ 1,615,723

**B. Receivables/Unearned Revenue**

Receivables as of year-end for the government’s individual major funds and nonmajor are as follows:

	<u>General</u>
Receivables:	
Accounts	\$ 1,885
Due from Other Governmental Units	788,823
TOTAL	\$ 790,708

Amounts due from other governments include amounts due from federal, state and local sources for various projects and programs.

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 District reported unearned revenue of \$43,746, which is made up of grant receipts and other revenue that has been received, but not yet earned.

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**C. Capital Assets**

Capital assets activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Assets Not Being Depreciated				
Land	\$ 200,631	\$ 0	\$ 0	\$ 200,631
Other Capital Assets:				
Land Improvements	410,960	0	0	410,960
Buildings and Additions	9,595,677	124,105	0	9,719,782
Machinery and Equipment	709,634	0	0	709,634
Textbooks and Library Books	127,850	0	0	127,850
Transportation Equipment	949,115	79,506	51,300	977,321
Subtotal	11,793,236	203,611	51,300	11,945,547
Accumulated Depreciation				
Other Capital Assets:				
Land Improvements	335,243	15,261	0	350,504
Buildings and Additions	2,760,345	209,182	0	2,969,527
Machinery and Equipment	581,899	22,622	0	604,521
Textbooks and Library Books	127,587	263	0	127,850
Transportation Equipment	563,420	63,026	51,300	575,146
	4,368,494	310,354	51,300	4,627,548
Net Capital Assets Being	7,424,742	(106,743)	0	7,317,999
Net Capital Assets	\$ 7,625,373	\$ (106,743)	\$ 0	\$ 7,518,630

Depreciation for the fiscal year ended June 30, 2014, amounted to \$310,354. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**D. Defined Benefit Plan and Post-Retirement Benefits**

**Plan Description** - The District participates in the statewide Michigan Public School Employees' Retirement System (System) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 1363 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan School Employees' Retirement Act.

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

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

### **Benefit Provisions – Pension**

#### ***Introduction***

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

#### ***Pension Reform 2010***

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

#### ***Pension Reform 2012***

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services

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or military leave of absence of September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1 – members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members: 4% contribution
- MIP-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

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

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

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

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

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

**Funding Policy**

***Member Contributions***

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later, including Pension Plus plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

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

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

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*Employer Contributions*

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

The School District's contributions to MPSERS are as follows:

<u>Fiscal Year Ending</u> <u>June 30,</u>	<u>Contributions</u> <u>to MPSERS</u>
2014	\$ 907,414
2013	835,499
2012	773,860

Included in the amounts paid above, the District received \$156,173 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2014.

PA 464 Retirees Returning to Work, effective December 27, 2012, also requires applicable employer contributions to the defined benefit and defined contribution plans. These amounts, if any, are included in the amounts paid above.

The following table displays the various retirement plans and rates based on what plans certain employees chose to enroll in or what plans certain employees hired after certain dates are required to enroll in.

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Contribution Rates		Fiscal Year 2014					
		Effective February 1, 2013 - September 30, 2013					
		Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/3/2012	Pension Plus to DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MP DB to DC with PHF
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>				<b>DB Contributions</b>			
Pension Normal Cost	2.43%	2.24%	2.24%	0.00%	0.00%	0.00%	2.43%
Pension UAL	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
<b>Pension Contributions - Total Rate</b>	<b>15.21%</b>	<b>15.02%</b>	<b>15.02%</b>	<b>12.78%</b>	<b>12.78%</b>	<b>12.78%</b>	<b>15.21%</b>
Health Normal Cost	0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL	8.18%	8.18%	8.18%	8.18%	8.18%	8.18%	8.18%
<b>Health Contributions - Total Rate</b>	<b>9.11%</b>	<b>9.11%</b>	<b>8.18%</b>	<b>8.18%</b>	<b>9.11%</b>	<b>8.18%</b>	<b>8.18%</b>
<b>Total</b>	<b>24.32%</b>	<b>24.13%</b>	<b>23.20%</b>	<b>20.96%</b>	<b>21.89%</b>	<b>20.96%</b>	<b>23.39%</b>
		<b>DC Contributions</b>					
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
<b>Total</b>	<b>0.00%</b>	<b>1.00%</b>	<b>3.00%</b>	<b>5.00%</b>	<b>4.00%</b>	<b>6.00%</b>	<b>2.00%</b>

Contribution Rates		Fiscal Year 2014					
		Effective October 1, 2013					
		Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/3/2012	Pension Plus to DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MP DB to DC with PHF
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>				<b>DB Contributions</b>			
Pension Normal Cost	2.90%	2.67%	2.67%	0.00%	0.00%	0.00%	2.90%
Pension UAL	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
<b>Pension Contributions - Total Rate</b>	<b>18.34%</b>	<b>18.11%</b>	<b>18.11%</b>	<b>15.44%</b>	<b>15.44%</b>	<b>15.44%</b>	<b>18.34%</b>
Health Normal Cost	0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%
<b>Health Contributions - Total Rate</b>	<b>6.45%</b>	<b>6.45%</b>	<b>5.52%</b>	<b>5.52%</b>	<b>6.45%</b>	<b>5.52%</b>	<b>5.52%</b>
<b>Total</b>	<b>24.79%</b>	<b>24.56%</b>	<b>23.63%</b>	<b>20.96%</b>	<b>21.89%</b>	<b>20.96%</b>	<b>23.86%</b>
		<b>DC Contributions</b>					
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
<b>Total</b>	<b>0.00%</b>	<b>1.00%</b>	<b>3.00%</b>	<b>5.00%</b>	<b>4.00%</b>	<b>6.00%</b>	<b>2.00%</b>

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**Benefit Provisions – Other Postemployment**

***Introduction***

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

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

***Retiree Healthcare Reform of 2012***

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.



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Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare. Deferred or nonvested members on September 3, 2012 who are rehired on September 4, 2012, will contribute 3% contribution to retiree healthcare and will retain the subsidy benefit. Returning members who made the retirement healthcare election will retain whichever option they choose.

Those who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the healthcare funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet eligibility requirements may request a refund of their contributions. Similarly, if a retiree dies before the total value of the insurance subsidy paid equals the total value of the contributions the member made, and there are no eligible dependents, the beneficiary may request a refund of unused funds. Refunds of member contributions to the healthcare funding account are issued as a supplemental benefit paid out over a 60 month period.

1. Retirees with at least 21 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for subsidized employer paid health benefit coverage.
2. A delayed subsidy applies to retirees who became a member of the retirement system before July 1, 2008 and who purchased service credit on or after July 1, 2008. Such individuals are eligible for premium subsidy benefits at age 60 or when they would have been eligible to retire without having made a service purchase, whichever comes first. They may enroll in the insurances earlier, but are responsible for the full premium until the premium subsidy begins.

Under Public Act 300 of 2012, the state no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2% employee contribution into a 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years of age at termination or \$1,000 for participants who are less than 60 years of age at termination.

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Participants in the Personal Healthcare Fund, who become disabled for any reason, are not eligible for any employer funded health insurance premium subsidy. If a PHF participant suffers a non-duty related death, his or her health benefit dependents are not eligible to participate in any employer funded health insurance premium subsidy. If a PHF participant suffers a duty death, the state will pay the maximum health premium allowed by statute for the surviving spouse and health benefit dependents. The spouses' insurance subsidy may continue until his or her death, the dependents' subsidy may continue until their eligibility ends (through marriage, age, or other event). Upon eligibility for a duty death benefit, the 2% employer matching contributions and related earnings in the PHF 401(k) are forfeited and the state will pay for the subsidy payments. The beneficiaries receive the member's personal contributions and related earnings in the PHF 457 account.

**Other Information**

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree healthcare trust as MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus member. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the mandatory 3% contribution violated both the U.S. and Michigan constitutions. The State appealed the ruling to the Michigan Court of Appeals. The Court of Appeals accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the Court.

On August 16, 2012 the State of Michigan Court of Appeals affirmed the trial court's orders granting summary dispositions in favor of the plaintiffs in each of the cases before it, terminating the stay ordered by this Court on March 18, 2011. The State of Michigan has appealed the decision to the Michigan Supreme Court. The Office of Retirement Services is instructing Michigan public school employers to continue withholding the 3% contribution. Should the plaintiffs prevail, the escrowed funds will be returned to the employees.

**E. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited.

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The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2014 or any of the prior three years

**F. Long-Term Liabilities**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of the governmental long-term liability transactions for the School District for the year ended June 30, 2014:

	COMPENSATED ABSENCES AND SEVERANCE PLAN	BONDS	TOTAL
Balance, July 1, 2013	\$ 232,782	\$ 3,809,961	\$ 4,042,743
Additions	76,063	2,210,000	2,286,063
Deletions	(98,921)	(2,807,140)	(2,906,061)
Balance, June 30, 2014	209,924	3,212,821	3,422,745
Less current portion	0	(637,140)	(637,140)
Total due after one year	\$ 209,924	\$ 2,575,681	\$ 2,785,605

The District's liability obligations at June 30, 2014, are comprised of the following issues:

General Obligation Serial Bonds

2014 refunding bonds due in annual installments of \$530,000 of \$550,000 through May 1, 2018, interest at 0.55% to 1.35%. \$2,210,000

2012 Energy Conservation Improvement QZAB Bond

Energy Improvement Bonds, due in monthly installments of \$77,140 to \$77,141 through May 1, 2027, interest at 4.22%. 1,002,821

Compensated Absences Payable

Accumulated Sick Pay and Vacation Pay 209,924

TOTAL LONG-TERM DEBT \$3,422,745

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The annual requirements to amortize all long-term liability outstanding as of June 30, 2014, including interest payments of \$355,373 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2015	\$ 637,140	\$ 65,103	\$ 702,243
2016	642,140	55,749	697,889
2017	627,140	48,256	675,396
2018	612,140	39,775	651,915
2019	77,140	29,298	106,438
2020-2024	385,700	97,660	483,360
2025-2027	231,421	19,532	250,953
	<u>3,212,821</u>	<u>355,373</u>	<u>3,568,194</u>
Compensated absences	209,924	0	209,924
	<u>\$ 3,422,745</u>	<u>\$ 355,373</u>	<u>\$ 3,778,118</u>

Interest on the 2012 Energy Conservation Improvement QZAB Bond is expected to be offset nearly entirely by a federal interest subsidy.

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

**G. Short-Term Debt**

On August 20, 2013, the District issued a State Aid Note in the amount of \$400,000. The note matures on July 21, 2014 with interest at 0.430%. The District pledged its State Aid revenue for payment of this liability at maturity and has made required payments to an irrevocable set-aside account in the amount of \$266,617 to cover a portion of the principal amount plus interest. At year end, these payments are considered defeased debt and are not included in the year-end balance. The balance, \$133,383, will be deducted from the District's July state aid payment. The purpose of the note was to provide for cash flow needs at the beginning of the school year. Interest expense for the year was \$1,436.

The following is a summary of the Short-Term Debt transactions for the School District for the year ended June 30, 2014:

Short-Term Debt at July 1, 2013	\$ 0
New Debt Issued	400,000
Debt Retired and Paid	<u>(266,617)</u>
Short-Term Debt at June 30, 2014	<u>\$ 133,383</u>

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As of the date of the audit, the District is in the process of applying for a State Aid Note to allow the District to meet its cash flow needs at the beginning of the 2014-2015 fiscal year. The District expects to borrow approximately \$550,000.

**H. Interfund Receivables and Payables**

	INTERFUND RECEIVABLES	INTERFUND PAYABLES
General Fund	\$ 303	\$ 29,361
Debt Service Fund - 2014 Debt Retirement	29,361	0
School Service Fund - Food Service Fund	0	303
	\$ 29,664	\$ 29,664

The outstanding balances between funds result mainly from the time lag between the dates that (1) Interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All Interfund balances outstanding at June 30, 2014 are expected to be repaid within one year.

**I. Interfund Transfers**

The following is a summary of the interfund transfers for the year ended June 30, 2014:

	TRANSFERS IN	TRANSFERS OUT
Debt Service Fund - 2004 Debt Retirement	\$ 0	\$ 132,043
Debt Service Fund - 2014 Debt Retirement	132,043	0
	\$ 132,043	\$ 132,043

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**J. 2014 Refunding Bonds**

On March 6, 2014, the District issued \$2,210,000 in General Obligation Bonds with an average interest rate of 1.017% to refund \$2,200,000 million of outstanding 2004 Refunding Bonds with an average interest rate of 3.692% percent. The net proceeds of \$2,169,150 (after payment of underwriting fees, and issuance costs) plus an additional \$71,000 of 2004 Refunding Debt

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Retirement Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2004 Refunding Bonds. On May 1, 2014 the escrow agent used the funds to call in and completely retire the remaining 2004 Refunding Bonds outstanding.

The refunding resulted in an immaterial difference between the reacquisition price and the net carrying amount of the old debt. The District completed the refunding to reduce its total debt service payments over the next 4 years by \$107,290 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$104,309.

**K. Other Information**

***1. Commitments and Contingencies***

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

***2. Single Audit***

Current federal guidelines require entities with federal expenditures exceeding \$500,000 to have a "single audit" of federally funded programs. This audit is being performed and the reports based thereon will be issued under a separate cover.

***3. Capital Projects Fund***

The 2012 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

**NOTE 4 – UPCOMING ACCOUNTING PRONOUCEMENTS**

The District is currently evaluating the impact these standards will have on the financial statements when adopted.

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

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JUNE 30, 2014

employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense.

The State of Michigan Office of Retirement Services (ORS) operates the pension plan for participating school districts in the State of Michigan. In February 2014, the ORS estimated Mesick Consolidated School's proportionate share of the pension liability based on 2012 figures. The estimate was \$8,707,000, which, if recorded in the current year would reduce the District's net position from \$5,672,729 to a deficit of \$3,034,271. The ORS will continue to update the estimate of liability as the implementation date moves closer.

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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

YEAR ENDED JUNE 30, 2014

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources	\$ 1,171,774	\$ 1,206,883	\$ 1,218,888
State Sources	4,046,917	4,208,231	4,183,875
Federal Sources	335,850	419,843	449,168
Other Transactions	181,291	197,667	157,640
Total Revenues	<u>5,735,832</u>	<u>6,032,624</u>	<u>6,009,571</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs	2,965,085	2,873,075	2,869,628
Added Needs	705,969	921,013	905,594
Supporting Services			
Pupil	128,170	163,174	164,201
Instructional Staff	28,302	72,538	51,503
General Administration	289,293	271,785	266,415
School Administration	217,020	220,386	221,401
Business	75,582	70,609	68,269
Operation and Maintenance	533,061	605,371	586,461
Pupil Transportation Services	396,416	457,885	425,560
Central Services	183,316	226,546	203,562
Athletic Activities	158,244	164,576	168,864
Community Activities			
Community Activities	1,000	4,511	3,096
Debt Service			
Principal	77,140	77,140	77,140
Interest	46,074	46,074	46,074
Total Expenditures	<u>5,804,672</u>	<u>6,174,683</u>	<u>6,057,768</u>
Excess (Deficiency) of Revenues Over Expenditures	(68,840)	(142,059)	(48,197)
<u>OTHER FINANCING SOURCES (USES)</u>			
Proceeds from the Sale of Capital Assets	1,425	1,425	1,425
Net Change in Fund Balance	(67,415)	(140,634)	(46,772)
<u>FUND BALANCE</u> - Beginning of Year	<u>1,025,312</u>	<u>1,029,009</u>	<u>1,029,009</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 957,897</u>	<u>\$ 888,375</u>	<u>\$ 982,237</u>



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COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUND TYPES

JUNE 30, 2014

	<u>FOOD SERVICE FUND</u>	<u>2004 DEBT FUND</u>	<u>2012 CAPITAL PROJECTS FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 57,921	\$ 0	\$ 0	\$ 57,921
Inventories	4,333	0	0	4,333
TOTAL ASSETS	\$ 62,254	\$ 0	\$ 0	\$ 62,254
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 150	\$ 0	\$ 0	\$ 150
Salaries and Benefits Payable	7,074	0	0	7,074
Due to Other Funds	303	0	0	303
Unearned Revenue	2,299	0	0	2,299
Total Liabilities	9,826	0	0	9,826
 <u>FUND BALANCE</u>				
Nonspendable, Inventory	4,333	0	0	4,333
Restricted for Food Service	48,095	0	0	48,095
Total Fund Balances	52,428	0	0	52,428
TOTAL LIABILITIES AND FUND BALANCES	\$ 62,254	\$ 0	\$ 0	\$ 62,254

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

YEAR ENDED JUNE 30, 2014

	FOOD SERVICE FUND	2004 DEBT FUND	2012 CAPITAL PROJECTS FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
<u>REVENUES</u>				
Local Sources	\$ 53,695	\$ 625,216	\$ 112	\$ 679,023
State Sources	12,459	0	0	12,459
Federal Sources	293,897	0	0	293,897
Total Revenues	<u>360,051</u>	<u>625,216</u>	<u>112</u>	<u>985,379</u>
<u>EXPENDITURES</u>				
Food Service	365,762	0	0	365,762
Capital Outlay	0	0	124,105	124,105
Debt Service				
Principal	0	530,000	0	530,000
Interest	0	58,694	0	58,694
Other Transactions	0	54	0	54
Total Expenditures	<u>365,762</u>	<u>588,748</u>	<u>124,105</u>	<u>1,078,615</u>
Excess (Deficiency) of Revenues Over Expenditures	(5,711)	36,468	(123,993)	(93,236)
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers Out	0	(132,043)	0	(132,043)
Net Change in Fund Balance	(5,711)	(95,575)	(123,993)	(225,279)
<u>FUND BALANCE</u> - Beginning of Year	<u>58,139</u>	<u>95,575</u>	<u>123,993</u>	<u>277,707</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 52,428</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 52,428</u>



