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**COLDWATER
COMMUNITY SCHOOLS
Branch County, Michigan**

Annual Financial Report

For the year ended June 30, 2013

COLDWATER COMMUNITY SCHOOLS
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For the year ended June 30, 2013

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

November 4, 2013

The Board of Education
Coldwater Community Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of Coldwater Community Schools as of June 30, 2013, and the respective changes in financial position and budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes A and J to the basic financial statements, the District changed its method of reporting for net position as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 12 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 Coldwater Community Schools' basic financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining and individual 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 and individual 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 November 4, 2013 on our consideration of Coldwater Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Coldwater Community Schools' internal control over financial reporting and compliance.

Hungerford, Aldwin, Nichols & Carter, P.C.

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Coldwater Community Schools ("the District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the Basic Financial Statements and Supplemental Information. The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first two statements, the Statement of Net Position and the Statement of Activities, are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
 - ♦ *Governmental funds statements* tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
 - ♦ *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The Basic Financial Statements also include Notes to Basic Financial Statements that explain the information in the Basic Financial Statements and provide more detailed data. Supplementary Information follows and includes combining and individual fund statements.

District-wide Statements

The district-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position, and how it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one should consider additional non-financial factors such as changes in the District's property tax-base, economic factors that might influence state aid revenue, and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are presented as follows:

- *Governmental activities:* The District's basic services are included here, such as regular and special education, instructional support, transportation, administration, community services, food service and athletics. State aid and property taxes finance most of these activities.

New Accounting Pronouncements Implemented

The District implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2012-13. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The reader will note a change in terminology from "net assets" to "net position". GASB 65 identifies and defines those items previously reported as assets and liabilities that will now be reported as deferred outflows and inflows of resources. These changes resulted in a reduction of \$643,513 in district-wide net position at July 1, 2012, which is reflected in the following condensed district-wide financial information and in the Basic Financial Statements included in the Annual Financial Report.

Condensed District-wide Financial Information

The Statement of Net Position provides financial information on the District as a whole.

	2013	2012
Assets		
Current assets	\$ 11,197,486	\$ 10,192,720
Noncurrent assets	32,474,264	30,545,545
Total Assets	43,671,750	40,738,265
Liabilities		
Current liabilities	5,240,977	4,438,925
Noncurrent liabilities	18,852,004	17,354,732
Total Liabilities	24,092,981	21,793,657
Net Position		
Invested in capital assets, net of related debt	12,436,378	12,420,987
Restricted	2,498,919	1,077,376
Unrestricted	4,643,472	5,446,245
Total Net Position	\$ 19,578,769	\$ 18,944,608

The results of the fiscal year's operations for the District as a whole are presented in the Statement of Activities, which shows the change in total net position for the year.

The Statement of Activities presents changes in net position from operating results:

	2013	2012
Program Revenues		
Charges for services	\$ 818,805	\$ 746,763
Operating grants	3,426,180	3,278,034
General Revenues		
Property taxes	8,596,105	8,815,430
State school aid, unrestricted	15,417,645	15,418,202
Interest earnings	19,442	23,003
Gain (loss) on disposal of assets	(51,843)	—
Other	252,631	332,808
Total Revenues	28,478,965	28,614,240
Expenses		
Instruction	15,278,509	15,614,307
Supporting services	8,892,005	8,606,260
Community services	170,385	129,831
Food service	1,354,097	1,301,269
Other	18,258	310,130
Interest on long-term debt	724,111	771,822
Unallocated depreciation	1,407,439	1,273,200
Total Expenses	27,844,804	28,006,819
Increase in net position	634,161	607,421
Net Position - Beginning of Year (As Restated)	18,944,608	18,980,700
Net Position - End of Year	\$ 19,578,769	\$ 19,588,121

Financial Analysis of the District as a Whole

The District's financial position is the product of many factors: net State Aid remaining flat, declining student enrollment, elimination of Federal Stimulus dollars and the District's cost controls which in summary slightly decreased overall funds.

The District's total revenues decreased by \$145,000 to \$28.5 million. Property taxes and unrestricted State aid accounted for 84% of the District's revenue. Another 12% came from state and federal aid for specific programs, and the remaining 4% from fees charged for services, interest earnings and other local sources.

The total cost of all programs and services decreased by \$162,000 to \$27.8 million. The District's expenses are predominantly related to instruction, pupil services, athletics, food service and for the transporting of students (72 percent). The District's administrative and business services accounted for 10 percent, operation and maintenance and technology services accounted for 9 percent. Interest on long-term debt accounted for 3 percent of total District expenses.

Total revenues surpassed expenses, increasing net position by \$634,161 from last year.

- Declining taxable values are partially offset by State Aid funding, however, the District has positioned itself in the budgeting process for this decline in property tax revenue. Three (3) funds are affected by declining taxable values: General, Debt Service and Building & Site (Sinking Fund).
- Installment Purchase Agreements in the Building & Site (Sinking Fund) for renovations and site improvements throughout the district provided additional revenue in the current fiscal year. Without these funds, which were not fully spent in the current fiscal year, the district would have a decrease in net position.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

The District utilizes two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship Funds and Student Activities Funds. 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 excludes these activities from the district-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District's Funds

The District uses funds to record and analyze financial information. Coldwater Community Schools' funds are described as follows:

Major Fund

General Fund

The General Fund is the District's primary operating fund. The General Fund had total revenues of \$24,186,365, other financing sources of \$20,296, total expenditures of \$24,424,664, and total other financing uses of \$51,258. The District ended the fiscal year with a \$269,261 decrease in fund balance for a total fund balance of \$5,717,878, down from \$5,987,139 at June 30, 2012.

Nonmajor FundsSpecial Revenue Funds

The District operates two Special Revenue Funds, for the Food Service program, and Child Care programs. The total revenue for all Special Revenue Funds was \$1,379,602, total other financing sources were \$50,765, total expenditures were \$1,583,052, and total other financing uses were \$20,296. The ending fund balances totaled \$318,136. Of the ending fund balances, \$311,099 is attributable to the Food Service Fund, and \$7,037 to the Child Care Fund.

Debt Service Funds

The District operates five Debt Service Funds. Total revenues were \$2,139,258, total other financing sources were \$190,920, and total expenditures were \$2,326,456. The ending fund balances in the Debt Service Funds totaled \$222,928.

Capital Projects Fund

There is one nonmajor Capital Projects Fund incorporated into the financial statements of the District, the Building and Site Fund. Revenues totaled \$762,893, with other financing sources of \$3,589,373, expenditures of \$3,064,886, and other financing uses of \$176,635, which included installment purchase agreement principal and interest. The ending fund balance was \$2,084,699 at June 30, 2013.

Fiduciary Funds

The Student Activities Fund is operated as the only Fiduciary Fund of the District. The assets of this fund are being held for the benefit of the District's students. Balances on hand at June 30, 2013 totaled \$222,263.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget on two separate occasions. The budget amendments were a result of the following:

- The first revision on December 17, 2012 reflected the actual student count, changes to grant budgets, and staffing costs based upon actual data in lieu of assumptions. The original budget adopted in June contained assumptions such as teacher staffing needs, new hire salary schedule placement, and federal grant allocations that are known later in the year.
- The second budget revision on June 24, 2013 refined state aid revenue, local property tax collections and all grants. In addition to adjustments to revenue accounts, expenses were updated to reflect actual costs. Updated grant spending for curriculum materials and professional development were among the major changes. The late approval of the district's consolidated application for grants by the Michigan Department of Education caused many budget changes and also made budgeting harder since many of the funds for programs and materials could not be spent prior to the end of the fiscal year.

Capital Asset and Debt Administration**Capital Assets**

At June 30, 2013, the District had invested \$52.7 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, computer equipment and software, and administrative offices. (More detailed information about capital assets can be found in Note E in the Notes to Basic Financial Statements.) Total depreciation expense for the year was \$1.4 million.

The District’s 2012-13 capital additions totaled \$3,388,001, principally in three areas:

- \$2,636,723 for building improvements
- \$505,427 for furniture and equipment purchases
- \$87,168 for vehicles

At June 30, 2013, the District’s investment in capital assets (net of accumulated depreciation), increasing approximately \$1,929,000 from the previous year-end, is detailed as follows:

Land	\$	107,429
Construction in progress		179,513
Buildings and additions		30,615,894
Furniture and equipment		977,266
Vehicles		594,162
Net Capital Assets		\$ 32,474,264

Long-term Debt

At year end, the District had total long-term debt of \$21.1 million of which the largest portion is \$15.3 million in general obligation bonds. (More detailed information about long-term debt can be found in Note F in the Notes to Basic Financial Statements.)

- The District borrowed \$3.6 million in installment debt for capital improvements.
- The District also paid down its debt, retiring \$1.7 million of outstanding bonds, loans and leases.
- The District’s other long term obligation is for compensated absences in the amount of \$1,073,925.

The District’s underlying rating on the unlimited tax bonds is A+ by Standard and Poor’s. The unlimited bonds also carry the State’s credit rating of AA- by Standard & Poor’s. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within a district’s boundaries.

Factors Bearing on the District’s Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District’s 18-mill operating millage expires Dec. 31, 2013. Without passage of another millage, the district stands to lose approximately \$5.5 million in annual revenue, which represents more than 20% of the general fund budget. Significant reductions and layoffs would be necessary without this funding.
- The District’s fall student enrollment count was 2857, a drop of 92 students from the previous fall count. Student count is a variable that is hard to predict during challenging economic times. The District utilizes an outside firm to analyze existing student count and project future student growth for budget purposes. Future predictions are for continued enrollment decline.

- During 2012-13 the District received a net of \$6,966 per student in State funds in the form of a foundation allowance and anticipates a base foundation of \$7,026 in 2013-14. While the amount has increased the past two years, it is still considerably less than the \$7,316 received in 2009. Overall, the State Aid Foundation Grant is not keeping pace with cost increases even though the District has implemented many cost reductions throughout every area of the budget.
- The Michigan Public Schools Employee Retirement System continues to represent a large portion of the district's budget. Changes to the system held the retirement rate to an average of 24.64% of every employer dollar, but the plan still accounts for 14%.

Contacting the District's Financial Management

This financial report is designed to provide the District's 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, contact the Business Office, Coldwater Community Schools, 401 Sauk River Drive, Coldwater, MI 49036. Contact by e-mail: bengelter@ccscards.org. Contact by phone: (517) 279-5910.

BASIC FINANCIAL STATEMENTS

COLDWATER COMMUNITY SCHOOLS
Statement of Net Position
June 30, 2013

	Governmental Activities
Assets	
Cash	\$ 6,823
Cash equivalents, deposits and investments (Note B)	7,102,535
Accounts receivable	45,926
Due from other governmental units (Note C)	3,825,011
Inventory	72,548
Prepaid expenses	144,643
Capital assets not being depreciated (Note E)	286,942
Capital assets being depreciated, net (Note E)	32,187,322
	43,671,750
Liabilities	
Accounts payable	503,700
Due to other governmental units	708,041
Accrued interest payable	127,325
Payroll liabilities payable	223,155
Salaries payable	1,413,882
Unearned revenue	5,067
Long-term liabilities (Note G):	
Due within one year	2,259,807
Due in more than one year	18,852,004
	24,092,981
Net Position	
Invested in capital assets, net of related debt	12,436,378
Restricted for:	
Debt service	116,819
Capital projects	2,063,964
Food service	311,099
Community services	7,037
Unrestricted	4,643,472
	19,578,769
	\$ 19,578,769

See accompanying notes to basic financial statements.

COLDWATER COMMUNITY SCHOOLS
Statement of Activities
For the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants	
Governmental Activities				
Instruction	\$ 15,278,509	\$ 2,799	\$ 2,482,864	\$(12,792,846)
Supporting services	8,892,005	338,444	1,024	(8,552,537)
Community services	170,385	80,340	-	(90,045)
Food service	1,354,097	397,222	923,552	(33,323)
Other	18,258	-	-	(18,258)
Interest on long-term debt	724,111	-	18,740	(705,371)
Unallocated depreciation	1,407,439	-	-	(1,407,439)
Total Governmental Activities	\$ 27,844,804	\$ 818,805	\$ 3,426,180	(23,599,819)
General Revenues				
Taxes:				
Property taxes, levied for general operations				5,723,288
Property taxes, levied for debt service				2,119,472
Property taxes, levied for capital improvements				753,345
State school aid, unrestricted				15,417,645
Interest and investment earnings				19,442
Gain (loss) on disposal of assets				(51,843)
Other				252,631
Total General Revenues				24,233,980
Change in Net Position				634,161
Net Position - Beginning, As Previously Reported				19,588,121
Restatement of Net Position (Note J)				(643,513)
Net Position - Beginning, As Restated				18,944,608
Net Position - Ending				\$ 19,578,769

See accompanying notes to basic financial statements.

COLDWATER COMMUNITY SCHOOLS
Balance Sheet
Governmental Funds
June 30, 2013

Assets	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Cash	\$ 6,795	\$ 28	\$ 6,823
Cash equivalents, deposits and investments (Note B)	4,441,455	2,661,080	7,102,535
Accounts receivable	35,700	7,656	43,356
Due from other funds (Note D)	7,811	59,829	67,640
Due from other governmental units (Note C)	3,774,560	50,451	3,825,011
Inventory	50,059	22,489	72,548
Prepaid expenditures	34,643	110,000	144,643
Total Assets	<u><u>\$ 8,351,023</u></u>	<u><u>\$ 2,911,533</u></u>	<u><u>\$ 11,262,556</u></u>
 Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 269,642	\$ 234,058	\$ 503,700
Due to other funds (Note D)	18,425	46,645	65,070
Due to other governmental units	708,041	-	708,041
Payroll liabilities payable	223,155	-	223,155
Salaries payable	1,413,882	-	1,413,882
Deferred revenue	-	5,067	5,067
Total Liabilities	<u>2,633,145</u>	<u>285,770</u>	<u>2,918,915</u>
Fund Balances (Note A)			
Nonspendable	84,702	132,489	217,191
Restricted	-	2,493,274	2,493,274
Unassigned	5,633,176	-	5,633,176
Total Fund Balances	<u>5,717,878</u>	<u>2,625,763</u>	<u>8,343,641</u>
Total Liabilities and Fund Balances	<u><u>\$ 8,351,023</u></u>	<u><u>\$ 2,911,533</u></u>	<u><u>\$ 11,262,556</u></u>

See accompanying notes to basic financial statements.

COLDWATER COMMUNITY SCHOOLS
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2013

Total governmental fund balances		\$ 8,343,641
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$52,666,483 and accumulated depreciation is \$20,192,219.		32,474,264
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
General obligation bonds	\$(15,295,000)	
Bond premium	(242,563)	
Installment purchase agreements	(4,274,375)	
Capital leases	(225,948)	
Compensated absences	(1,073,925)	(21,111,811)
Accrued interest is not included as a liability in governmental funds.		(127,325)
Total net poition - governmental activities		\$ 19,578,769

See accompanying notes to basic financial statements.

COLDWATER COMMUNITY SCHOOLS
Statement of Revenues, Expenditures and
Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2013

	General	Nonmajor	Total
Revenues			
Local sources	\$ 6,283,422	\$ 3,339,461	\$ 9,622,883
State sources	16,269,899	73,917	16,343,816
Federal sources	1,392,465	868,375	2,260,840
Interdistrict sources	240,579	-	240,579
Total Revenues	<u>24,186,365</u>	<u>4,281,753</u>	<u>28,468,118</u>
Expenditures			
Current:			
Instruction	15,309,313	30,110	15,339,423
Supporting services	8,951,046	-	8,951,046
Community services	120,276	50,109	170,385
Food service	-	1,502,833	1,502,833
Interdistrict	12,509	-	12,509
Capital outlay	1	3,064,886	3,064,887
Debt service:			
Principal repayment	31,519	1,613,886	1,645,405
Interest and fiscal charges	-	712,570	712,570
Total Expenditures	<u>24,424,664</u>	<u>6,974,394</u>	<u>31,399,058</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(238,299)</u>	<u>(2,692,641)</u>	<u>(2,930,940)</u>
Other Financing Sources (Uses)			
Loan/lease proceeds	-	3,589,373	3,589,373
Other transactions	(18,258)	32,050	13,792
Transfers in	20,296	209,635	229,931
Transfers out	(33,000)	(196,931)	(229,931)
Total Other Financing Sources (Uses)	<u>(30,962)</u>	<u>3,634,127</u>	<u>3,603,165</u>
Net Change in Fund Balances	(269,261)	941,486	672,225
Fund Balances, Beginning of Year	<u>5,987,139</u>	<u>1,684,277</u>	<u>7,671,416</u>
Fund Balances, End of Year	<u>\$ 5,717,878</u>	<u>\$ 2,625,763</u>	<u>\$ 8,343,641</u>

See accompanying notes to basic financial statements.

COLDWATER COMMUNITY SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the year ended June 30, 2013

Net change in fund balances - total governmental funds		\$ 672,225
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets is capitalized and allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:		
Capital outlays	\$ 3,388,001	
Depreciation expense	<u>(1,407,439)</u>	1,980,562
In the Statement of Activities, only the gain (loss) on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale(s) increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the assets sold/retired.		
		(51,843)
Bond premium is amortized over life of the new bond issue on the Statement of Activities.		
		30,640
Proceeds from the sale of bonds or loans are an other financing source in the governmental funds, but increase long-term liabilities in the Statement of Net Position.		
		(3,589,373)
Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities:		
Repayment of bonds	\$ 1,430,000	
Repayment of Durant non-plaintiff bonds	17,888	
Repayment of installment purchase agreements	165,998	
Repayment of capital leases	<u>31,519</u>	1,645,405
Interest on long-term liabilities in the Statement of Activities differs from the amount reported on the governmental funds because interest is recorded as an expenditure in the funds when it is due and paid, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues regardless of when it is paid.		
		(11,541)
In the Statement of Net Position, early retirement incentive, severance pay and accumulated sick leave is measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year the amount of these benefits earned (\$118,979) exceeded the amounts used/paid (\$77,065).		
		<u>(41,914)</u>
Total changes in net position - governmental activities		<u><u>\$ 634,161</u></u>

See accompanying notes to basic financial statements.

COLDWATER COMMUNITY SCHOOLS
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final		
Revenues				
Local sources	\$ 6,353,515	\$ 6,248,797	\$ 6,283,422	\$ 34,625
State sources	16,126,538	16,217,847	16,269,899	52,052
Federal sources	1,439,911	1,680,558	1,392,465	(288,093)
Interdistrict sources	163,207	242,460	240,579	(1,881)
Total Revenues	24,083,171	24,389,662	24,186,365	(203,297)
Expenditures				
Current:				
Instruction:				
Basic programs	14,044,262	13,948,351	13,615,700	332,651
Added needs	1,877,955	1,777,468	1,649,864	127,604
Adult education	54,572	57,235	43,749	13,486
Supporting services:				
Pupil services	931,967	1,008,515	996,667	11,848
Instructional staff services	376,926	623,429	426,686	196,743
General administrative services	503,423	533,038	535,218	(2,180)
School administrative services	1,823,420	1,847,418	1,789,208	58,210
Business services	681,046	695,687	585,266	110,421
Operation and maintenance services	2,017,318	2,005,765	1,970,817	34,948
Pupil transportation services	1,549,471	1,621,012	1,647,604	(26,592)
Central services	393,783	413,216	406,957	6,259
Other supporting services	650,833	640,116	592,623	47,493
Community services	74,114	134,464	120,276	14,188
Interdistrict	-	21,072	12,509	8,563
Capital outlay	-	1	1	-
Debt service:				
Principal repayment	-	133,086	31,519	101,567
Total Expenditures	24,979,090	25,459,873	24,424,664	1,035,209
Excess (Deficiency) of Revenues Over Expenditures	(895,919)	(1,070,211)	(238,299)	831,912
Other Financing Sources (Uses)				
Other transactions	-	(1,345)	(18,258)	(16,913)
Transfers in	-	14,456	20,296	5,840
Transfers out	(34,693)	(50,199)	(33,000)	17,199
Total Other Financing Sources (Uses)	(34,693)	(37,088)	(30,962)	6,126
Net Change in Fund Balances	(930,612)	(1,107,299)	(269,261)	838,038
Fund Balances, Beginning of Year	5,987,139	5,987,139	5,987,139	-
Fund Balances, End of Year	\$ 5,056,527	\$ 4,879,840	\$ 5,717,878	\$ 838,038

See accompanying notes to basic financial statements.

COLDWATER COMMUNITY SCHOOLS
Fiduciary Fund
Statement of Fiduciary Assets and Liabilities
June 30, 2013

Assets

Cash equivalents, deposits and investments (Note B)	\$ 222,263
Accounts receivable	<u>6,302</u>
Total Assets	<u><u>\$ 228,565</u></u>

Liabilities

Accounts payable	\$ 8,030
Due to other funds (Note D)	2,570
Due to student groups	<u>217,965</u>
Total Liabilities	<u><u>\$ 228,565</u></u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

Note A – Summary of Significant Accounting Policies

Coldwater Community Schools was organized under the School Code of the State of Michigan and services a population of approximately 2,857 students. The District is governed by an elected Board of Education consisting of seven members and administered by a Superintendent who is appointed by the aforementioned Board. The District provides a comprehensive range of educational services as specified by state statute and Board of Education policy. These services include elementary education, secondary education, pre-school programs, athletic activities, special education, community services and general administrative services. The Board of Education also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The financial statements of Coldwater Community Schools (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to school districts. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District’s significant accounting policies are described below.

1. Reporting Entity

The financial reporting entity consists of a primary government and its component units. The District is a primary government because it is a special-purpose government that has a separately elected governing body, is legally separate and is fiscally independent of other state or local governments. Furthermore, there are no component units combined with the District for financial statement presentation purposes, and the District is not included in any other governmental reporting entity. Consequently, the District’s financial statements include the funds of those organizational entities for which its elected governing board is financially accountable.

2. District-wide and Fund Financial Statements

District-wide Financial Statements - The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) present financial information about the District as a whole. The reported information includes all of the nonfiduciary activities of the District. The District does not allocate indirect costs and, for the most part, the effect of interfund activity has been removed. These statements are to distinguish between the *governmental* and *business-type activities* of the District. *Governmental activities* normally are supported by taxes and intergovernmental revenues, and are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District does not have any *business-type activities*.

The Statement of Net Position is reported on the full accrual, economic resource basis, which recognizes all long-term assets as well as all long-term debt and obligations. The District’s net position is reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, unrestricted state aid, interest earnings and other items not included among program revenues are reported instead as *general revenues*.

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The General Fund is the District's only major fund. Non-major funds are aggregated and presented in a single column.

Fund Financial Statements – Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Fund level statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. The Balance Sheet reports current assets, current liabilities and fund balances. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources and uses of current financial resources. This differs from the economic resources measurement focus used to report at the district-wide level. Reconciliations between the two sets of statements are provided in separate schedules.

Revenues are recognized when susceptible to accrual; i.e., both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days after the end of the current fiscal period. Expenditures are generally recorded when the liability is incurred, if they are paid within 60 days after the end of the current fiscal period. The exception to this general rule is that principal and interest on long-term debt is recognized when due.

Revenues susceptible to accrual are property taxes, state aid, federal and interdistrict revenues and investment income. Other revenues are recognized when received. Unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Unearned revenue also arises when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of the qualifying expenditures.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation is provided from the State's School Aid Fund and is recognized as revenues in accordance with state law and accounting principles generally accepted in the United States of America.

Governmental Funds

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

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

General Fund—The General Fund is the general operating fund of a school district. It is used to account for all financial resources, except those required to be accounted for in another fund. Included are all transactions related to the current operating budget.

Special Revenue Funds—Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

School Service Funds—School Service Funds are used to segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. A school district maintains full control of these funds. The School Service Funds maintained by the District are the Food Service and Child Care Special Revenue Funds.

Debt Service Funds—Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt (bonds, notes, loans, leases and school bond loan) principal, interest, and related costs.

Capital Projects Funds—Capital Projects Funds are used to record bond proceeds, property tax revenues or other revenues and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment and for major remodeling and repairs. The funds are retained until the purpose for which the funds were created has been accomplished.

For capital project activities funded with sinking fund millage, the District has complied with the applicable provisions of Section 1212 (I) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by a school district in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds. Fiduciary Fund net position and results of operations are not included in the district-wide financial statements. Fiduciary funds are reported using the economic resources measurement focus.

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student groups for school and school related purposes. The funds are segregated and held in trust for the students.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted as they are needed.

4. Budgets and Budgetary Accounting

State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act) requires that the General Fund of a school district be under budgetary control and that both budgeted and actual financial results do not incur a deficit. Coldwater Community Schools has also adopted budgets for its Special Revenue Funds. A school district's General Appropriations Resolution (the "budget") must be adopted before the beginning of each fiscal

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

year. No violations (dollar deviations) from a district's budget may occur without a corresponding amendment to the budget. A school district has the ability to amend the budget provided that the amendment is prior to the occurrence of the deviation and prior to the fiscal year-end. A school district may also permit the chief administrative or fiscal officer to execute transfers between line items, within defined dollar or percentage limits, without prior approval of the Board of Education. Expenditures may not legally exceed budgeted appropriations at the function level. All appropriations lapse at the end of the fiscal year.

Coldwater Community Schools utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

- Starting in the spring, District administrative personnel and department heads work with the Superintendent and Chief Financial Officer to establish proposed operating budgets for the fiscal year commencing the following July 1.
- In June, preliminary operating budgets are submitted to the Board of Education. These budgets include proposed expenditures and the means of financing them.
- Prior to June 30, a public hearing is held to obtain taxpayer comments on the proposed budgets.
- After the budgets are finalized, the Board of Education adopts an appropriations resolution setting forth the amount of the proposed expenditures and the sources of revenue to finance them.
- The original General and Special Revenue Funds budgets were amended during the year in compliance with State of Michigan Public Act 621 (the Uniform Budgetary and Accounting Act).
- Budgets for the General and Special Revenue Funds were adopted on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

5. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budget integration in the governmental funds. There were no substantial encumbrances outstanding at year end.

6. Investments

Investments are recorded at fair value, based on quoted market prices, or estimated fair value. Investment income is composed of interest and net changes in the fair value of applicable investments.

7. Inventory

Inventories are valued at cost (first-in, first-out). Inventories of the Food Service Fund consist of food, unused commodities and other nonperishable supplies. Disbursements for inventory-type items are recorded as expenditures at the time of use for each fund.

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

8. Capital Assets

Capital assets, which include land, land improvements, buildings and improvements, vehicles and furniture and equipment, are reported in the district-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$5,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated capital assets are stated at estimated fair market value at the date of donation.

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

Land improvements, buildings and improvements, vehicles and furniture and equipment are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	10-20 years
Buildings and improvements	40-50 years
Vehicles	5-10 years
Furniture and equipment	3-10 years

9. Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported at the total amount of bonds issued.

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

10. Compensated Absences

Compensated absences at June 30, 2013 have been computed and recorded in the district-wide financial statements of the District. Employees who leave the District are entitled to reimbursement for a portion of their unused sick and vacation days. At June 30, 2013, the accumulated liabilities, including salary related payments, (expected to be financed by General Fund revenues) for compensated absences amounted to \$1,073,925.

11. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws or regulations from other governments.

Governmental Accounting Standards Board (GASB) Statement No.63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported*

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

as *Assets and Liabilities* provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The Statement of Net Assets is renamed the Statement of Net Position and includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. Items previously reported as assets: losses on bond refundings and bond issuance costs are now reported as deferred outflows of resources and current year expenditures, respectively.

12. Fund Balance

The District has adopted Governmental Accounting Standards Board (GASB) Statement No. 54 “*Fund Balance Reporting and Governmental Fund Type Definitions*”. The stated objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, detailed as follows:

- Nonspendable – resources that cannot be spent because they are either (a) not in spendable form (inventories and prepaid amounts) or (b) legally or contractually required to be maintained intact (the principal of a permanent fund).
- Restricted – resources that cannot be spent because of (a) constraints externally imposed by creditors (debt covenants), grantors, contributors, or laws or regulations or (b) imposed by law through constitutional provisions or enabling legislation and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation.
- Committed – resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority (Board of Education). Those committed amounts cannot be used for any other purpose unless the government removes or changes the specified uses by taking the same type of action it employed to previously commit those amounts. Committed fund balance does not lapse at year end.
- Assigned – resources that are constrained by the government’s *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has designated the authority to assign amounts to be used for specific purposes. Coldwater Community Schools’ Board of Education has delegated authority to assign fund balances for a specific purpose to the Superintendent and Director of Finance. Assigned fund balance does not lapse at year end.
- Unassigned – unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

When the District incurs an expenditure for purposes for which various fund balance classification can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, assigned fund balance, and finally unassigned fund balance.

13. Interfund Activity

Flows of cash from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers between governmental funds are eliminated in the Statement of Activities. Interfund transfers in the fund financial statements are reported as other financing sources/uses.

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

14. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note B – Cash Equivalents, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this state under the laws of this state or the United States.
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a school district in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district in Michigan.

Balances at June 30, 2013 related to cash equivalents, deposits and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position:	
Governmental activities	\$ 7,102,535
Fiduciary Funds:	
Agency Fund	<u>222,263</u>
	<u>\$ 7,324,798</u>

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

Cash Equivalents and Deposits

Depositories actively used by the District during the year are detailed as follows:

1. Century Bank and Trust
2. Monarch Community Bank
3. South Michigan Bank and Trust

Cash equivalents consist of bank public funds checking accounts. Deposits consist of certificates of deposit.

June 30, 2013 balances are detailed as follows:

Cash equivalents	\$ 7,252,319
Deposits	<u>72,479</u>
	<u><u>\$ 7,324,798</u></u>

Custodial Credit Risk Related to Cash Equivalents and Deposits

Custodial credit risk is the risk that in the event of bank failure, the District's cash equivalents and deposits may not be returned to the District. Protection of District cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the District's cash equivalents and deposits was \$7,324,798 and the bank balance was \$7,560,099. Of the bank balance, \$795,469 was covered by federal depository insurance and \$6,764,630 was uninsured and uncollateralized.

Investments

As of June 30, 2013, the District had no investments.

Custodial Credit Risk Related to Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the District may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a policy for investment custodial credit risk. At June 30, 2013, the District had no investments that were subject to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy does not have specific limits on investment credit risk.

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy does not have specific limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy does not have specific limits on concentration of credit risk.

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

Foreign Currency Risk

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

Note C – State School Aid/Property Taxes

On March 15, 1994, the voters of the State of Michigan approved Proposal A, which increased the State Sales and Use Tax rates from 4% to 6% and established a State Education Tax at a rate of 6 mills on all property, except that which is exempt by law from ad valorem property taxes, and dedicated the additional revenues generated to Michigan school districts. The amount of 2012 ad valorem State Education Taxes generated within the Coldwater Community Schools, and paid to the State of Michigan, totaled \$4,556,039.

These additional State revenues pass through to Michigan school districts in the form of a per pupil "Foundation Allowance" paid on a "blended count" of District pupil membership in February, 2012 and September, 2012. The 2012-13 "Foundation Allowance" for Coldwater Community Schools was \$6,966 for 2,865 "Full Time Equivalent" students, generating \$16,320,684 in state aid payments to the District of which \$3,156,403 was paid to the District in July and August, 2013 and included as "Due From Other Governmental Units" of the General Fund and Food Service Special Revenue Fund at June 30, 2013.

Property taxes for the District are levied July 1 (the tax lien date) by the City of Coldwater, and December 1 by the Townships of Algansee, Batavia, Bethel, Butler, California, Coldwater, Girard, Kinderhook, Ovid, Quincy and Union, and are due 75 days after the levy date. The taxes are then collected by the City and Townships, and remitted to the District. The County of Branch, through its Delinquent Tax Revolving Fund, advances all delinquent real property taxes at March 1 to the District each year prior to June 30.

Section 1211(1) of 1993 PA 312 states that beginning in 1994, the board of a school district shall levy not more than 18 mills, if approved by voters, for school operating purposes, or the number of mills levied in 1993, whichever is less, on non-homestead property only, in order to be eligible to receive funds under the State School Aid Act of 1979. After 1996, electors may approve a 3 mill "Local Enhancement Millage" which must be shared between all local districts in each respective county intermediate district.

As Coldwater Community Schools electors had previously approved an operating millage extension (May, 2010), the 18 mill non-homestead property tax was levied in the District for 2012.

The District levied 2.75 mills in 2012 for debt service purposes and .9744 mills for the building and site (sinking) fund, applied on all taxable property in the District.

Taxable property in the District is assessed initially at 50% of true cash value by the assessing officials of the various units of government that comprise the District. These valuations are then equalized by the county and finally by the State of Michigan, generating the State Equalized Valuation. Taxable valuation increases will be limited, or capped (known as capped valuation), at 5% or the rate of inflation, whichever is less. With the implementation of Proposal A and Public Act 36, taxable property is now divided into two categories: PRE and NPRES.

A principal residence exemption property (PRE) is exempt from the 18 mill "School Operating" tax. It is not exempt from the 6 mill "State Education" tax, any voted "Local Enhancement Millage" nor any additional voted millage for the retirement of debt.

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

Non-principal residence exemption property (NPRE) is subject to all District levies. However, since Public Act 36, establishing the Michigan Business Tax, was signed into law, Public Acts 37-40 of 2007 now exempt Industrial Personal Property from the 6 mill State Education Tax and up to 18 mills of local school district operating millage (includes property under Industrial Facilities Tax exemptions); and exempt Commercial Personal Property from up to 12 mills of local school district operating millage (exceptions may apply).

Note D – Interfund Receivables/Payables and Transfers

Amounts due from/to other funds representing interfund receivables and payables for unreimbursed 2012-13 expenditures at June 30, 2013 are detailed as follows:

	Due From	Due To
Major Fund		
General Fund:		
Special Revenue Funds:		
Food Service Fund	\$ 1,217	\$ 18,425
Child Care Fund	4,024	—
Agency Fund:		
Student Activities Fund	2,570	—
	7,811	18,425
Total Major Fund		
Nonmajor Funds		
Special Revenue Funds:		
Food Service Fund:		
General Fund	18,425	1,217
Child Care Fund:		
General Fund	—	4,024
Debt Service Funds:		
2005 Debt Service Fund:		
2007 Debt Service Fund	—	4
2007 Debt Service Fund:		
2005 Debt Service Fund	4	—
2009 Debt Service Fund	41,400	—
2009 Debt Service Fund:		
2007 Debt Service Fund	—	41,400
	59,829	46,645
Total Nonmajor Funds		
Agency Fund:		
Student Activities Fund:		
General Fund	—	2,570
	\$ 67,640	\$ 67,640
Total All Funds	\$ 67,640	\$ 67,640

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

Operating transfers between funds during the year ended June 30, 2013 were as follows:

	Transfers In	Transfers Out
General Fund:		
Special Revenue Funds:		
Food Service Fund	\$ 13,796	\$ —
Child Care Fund	6,500	33,000
Special Revenue Funds:		
Food Service Fund:		
General Fund	—	13,796
Child Care Fund:		
General Fund	33,000	6,500
Debt Service Fund:		
2003 Debt Service Fund:		
Building and Site Fund	176,635	—
Capital Projects Fund:		
Building and Site Fund:		
2003 Debt Service Fund	—	176,635
Total All Funds	\$ 229,931	\$ 229,931

The General Fund transferred \$33,000 to the Child Care Fund, as budgeted by the Board of Education, to help cover expenditures. The Building and Site Fund transferred \$176,635 to the 2003 Debt Service Fund to cover 2012-13 debt service requirements. The Food Service Fund transferred \$13,796 to the General Fund for indirect costs, and the Child Care Fund transferred back \$6,500 to the General Fund for 2012-13 over commitment.

Note E – Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balances July 1, 2012	Additions	Deductions	Balances June 30, 2013
Capital assets not being depreciated:				
Land	\$ 107,429	\$ —	\$ —	\$ 107,429
Construction in progress	20,830	179,513	20,830	179,513
Total capital assets not being depreciated	128,259	\$ 179,513	\$ 20,830	286,942
Capital assets being depreciated:				
Buildings and additions	44,481,056	\$ 2,636,723	\$ 447,270	46,670,509
Furniture and equipment	2,911,198	505,427	63,915	3,352,710
Vehicles	2,278,654	87,168	9,500	2,356,322
Total capital assets being depreciated	49,670,908	\$ 3,229,318	\$ 520,685	52,379,541

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

	Balances July 1, 2012	Additions	Deductions	Balances June 30, 2013
Less accumulated depreciation for:				
Buildings and additions	\$ 15,411,477	\$ 1,045,529	\$ 402,391	\$ 16,054,615
Furniture and equipment	2,254,500	184,002	63,058	2,375,444
Vehicles	1,587,645	177,908	3,393	1,762,160
Total accumulated depreciation	<u>19,253,622</u>	<u>\$ 1,407,439</u>	<u>\$ 468,842</u>	<u>20,192,219</u>
Total capital assets being depreciated, net	<u>30,417,286</u>			<u>32,187,322</u>
Net Capital Assets	<u>\$ 30,545,545</u>			<u>\$ 32,474,264</u>

Depreciation expense of \$1,407,439 was charged to "unallocated depreciation" and was not allocated to other functions.

Note F – Long-term Debt

Changes in long-term debt for the year ended June 30, 2013 are summarized as follows:

	Debt Outstanding July 1, 2012	Debt Added	Debt Retired	Debt Outstanding June 30, 2013
General obligation bonds:				
Sep. 29, 2005 refunding bonds	\$ 7,490,000	\$ —	\$ 700,000	\$ 6,790,000
Feb. 8, 2007 refunding bonds	7,165,000	—	730,000	6,435,000
March 17, 2009 refunding bonds	2,070,000	—	—	2,070,000
Bond premium	273,203	—	30,640	242,563
Durant non-plaintiff bonds:				
November 13, 1998	17,888	—	17,888	—
Installment purchase agreements	851,000	3,589,373	165,998	4,274,375
Capital leases	257,467	—	31,519	225,948
Compensated absences	1,032,011	118,979	77,065	1,073,925
	<u>\$ 19,156,569</u>	<u>\$ 3,708,352</u>	<u>\$ 1,753,110</u>	<u>\$ 21,111,811</u>

Long-term debt outstanding at June 30, 2013 is comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
\$8,465K General Obligation Refunding Sep. 29, 2005:				
Principal maturities from \$720K to \$1,000K	May 1, 2021	4.00	\$ 6,790,000	\$ 720,000
\$9,235K General Obligation Refunding Feb. 8, 2007:				
Principal maturities from \$605K to \$870K	May 1, 2021	4.00 – 5.00	6,435,000	765,000
\$2,070K General Obligation Refunding March 17, 2009:				
Principal maturities from \$260K to \$910K	May 1, 2023	4.00	2,070,000	—
Bond premium			242,563	30,640

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
Installment Purchase Agreements				
\$851K roof replacement	June 29, 2012			
	June 29, 2017	1.25	\$ 685,002	\$ 168,073
\$460K building renovation	August 12, 2012			
	July 11, 2017	1.25	459,906	89,710
\$345K windows/doors	August 12, 2012			
	July 11, 2017	1.25	345,000	67,296
\$48K signs	August 12, 2012			
	August 8, 2017	1.25	48,000	9,363
\$45K lockers	August 12, 2012			
	July 11, 2017	1.25	40,952	7,988
\$559K paving	August 12, 2012			
	August 8, 2017	1.25	559,318	109,102
\$429K paving	August 12, 2012			
	August 8, 2017	1.25	429,000	83,682
\$24K HVAC	August 12, 2012			
	August 8, 2017	1.25	23,800	4,642
\$359K athletic field lighting	June 25, 2013			
	June 25, 2021	1.25	358,397	—
\$1,325K building renovation	June 25, 2013			
	June 25, 2021	1.25	1,325,000	—
Capital Leases				
\$94,557 computer equipment	May 3, 2012			
	May 3, 2014	N/A	31,519	31,519
\$295,995 computer equipment	June 8, 2012			
	August 22, 2014	N/A	194,429	95,792
Other Obligations				
Compensated absences			1,073,925	77,000
			<u>\$21,111,811</u>	<u>\$ 2,259,807</u>

The annual requirements to pay principal and interest on long-term bonds, note and capital leases outstanding are as follows:

Year Ending June 30	Principal	Interest	Total
2014	\$ 2,152,166	\$ 695,855	\$ 2,848,021
2015	2,175,244	626,861	2,802,105
2016	2,138,437	547,999	2,686,436
2017	2,220,355	469,379	2,689,734
2018	2,528,763	387,325	2,916,088
2019	2,203,203	308,280	2,511,483
2020	2,273,431	231,652	2,505,083
2021	1,865,000	152,359	2,017,359
2022	1,338,724	72,400	1,411,124
2023	900,000	36,000	936,000
	<u>\$ 19,795,323</u>	<u>\$ 3,528,110</u>	<u>\$23,323,433</u>

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

Note G – Retirement Plan

Plan Description

Substantially all District employees participate in the Michigan Public School Employees' Retirement System (MPERS), a state-wide, cost sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan. The District's payroll expense for employees covered by MPERS for the year ended June 30, 2013 was \$13,083,156. The System provides retirement, survivor and disability benefits to plan members and their beneficiaries. The System also provides postemployment healthcare benefits to retirees and their beneficiaries who elect to receive those benefits.

Ten year historical trend information showing the MPERS' progress in accumulating sufficient assets to pay benefits when due is presented in the September 30, 2012 Annual Report of the MPERS, which may be obtained by contacting the System at P.O. Box 30171, Lansing, Michigan 48909-7671.

Public Act 75 of 2010 defines anyone who became a member of MPERS after June 30, 2010 as a *Pension Plus* member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 9.4% 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.

Public Act 300 of 2012 grants all active members who first become a member before July 1, 2010 and who earned service credit in the 12 months ending 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. Under this reform, members voluntarily chose to increase, maintain, or stop their contributions based on four options offered by the System.

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

Benefit Provisions

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 2012, as amended, establishes eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of credited service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. Benefits are based on a final average compensation period of 5 years for Basic Plan participants and 3 years for Member Investment Plan participants. The Pension Plus hybrid plan pairs a guaranteed retirement income (Defined Benefit) with a flexible and transferable retirement savings (Defined Contribution) account.

Regular retirement:

- Basic members who may retire at age 55 with 30 or more years of credited service; or at age 60 with 10 or more years of credited service.

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

- Member Investment Plan (MIP) members who may retire at any age with 30 or more years of credited service; at age 60 with 10 or more years of credited service; or at age 60 with 5 years of credited service provided the member has worked through his or her 60th birthday and has credited service in each of the five school fiscal years immediately preceding the retirement effective date.
- Pension Plus Plan members (who became members of MPSERS on or after July 1, 2010) who may retire at age 60 with 10 or more years of credited service.

Early retirement:

- Any member may retire with an early permanently reduced pension after completing at least 15 but less than 30 years of credited services; and after attaining age 55; and with credited service in each of the 5 school years immediately preceding the pension effective date.

Member Contributions

Member contribution rates vary based on date of hire and certain voluntary elections. Basic Plan members make no contributions. MIP members enrolled prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. 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.

Employer Contributions

Districts in the State of Michigan are required to contribute the full actuarial funding contribution amount to fund pension benefits, at a rate, annually determined by the State of Michigan, of covered employees' compensation to the MPSERS. The District's contributions to the plan (including the retiree healthcare plan) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$3,432,123, \$2,981,365, and \$2,335,514, respectively. The contribution rates for the fiscal year ranged from 12.46% to 16.89% of gross wages.

Pension Plan Status

The "actuarial accrued liability" is a standardized disclosure method of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the MPSERS' funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee retirement systems and employers.

The MPSERS does not make separate measurements of assets and actuarial accrued liability for individual Districts, instead using the aggregate actuarial cost method. The actuarial accrued liability at September 30, 2011 (the latest reporting date available) for retirement benefits for the MPSERS as a whole, determined through an actuarial valuation performed as of that date was \$63.4 billion. Net assets available for retirement benefits on that date were \$41.0 billion leaving an unfunded actuarial accrued liability of \$22.4 billion. The total unfunded actuarial accrued liability increased by \$4.8 billion from September 30, 2010 to September 30, 2011. At September 30, 2011, the funded ratio of actuarial accrued liability was 64.7%; covered payroll totaled \$9.2 billion, and unfunded actuarial accrued liability was 244.5% of covered payroll.

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

Other Postemployment Benefits

Plan Description and Employee Contributions

Benefit provisions of the post-employment healthcare plan are established by State statute which may be amended. Retirees have the option of health coverage, which, through 2012, is currently funded on a cash disbursement 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. 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.

Public Act 300 of 2012 granted all active members of MPSERS 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.

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 Section 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) account no later than their first pay date after February 1, 2013.

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare.

Members 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 the eligibility requirements may request a refund of their contributions.

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 Section 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.

Employer contributions

Required contributions for post-employment health care benefits were 8.5% of covered payroll for the fiscal year ended June 30, 2013.

COLDWATER COMMUNITY SCHOOLS
Notes to Basic Financial Statements
June 30, 2013

Post-employment Plan Status

At September 30, 2011, the actuarial accrued liability for post-employment insurance benefits for the MPSERS as a whole was \$27.0 billion. The MPSERS net assets available for these benefits were \$1,155.9 million leaving an unfunded actuarial accrued liability of \$25.9 billion. At September 30, 2011, the funded ratio of actuarial liability was 4.3%; covered payroll totaled \$9.2 billion, and unfunded actuarial liability was 282.8% of covered payroll.

Note H – Risk Management and Benefits

The District is a member of the SET-SEG Incorporated Insurance Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2013, there were no material pending claims against the District. The District paid \$94,542 in premiums for the year ended June 30, 2013.

The District is also a member of the SET-SEG Incorporated Workers' Compensation Pooled Fund (the Fund). Premiums from participants in the Fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the Fund and members against large losses. As of June 30, 2013, there were no material pending claims against the District. The District paid \$22,264 in premiums to the Fund for the year ended June 30, 2013.

Health, life and other employee insurance is provided by private insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note I – Stewardship, Compliance and Accountability

	Budget	Actual	Variance
General Fund			
Supporting services:			
General administrative services	\$ 533,038	\$ 535,218	\$ 2,180
Pupil transportation services	1,621,012	1,647,604	26,592
Special Revenue Funds			
Food service	1,499,602	1,502,833	3,231

Note J – Restatement of Net Position

The District adopted the provisions of GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*, at July 1, 2012. In addition to the revised classification and description of certain financial elements in the financial statements, the implementation of Statement No. 65 resulted in the elimination of bond issuance costs as an asset, instead, now being deducted in the year the costs were incurred. As a result of this change, beginning Net Position of governmental activities in the Basic Financial Statements decreased by \$643,513.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

COLDWATER COMMUNITY SCHOOLS
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2013

Assets	Special Revenue		2003	2005
	Food Service	Child Care		
Cash	\$ 28	\$ -	\$ -	\$ -
Cash equivalents, deposits and investments	161,424	12,516	-	108,952
Accounts receivable	7,656	-	-	-
Due from other funds	18,425	-	-	-
Due from other governmental units	50,451	-	-	-
Inventory	22,489	-	-	-
Prepaid expenditures	110,000	-	-	-
Total Assets	\$ 370,473	\$ 12,516	\$ -	\$ 108,952
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 54,545	\$ -	\$ -	\$ -
Due to other funds	1,217	4,024	-	4
Deferred revenue	3,612	1,455	-	-
Total Liabilities	59,374	5,479	-	4
Fund Balances				
Nonspendable	132,489	-	-	-
Restricted	178,610	7,037	-	108,948
Total Fund Balances	311,099	7,037	-	108,948
Total Liabilities and Fund Balances	\$ 370,473	\$ 12,516	\$ -	\$ 108,952

Debt Service			Capital Projects	
2007	2009	Durant	Building and Site	Total
\$ -	\$ -	\$ -	\$ -	\$ 28
101,493	12,483	-	2,264,212	2,661,080
-	-	-	-	7,656
41,404	-	-	-	59,829
-	-	-	-	50,451
-	-	-	-	22,489
-	-	-	-	110,000
<u>\$ 142,897</u>	<u>\$ 12,483</u>	<u>\$ -</u>	<u>\$ 2,264,212</u>	<u>\$ 2,911,533</u>
\$ -	\$ -	\$ -	\$ 179,513	\$ 234,058
-	41,400	-	-	46,645
-	-	-	-	5,067
<u>-</u>	<u>41,400</u>	<u>-</u>	<u>179,513</u>	<u>285,770</u>
-	-	-	-	132,489
142,897	(28,917)	-	2,084,699	2,493,274
<u>142,897</u>	<u>(28,917)</u>	<u>-</u>	<u>2,084,699</u>	<u>2,625,763</u>
<u>\$ 142,897</u>	<u>\$ 12,483</u>	<u>\$ -</u>	<u>\$ 2,264,212</u>	<u>\$ 2,911,533</u>

COLDWATER COMMUNITY SCHOOLS
Combining Schedule of Revenues, Expenditures and Changes in
Fund Balances - Nonmajor Governmental Funds
For the year ended June 30, 2013

	Special Revenue		2003	2005
	Food Service	Child Care		
Revenues				
Local sources:				
Property taxes	\$ -	\$ -	\$ -	\$ 994,032
Interest earnings	44	-	-	552
Food sales	397,222	-	-	-
Other local sources	-	58,784	-	-
Total local sources	397,266	58,784	-	994,584
State sources	55,177	-	-	-
Federal sources	868,375	-	-	-
Total Revenues	1,320,818	58,784	-	994,584
Expenditures				
Current:				
Instruction	-	30,110	-	-
Community services	-	50,109	-	-
Food service	1,502,833	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal repayment	-	-	165,998	700,000
Interest and fiscal charges	-	-	10,637	302,672
Total Expenditures	1,502,833	80,219	176,635	1,002,672
Excess (Deficiency) of Revenues Over Expenditures	(182,015)	(21,435)	(176,635)	(8,088)
Other Financing Sources (Uses)				
Loan proceeds	-	-	-	-
Other transactions	17,765	-	-	14,285
Transfers in	-	33,000	176,635	-
Transfers out	(13,796)	(6,500)	-	-
Total Other Financing Sources (Uses)	3,969	26,500	176,635	14,285
Net Change in Fund Balances	(178,046)	5,065	-	6,197
Fund Balances, Beginning of Year	489,145	1,972	-	102,751
Fund Balances, End of Year	\$ 311,099	\$ 7,037	\$ -	\$ 108,948

Debt Service			Capital Projects	Total
2007	2009	Durant	Building and Site	
\$ 1,078,811	\$ 46,629	\$ -	\$ 753,345	\$ 2,872,817
481	13	-	2,888	3,978
-	-	-	-	397,222
-	-	-	6,660	65,444
1,079,292	46,642	-	762,893	3,339,461
-	-	18,740	-	73,917
-	-	-	-	868,375
1,079,292	46,642	18,740	762,893	4,281,753
-	-	-	-	30,110
-	-	-	-	50,109
-	-	-	-	1,502,833
-	-	-	3,064,886	3,064,886
730,000	-	17,888	-	1,613,886
314,699	83,710	852	-	712,570
1,044,699	83,710	18,740	3,064,886	6,974,394
34,593	(37,068)	-	(2,301,993)	(2,692,641)
-	-	-	3,589,373	3,589,373
-	-	-	-	32,050
-	-	-	-	209,635
-	-	-	(176,635)	(196,931)
-	-	-	3,412,738	3,634,127
34,593	(37,068)	-	1,110,745	941,486
108,304	8,151	-	973,954	1,684,277
\$ 142,897	\$ (28,917)	\$ -	\$ 2,084,699	\$ 2,625,763

COLDWATER COMMUNITY SCHOOLS
Food Service Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2013

	Budget	Actual	Variance
Revenues			
Local sources	\$ 383,994	\$ 397,266	\$ 13,272
State sources	63,763	55,177	(8,586)
Federal sources	748,589	868,375	119,786
Total Revenues	<u>1,196,346</u>	<u>1,320,818</u>	<u>124,472</u>
Expenditures			
Current:			
Food service	<u>1,499,602</u>	<u>1,502,833</u>	<u>(3,231)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(303,256)</u>	<u>(182,015)</u>	<u>121,241</u>
Other Financing Sources (Uses)			
Other transactions	-	17,765	17,765
Transfers out	<u>(14,456)</u>	<u>(13,796)</u>	<u>660</u>
Total Other Financing Sources (Uses)	<u>(14,456)</u>	<u>3,969</u>	<u>18,425</u>
Net Change in Fund Balances	<u>(317,712)</u>	<u>(178,046)</u>	<u>139,666</u>
Fund Balances, Beginning of Year	<u>489,145</u>	<u>489,145</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 171,433</u></u>	<u><u>\$ 311,099</u></u>	<u><u>\$ 139,666</u></u>

COLDWATER COMMUNITY SCHOOLS
Child Care Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the year ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local sources	\$ 60,800	\$ 58,784	\$ (2,016)
Expenditures			
Current:			
Instruction	35,000	30,110	4,890
Community services	59,268	50,109	9,159
Total Expenditures	<u>94,268</u>	<u>80,219</u>	<u>14,049</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(33,468)</u>	<u>(21,435)</u>	<u>12,033</u>
Other Financing Sources (Uses)			
Transfers in	33,000	33,000	-
Transfers out	-	(6,500)	(6,500)
Total Other Financing Sources (Uses)	<u>33,000</u>	<u>26,500</u>	<u>(6,500)</u>
Net Change in Fund Balances	(468)	5,065	5,533
Fund Balances, Beginning of Year	<u>1,972</u>	<u>1,972</u>	<u>-</u>
Fund Balances, End of Year	<u><u>\$ 1,504</u></u>	<u><u>\$ 7,037</u></u>	<u><u>\$ 5,533</u></u>

AGENCY FUND

Student Activities—to account for the collection and disbursements of monies used by the school activity clubs and groups.

COLDWATER COMMUNITY SCHOOLS
Student Activities Agency Fund
Statement of Changes in Assets and Liabilities
For the year ended June 30, 2013

	<u>Balances July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances June 30, 2013</u>
Assets				
Cash equivalents, deposits and investments	\$ 233,028	\$ 656,674	\$ 667,439	\$ 222,263
Accounts receivable	-	6,302	-	6,302
Total Assets	<u>\$ 233,028</u>	<u>\$ 662,976</u>	<u>\$ 667,439</u>	<u>\$ 228,565</u>
Liabilities				
Accounts payable	\$ 14,289	\$ 305,634	\$ 311,893	\$ 8,030
Due to other funds	2,317	42,037	41,784	2,570
Due to student groups	216,422	357,342	355,799	217,965
Total Liabilities	<u>\$ 233,028</u>	<u>\$ 705,013</u>	<u>\$ 709,476</u>	<u>\$ 228,565</u>

OTHER INFORMATION

COLDWATER COMMUNITY SCHOOLS
Schedule of Principal and Interest Payments
June 30, 2013

\$8,465,000 G/O Refunding Bonds
Dated September 29, 2005

Tax Year	Year Ended June 30	Interest Due November 1	Interest Due May 1	Interest Rate	May 1 Principal	Total Principal & Interest
2013	2014	\$ 135,800	\$ 135,800	4.00%	\$ 720,000	\$ 991,600
2014	2015	121,400	121,400	4.00%	740,000	982,800
2015	2016	106,600	106,600	4.00%	755,000	968,200
2016	2017	91,500	91,500	4.00%	795,000	978,000
2017	2018	75,600	75,600	4.00%	855,000	1,006,200
2018	2019	58,500	58,500	4.00%	925,000	1,042,000
2019	2020	40,000	40,000	4.00%	1,000,000	1,080,000
2020	2021	20,000	20,000	4.00%	1,000,000	1,040,000
		<u>\$ 649,400</u>	<u>\$ 649,400</u>		<u>\$ 6,790,000</u>	<u>\$ 8,088,800</u>

\$9,235,000 G/O Refunding Bonds
Dated February 8, 2007

Tax Year	Year Ended June 30	Interest Due November 1	Interest Due May 1	Interest Rate	May 1 Principal	Total Principal & Interest
2013	2014	\$ 141,125	\$ 141,125	4.00%	\$ 765,000	\$ 1,047,250
2014	2015	125,825	125,825	5.00%	790,000	1,041,650
2015	2016	106,075	106,075	5.00%	830,000	1,042,150
2016	2017	85,325	85,325	5.00%	865,000	1,035,650
2017	2018	63,700	63,700	4.00%	870,000	997,400
2018	2019	46,300	46,300	4.00%	860,000	952,600
2019	2020	29,100	29,100	4.00%	850,000	908,200
2020	2021	12,100	12,100	4.00%	605,000	629,200
		<u>\$ 609,550</u>	<u>\$ 609,550</u>		<u>\$ 6,435,000</u>	<u>\$ 7,654,100</u>

(Continued)

COLDWATER COMMUNITY SCHOOLS
Schedule of Principal and Interest Payments
June 30, 2013

\$2,070,000 G/O Refunding Bonds
Dated March 17, 2009

Tax Year	Year Ended June 30	Interest Due November 1	Interest Due May 1	Interest Rate	May 1 Principal	Total Principal & Interest
2013	2014	\$ 41,400	\$ 41,400	4.00%	-	\$ 82,800
2014	2015	41,400	41,400	4.00%	-	82,800
2015	2016	41,400	41,400	4.00%	-	82,800
2016	2017	41,400	41,400	4.00%	-	82,800
2017	2018	41,400	41,400	4.00%	-	82,800
2018	2019	41,400	41,400	4.00%	-	82,800
2019	2020	41,400	41,400	4.00%	-	82,800
2020	2021	41,400	41,400	4.00%	260,000	342,800
2021	2022	36,200	36,200	4.00%	910,000	982,400
2022	2023	18,000	18,000		900,000	936,000
		<u>\$ 385,400</u>	<u>\$ 385,400</u>		<u>\$ 2,070,000</u>	<u>\$ 2,840,800</u>

Installment Purchase Agreements
Dated June - August, 2012

Tax Year	Year Ended June 30	Interest Due	Interest Rate	Principal Due	Total Principal & Interest
2013	2014	\$ 53,430	1.25%	\$ 539,855	\$ 593,285
2014	2015	46,681	1.25%	546,607	593,288
2015	2016	39,849	1.25%	553,437	593,286
2016	2017	32,929	1.25%	560,355	593,284
2017	2018	25,925	1.25%	803,763	829,688
2018	2019	15,880	1.25%	418,203	434,083
2019	2020	10,652	1.25%	423,431	434,083
2020	2021	5,359	1.25%	428,724	434,083
		<u>\$ 230,705</u>		<u>\$ 4,274,375</u>	<u>\$ 4,505,080</u>

RECEIVED

By Gloria Suggitt at 12:59 pm, Nov 14, 2013

**COLDWATER
COMMUNITY SCHOOLS
Branch County, Michigan**

Additional Reports Required by
OMB Circular A-133

For the year ended June 30, 2013

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COLDWATER COMMUNITY SCHOOLS

For the year ended June 30, 2013

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Jerry W. Nichols, CPA
Daniel L. Carter, CPA
Richard L. Chrisman, CPA
Peggy A. Murphy, CPA
Phillip W. Saurman, CPA
Mitchell C. Burgers, CPA
Carla A. Grant, CPA
Thomas C. Prince, CPA

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

November 4, 2013

The Board of Education
Coldwater Community Schools
Mason County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coldwater Community Schools, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Coldwater Community Schools' basic financial statements, and have issued our report thereon dated November 4, 2013.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Purpose of this Report

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

Hungerford, Aldwin, Nichols & Carter, P.C.

Certified Public Accountants

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***INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133***

November 4, 2013

The Board of Education
Coldwater Community Schools
Mason County, Michigan

Report On Compliance For Each Major Federal Program

We have audited Coldwater Community Schools' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Coldwater Community Schools' major federal programs for the year ended June 30, 2013. Coldwater Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Coldwater Community Schools' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Coldwater Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Coldwater Community Schools' compliance.



Member

Opinion on Each Major Federal Program

In our opinion, Coldwater Community Schools complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report On Internal Control Over Compliance

Management of Coldwater Community Schools is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Coldwater Community Schools' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Coldwater Community Schools' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report On Schedule Of Expenditures Of Federal Awards Required By OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Coldwater Community Schools, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Coldwater Community Schools' basic financial statements. We issued our report thereon dated November 4, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Hungerford, Aldrin, Nichols & Bentley, P.C.

Certified Public Accountants

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COLDWATER COMMUNITY SCHOOLS

For the year ended June 30, 2013

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
U. S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title I Cluster:		
Title I:	84.010	
111530 1011		\$ -
111701 1112		-
121700 1112		17,897
131700 1213		11,340
131520 1213-1		9,000
121530 1112		918,907
131530 1213		<u>1,191,777</u>
Total Title I		<u>2,148,921</u>
Title I, ARRA:	84.389	
111535 1011		<u>17,617</u>
Total Title I Cluster		<u>2,166,538</u>
Title II A:	84.367	
120520 1112		193,993
130520 1213		<u>205,071</u>
Total Title II A		<u>399,064</u>
Title III:	84.365	
120570 1112 - Immigrant		51,781
120580 1112 - Limited English Proficient Students		109,527
130580 1213 - Limited English Proficient Students		<u>104,786</u>
Total Title III Limited English Proficient Students		<u>266,094</u>
Title VI B, Rural Education:	84.358	
120660 1112		61,630
130660 1213		<u>56,667</u>
Total Title VI B, Rural Education		<u>118,297</u>

See Notes to Schedule of Expenditures of Federal Awards.

Accrued (Deferred) Revenue At July 1, 2012	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2013
\$ -	\$ -	\$ (1,345)	\$ (1,345)	\$ -
-	-	4,770	4,770	-
431	13,044	-	431	-
-	-	4,973	-	4,973
-	-	9,000	-	9,000
100,357	806,210	-	100,357	-
-	-	1,080,367	586,051	494,316
100,788	819,254	1,097,765	690,264	508,289
(1,806)	209	-	(1,806)	-
98,982	819,463	1,097,765	688,458	508,289
8,963	153,353	-	8,963	-
-	-	147,105	89,152	57,953
8,963	153,353	147,105	98,115	57,953
(17,611) **	50,989	2,226	(15,385)	-
1,961	67,878	-	1,961	-
-	-	73,680	56,568	17,112
(15,650)	118,867	75,906	43,144	17,112
6,139	18,218	5,977	12,116	-
-	-	28,689	10,889	17,800
6,139	18,218	34,666	23,005	17,800

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

COLDWATER COMMUNITY SCHOOLS

For the year ended June 30, 2013

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Education Jobs Fund: 122545 1112	84.410	\$ 50,347
Adult Education ABE Instruction: 121130 121987 131120 135987 131130 131987 131190 131987	84.002	27,125 6,000 25,000 3,391
Total Adult Education ABE Instruction		<u>61,516</u>
Total Passed Through MDE		<u>3,061,856</u>
Total U.S. Department of Education		<u>3,061,856</u>
U.S. Department of Agriculture		
Passed through Michigan Department of Education (MDE):		
Nutrition Cluster:		
Non-Cash Assistance (U.S.D.A. Commodities): Entitlement Commodities	10.555	<u>105,558</u>
Cash Assistance:		
1112 Lunch Program	10.555	628,346
1213 Lunch Program		604,730
1112 Breakfast Program	10.553	157,722
1213 Breakfast Program		145,197
1112 Summer Food Program	10.559	16,322
1213 Summer Food Program		<u>12,890</u>
Total Cash Assistance		<u>1,565,207</u>

See Notes to Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue At July 1, 2012	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2013
\$ 7,911	\$ 5,037	\$ -	\$ 7,911	\$ -
5,320	27,125	-	5,320	-
-	-	6,000	6,000	-
-	-	25,000	-	25,000
-	-	1,023	-	1,023
5,320	27,125	32,023	11,320	26,023
111,665	1,142,063	1,387,465	871,953	627,177
111,665	1,142,063	1,387,465	871,953	627,177
-	-	105,558	105,558	-
31,395	-	-	31,395	-
-	-	604,730	574,645	30,085
7,946	-	-	7,946	-
-	-	145,197	137,940	7,257
5,905	-	-	5,905	-
-	-	12,890	9,004	3,886
45,246	-	762,817	766,835	41,228

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

COLDWATER COMMUNITY SCHOOLS

For the year ended June 30, 2013

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Approved Grant Award Amount
Total Nutrition Cluster		<u>\$ 1,670,765</u>
Child Care Food Program	10.558	<u>5,000</u>
Total U.S. Department of Agriculture		<u>1,675,765</u>
Total Federal Financial Assistance		<u><u>\$ 4,737,621</u></u>

** Prior year (2011-12) deferred revenue was recorded at \$17,118. This was due back to the State for 2011-12 audit findings. The district received notification from the State that an additional \$493 was to be paid back for indirect costs. Thus, the total the State deducted in 2012-13 was \$17,611.

See Notes to Schedule of Expenditures of Federal Awards

Accrued (Deferred) Revenue At July 1, 2012	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue At June 30, 2013
\$ 45,246	\$ -	\$ 868,375	\$ 872,393	\$ 41,228
89	-	5,000	5,089	-
45,335	-	873,375	877,482	41,228
<u>\$ 157,000</u>	<u>\$ 1,142,063</u>	<u>\$ 2,260,840</u>	<u>\$ 1,749,435</u>	<u>\$ 668,405</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

COLDWATER COMMUNITY SCHOOLS

For the year ended June 30, 2013

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Coldwater Community Schools under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of the States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Coldwater Community Schools, it is not intended to and does not present the financial position, changes in net position, or cash flows, as applicable, of Coldwater Community Schools.

Note B – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C – Grant Section Auditor Report

Management has utilized the MDE Cash Management System (CMS) Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.

Note D – Non-Cash Assistance

The amounts reported on the Recipient Entitlement Balance Report, or PAL Report, agree with the SEFA for USDA donated food commodities.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

COLDWATER COMMUNITY SCHOOLS
For the year ended June 30, 2013

Note E – Federal Income Reconciliation

	Grant Expenditures Per Schedule of Federal Financial Assistance	Federal Revenue Per Financial Statements	Difference
Title I Cluster	\$ 1,097,765	\$ 1,097,765	\$ -
Title IIA	147,105	147,105	-
Title III, Limited English Proficient Students	75,906	75,906	-
Title VI	34,666	34,666	-
Adult Education ABE Instruction	32,023	32,023	-
Nutrition Cluster	868,375	868,375	-
Child Care Food Program	5,000	5,000	-
	<u>\$ 2,260,840</u>	<u>\$ 2,260,840</u>	<u>\$ -</u>

PASS THROUGH AMOUNTS

COLDWATER COMMUNITY SCHOOLS

For the year ended June 30, 2013

Federal Grantor Pass Through Grantor Program Title Grant Number	Federal CFDA Number	Current Year Cash Transferred to Subrecipient
U. S. Department of Education		
Passed through Michigan Department of Education (MDE):		
Title III, Limited English Proficient Students:	84.365	
130580 1213		
Passed through to:		
Bronson Community Schools		<u>\$ 12,683</u>
Total Federal Financial Assistance Provided to Subrecipients		<u><u>\$ 12,683</u></u>

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

COLDWATER COMMUNITY SCHOOLS

For the year ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

_____ Yes X No

- Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

_____ Yes X No

_____ Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs audited:

Title I Cluster
84.010 Title I
84.389 ARRA Title I

Nutrition Cluster:
10.555 Non-cash Assistance
(USDA Commodities)
10.555 Lunch Program
10.553 Breakfast Program
10.559 Summer Food Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as a low-risk auditee?

_____ Yes X No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)

COLDWATER COMMUNITY SCHOOLS

For the year ended June 30, 2013

Section II - Financial Statements Audit Findings

There were no findings that are required to be reported under *Government Auditing Standards*.

Section III – Major Federal Award Programs Findings and Questioned Costs

Current Year Findings

There were no findings that are required to be reported under *Government Auditing Standards*

Prior Years Findings

2012-1 Cash Management

Finding Type: Material weakness and material noncompliance with laws and regulations.

Condition and Criteria: The District requested from the awarding agency, Michigan Department of Education, reimbursement for grant expenditures that were neither incurred nor expended, which resulted in the District receiving funding in excess of its cash needs.

Resolution: The finding has been resolved.

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Thomas C. Prince, CPA

November 4, 2013

The Board of Education
Coldwater Community Schools
Branch County, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Coldwater Community Schools for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 3, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Coldwater Community Schools are described in the notes to the financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

Management's estimate of the liability of the payout for the employee compensated absences upon their retirement is based on expected payout:

- We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the lives of capital assets:

- We evaluated the key factors and assumptions used to develop the estimated life span of the capital assets in determining that it is reasonable in relation to the financial statements taken as a whole. Certain amounts included in capital assets have been estimated by appraisers based on historical information for assets placed in service prior to implementation of GASB Statement No. 34.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

General Fund:

- \$185,157 to record August, 2013 employee insurance payable at June 30, 2013.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 4, 2013.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Information in Documents Containing Audited Financial Statements

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

Other Comments

The General Fund balance of the District decreased by \$269,261 to \$5,717,878 at June 30, 2013. This fund balance represents 23.4% of the District's 2013-14 initial expenditure budget, down from 23.9% at June 30, 2012. It is the policy of the Board of Education of Coldwater Community Schools to maintain a General Fund balance of at least 18% of subsequent year expenditures. This gives the District more stable operating funds during the year, helps avoid or reduce the necessity of borrowing for short-term cash flow purposes and acts as a buffer against the uncertainty of state aid revenues accruing to the District. In addition, employee benefit costs are expected to increase significantly in the next few years, which will require the use of fund balance reserves considering the expectation of small (or no) growth in state aid revenues.

Closing

This communication is intended solely for the use of the Coldwater Community Schools Board of Education and management and is not intended to be and should not be used by anyone other than these specified parties. We have furnished a copy of this letter to the Michigan Departments of Education and Treasury as an enclosure with the audit report as required by the State of Michigan.

Hungerford, Alderson, Nichols & Bentley, P.C.

Certified Public Accountants