

Vestaburg Community Schools

**Annual Financial Statements
and
Independent Auditors' Report**

June 30, 2014

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Vestaburg Community Schools
Members of the Board of Education and Administration
June 30, 2014

Members of the Board of Education

Lynn VanSickler – President

Ivan Palmer – Vice President

David Freeman – Treasurer

Bruce Keyes – Secretary

Thomas McNerney

Dan Ryckman

Mick Drumm

Administration

Brandon Hubbard – Superintendent

Bonnie Walker – Business Office Specialist



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Independent Auditors' Report

Management and the Board of Education
Vestaburg Community Schools

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vestaburg Community Schools, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vestaburg Community Schools, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters:

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 Vestaburg Community Schools' basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Prior Year Information

We have previously audited, in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, Vestaburg Community Schools' financial statements as of and for the year ended June 30, 2013, which are not presented with the accompanying financial statements. In our report dated September 26, 2013, we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vestaburg Community Schools' financial statements as a whole. The 2013 information in the comparative supplementary schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 financial statements. The information has been subjected to the auditing procedures applied in the audit of those financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 information in the comparative supplementary schedules is fairly stated in all material respects in relation to the financial statements from which they have been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2014 on our consideration of Vestaburg Community Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Vestaburg Community Schools' internal control over financial reporting and compliance.

Yeo & Yeo, P.C.

Alma, MI
September 11, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Vestaburg Community Schools
Management's Discussion and Analysis
June 30, 2014

This section of the annual financial report presents management's discussion and analysis of Vestaburg Community School District's (hereon referred to as "the District") performance during the fiscal year ending June 30, 2014. Please read this along with the financial statements of the District.

Financial Highlights

- The liabilities of the District exceeded its assets at the close of the June 30, 2014 fiscal year by \$5,492,487 (net position). Of this amount, \$375,069 (unrestricted net position) may be used to meet the government's ongoing obligations for District programs.
- The General Fund received \$5,385,535 in revenues and had \$5,812,615 in expenditures. The General Fund's fund balance decreased to \$576,750.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$223,191 or 3.84% of total General Fund expenditures. The assigned fund balance for the General Fund was \$345,090 or 5.94% of total General Fund expenditures.
- The District's total debt decreased by \$157,426 during the current year due to principal payments made on bonds and the installment note.

Annual Report

The annual report consists of our Management's Discussion and Analysis, a series of financial statements, notes to those statements, and supplementary information. The financial statements (government-wide financial statements) provide information about the activities of the District as a whole. There are two District-wide statements: The Statement of Net Position and the Statement of Activities. They present a year-end cumulative view and a longer-term view of the District's finances. All funds, long-term debt and capital assets are combined. The Fund Financial Statements (governmental fund statements) provide more detail showing the year's activity by fund. They also show the amount available to finance future programs.

Vestaburg Community Schools
Management's Discussion and Analysis
June 30, 2014

Government-wide Financial Statements

The Government-wide Financial Statements appear first in the financial statements. They present information on the District as a whole. They show net position and a statement of activities for the year. These statements include all assets and liabilities using the full accrual basis of accounting, similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account.

Net position, the difference between assets and liabilities, is one way of measuring the financial health of the District. In the statement of activities, revenue less expense results in an increase or decrease in the net position. Increases or decreases in net position, over time, affect the financial health of the District. When analyzed together, the two statements help the reader determine whether the District is financially stronger or weaker as a result of the year's activities. However, the goal of the District is to provide quality education and a safe environment, not to make a profit.

The statement of activities covers all of the District's services, including instruction, supporting services, food service, athletics, and community services. Property taxes, unrestricted State Aid, and State and Federal grants finance most of these activities. The government-wide financial statements can be found on pages 4-1 to 4-2 of this report.

Fund Financial Statements

The Fund Financial Statements focus on individual parts of the District, by reporting the District's operation in more detail than the district-wide statements provide. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives (i.e., Food Service). Many of the other funds are created to help control and manage money for a particular purpose, or to meet legal responsibilities for certain taxes, grants, and other money. The governmental funds of the District focus on showing how money flows into and out of funds, and the balances left at year-end. They provide a detailed, short-term view of the operations and services of the District. An accounting method called "modified accrual accounting" is used in fund accounting. This method measures cash and all other financial assets that can readily be converted to cash.

The fund statements are formatted to comply with the legal requirement of the Michigan Department of Education's Public School Accounting Manual. In the State of Michigan, the District's major instructional and instructional support activities are reported in their relevant funds. The funds used by the District include General Fund, Special Revenue Funds for food service and Debt Service Funds for bonded debt. The governmental fund financial statements can be found on pages 4-3 and 4-5 of this report.

Vestaburg Community Schools
Management's Discussion and Analysis
June 30, 2014

Agency and Trust Accounts

Vestaburg Community School District is the trustee, or fiduciary, for its student activity and scholarship funds established for the benefit of our students. These fiduciary activities are reported in a separate statement of assets and liabilities. They are excluded from the other financial statements because the District may not use the assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The fiduciary fund financial statement can be found on page 4-8 of this report.

Notes to the financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 4-9 to 4-21 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 6-1 and 6-2 of this report.

Vestaburg Community Schools
Management's Discussion and Analysis
June 30, 2014

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities exceeded assets by \$5,492,487 at the end of the June 30, 2014 fiscal year.

Summary of Statement of Net Position

	<u>2013-2014</u>	<u>2012-2013</u>
Assets		
Current assets	\$ 1,835,727	\$ 2,453,354
Capital assets, net	<u>7,304,203</u>	<u>7,785,291</u>
Total assets	<u>9,139,930</u>	<u>10,238,645</u>
Liabilities		
Current liabilities	1,328,280	1,537,923
Long-term liabilities	<u>13,304,137</u>	<u>13,461,563</u>
Total liabilities	<u>14,632,417</u>	<u>14,999,486</u>
Net Position		
Net investment in capital assets (deficit)	(5,999,934)	(5,676,272)
Restricted for debt service		71,616
Restricted for food service	132,378	120,180
Unrestricted	<u>375,069</u>	<u>723,635</u>
Total net position (deficit)	<u>\$ (5,492,487)</u>	<u>\$ (4,760,841)</u>

A substantial portion of the District's assets (79.92%) reflects its investment in capital assets (i.e., land, buildings, vehicles, and equipment), less accumulated depreciation. The District uses these capital assets to provide services to the students; consequently, these assets are not available for future spending. Of the District's assets, 9.66% are held in cash. The largest portion is in the general fund, to fund the yearly operations of the district. The District's net investment in capital assets is reported net of related debt; it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Vestaburg Community Schools
Management's Discussion and Analysis
June 30, 2014

Long-term liabilities include general obligation bonds used to finance acquisition of capital assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported to show legal constraints, which limit use of some of the assets.

Net position represents the accumulated results of all past years' activities. This amount will be affected by the year-to-year combined operations. The summary of this year's activity for the District as a whole is reported below. The District's net position decreased by \$731,646 during the current fiscal year. This decrease largely reflects the degree to which ongoing expenses exceeded ongoing revenues.

Summary of Statement of Activities	<u>2013-2014</u>	<u>2012-2013</u>
Revenue		
Program revenue		
Charges for services	\$ 169,860	\$ 165,661
Grants and categoricals	1,375,894	1,322,370
General revenue		
Property taxes	999,780	987,916
State foundation allowance	3,870,426	4,410,333
Other	<u>99,153</u>	<u>95,708</u>
Total revenue	<u>6,515,113</u>	<u>6,981,988</u>
Function/Program expenses		
Instruction	3,875,099	3,780,077
Supporting services	2,323,347	2,450,126
Food service	259,689	260,356
Community Services	1,318	1,950
Interest on long-term debt	<u>787,306</u>	<u>787,948</u>
Total expenses	<u>7,246,759</u>	<u>7,280,457</u>
Decrease in net position	<u>\$ (731,646)</u>	<u>\$ (298,469)</u>

The change in net position differs from the change in fund balance because of different accounting requirements. A reconciliation appears later on page 4-7.

Vestaburg Community Schools
Management's Discussion and Analysis
June 30, 2014

Summary of Fund Financial Statements

As noted earlier, the District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the District is being accountable for the resources taxpayers and others provide to it, and may provide more insight into the District's overall financial health.

The combined governmental fund balance of \$782,186 decreased by \$345,953 from last year. The General Fund, which is the primary operating fund, decreased by \$359,593.

The District adopts an annual appropriated budget for its General and Special Revenue Funds. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with that budget.

The special revenue fund balance, which includes Food Service, increased \$12,198. The fund balance in Food Service at June 30, 2014, was \$132,378.

The Debt Service Funds show a fund balance of \$73,058.

General Fund Budget

By law, the District must establish an original budget in June, with a beginning fiscal date of July 1, for the General Fund and Special Revenue Funds. Budgets are revised twice a year. Approximately 71.17% of the District's revenue comes from the State through a Foundation Allowance and Categoricals (specific program grants). The State Foundation Allowance is based on student enrollment and an amount per pupil designated by the State. Therefore, the budget is primarily based on an estimate of the student population including the following September count, the per-pupil amount set by the State, and an estimate of the categorical amounts that will be approved by the State.

State law requires that budgets be amended to ensure that expenditures do not exceed appropriations. Original and final budgets, as well as actual amounts paid and received, are included in the basic financial statements.

- The General Fund received \$5,385,535 in revenues which was \$3,120 over the final budget.
- The General Fund had \$5,812,615 in expenditures which was \$1,920 less than budgeted. The actual General Fund expenditures were within .03% of the final budget amounts.

Vestaburg Community Schools
Management's Discussion and Analysis
June 30, 2014

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$223,191, and assigned fund balance for the General Fund was \$345,090.

Capital Assets

As of June 30, 2014, the District had \$7,304,203 in capital assets including land, buildings, buses, vehicles, musical instruments, property and technology.

	Capital Assets (Net of depreciation)	
	<u>2013-2014</u>	<u>2012-2013</u>
Land	75,000	75,000
Buildings	9,209,452	9,209,452
Vehicles	611,762	657,939
Site Improvements	921,455	921,455
Equipment – Other	<u>3,074,793</u>	<u>3,074,793</u>
Subtotal	13,892,462	13,938,639
Less accumulated dep	<u>(6,588,259)</u>	<u>(6,153,348)</u>
Net capital assets	<u>\$ 7,304,203</u>	<u>\$ 7,785,291</u>

Additional information of the District's capital assets can be found on 4-15 in the notes to the financial statements.

**Vestaburg Community Schools
Management's Discussion and Analysis
June 30, 2014**

Long-term Debt

The long-term obligations for the District decreased from \$13,461,563 at the end of 2012-2013 to \$13,304,137 at the end of 2013-2014. The total decrease includes the payment of debt service requirements for the government obligation bonds and the installment note.

Additional information on the District's long-term debt can be found on note 4-16 in the notes to financial statements.

Economic Factors and Next Year's Budget and Rates

Since most of the District's revenue is derived from the per pupil foundation allowance, student enrollment as reported in the blended count is one of the key factors in forecasting revenue. Once the final student count is known in late October, State law requires the District to amend the budget if actual revenues will vary significantly from those originally appropriated. Under State law, the District cannot assess additional property tax revenue for general operations.

The State periodically holds a revenue-estimating conference. Based on the results of the most recent conference, the State estimates funds sufficient to maintain the per pupil foundation this year will bring the per pupil amount to \$7,252 for the 2014-15 school year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances, and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Bonnie Walker, Vestaburg Community School District, 7188 Avenue B, Vestaburg, MI 48891.

BASIC FINANCIAL STATEMENTS

Vestaburg Community Schools
Statement of Net Position
June 30, 2014

	Governmental Activities
Assets	
Cash	\$ 883,245
Due from other governmental units	941,090
Inventory	11,392
Capital assets not being depreciated	75,000
Capital assets - net of accumulated depreciation	7,229,203
Total assets	9,139,930
 Liabilities	
Accounts payable	85,965
State aid anticipation note payable	485,010
Accrued expenditures	474,605
Accrued salaries payable	280,271
Unearned revenue	2,429
Noncurrent liabilities	
Due within one year	524,595
Due in more than one year	12,779,542
Total liabilities	14,632,417
 Net Position	
Net investment in capital assets (deficit)	(5,999,934)
Restricted for:	
Food service	132,378
Unrestricted	375,069
Total net position (deficit)	\$ (5,492,487)

See Accompanying Notes to Financial Statements

Vestaburg Community Schools
Statement of Activities
For the Year Ended June 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Functions/Programs					
Governmental activities					
Instruction	\$ 3,875,099	\$ 4,793	\$ 990,193	\$ -	\$ (2,880,113)
Supporting services	2,323,347	35,745	-	187,461	(2,100,141)
Food services	259,689	65,919	198,240	-	4,470
Community services	1,318	63,403	-	-	62,085
Interest on long-term debt	787,306	-	-	-	(787,306)
	<u>\$ 7,246,759</u>	<u>\$ 169,860</u>	<u>\$ 1,188,433</u>	<u>\$ 187,461</u>	<u>(5,701,005)</u>
General revenues					
Property taxes, levied for general purposes					400,632
Property taxes, levied for debt service					599,148
State aid - unrestricted					3,870,426
Interest and investment earnings					2,577
Other					29,089
Extraordinary item, insurance recoveries					67,487
					<u>4,969,359</u>
Change in net position					(731,646)
Net position - beginning (deficit)					<u>(4,760,841)</u>
Net position - ending (deficit)					<u>\$ (5,492,487)</u>

See Accompanying Notes to Financial Statements

Vestaburg Community Schools
Governmental Funds
Balance Sheet
June 30, 2014

	General Fund	2009 Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash	\$ 678,735	\$ 45,382	\$ 159,128	\$ 883,245
Due from other governmental units	933,197	-	7,893	941,090
Inventory	8,469	-	2,923	11,392
Total assets	\$ 1,620,401	\$ 45,382	\$ 169,944	\$ 1,835,727
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 83,283	\$ -	\$ 2,682	\$ 85,965
State aid anticipation note payable	485,010	-	-	485,010
Accrued expenditures	198,587	-	1,279	199,866
Accrued salaries payable	276,771	-	3,500	280,271
Unearned revenue	-	-	2,429	2,429
Total liabilities	1,043,651	-	9,890	1,053,541
Fund Balance				
Non-spendable				
Inventory	\$ 8,469	\$ -	\$ 2,923	\$ 11,392
Restricted for:				
Food service	-	-	129,455	129,455
Debt service	-	45,382	27,676	73,058
Assigned				
Future budget deficit	345,090	-	-	345,090
Unassigned	223,191	-	-	223,191
Total fund balance	576,750	45,382	160,054	782,186
Total liabilities and fund balance	\$ 1,620,401	\$ 45,382	\$ 169,944	\$ 1,835,727

See Accompanying Notes to Financial Statements

Vestaburg Community Schools
Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2014

Total fund balances for governmental funds	\$ 782,186
Total net position for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets not being depreciated	75,000
Capital assets - net of accumulated depreciation	7,229,203
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(274,739)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	
Bonds payable	(11,318,800)
School bond loan payable	(1,966,003)
Other loans payable and liabilities	<u>(19,334)</u>
Net position of governmental activities	<u><u>\$ (5,492,487)</u></u>

Vestaburg Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014

	General Fund	2009 Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 454,799	\$ 376,708	\$ 290,279	\$ 1,121,786
State sources	4,579,614	-	9,403	4,589,017
Federal sources	291,046	187,461	198,240	676,747
Interdistrict sources	60,076	-	-	60,076
Total revenues	5,385,535	564,169	497,922	6,447,626
Expenditures				
Current				
Education				
Instruction	3,488,553	-	-	3,488,553
Supporting services	2,097,572	-	-	2,097,572
Food services	-	-	259,689	259,689
Community services	1,318	-	-	1,318
Intergovernmental payments	114,077	-	-	114,077
Capital outlay	13,697	-	3,459	17,156
Debt service				
Principal	69,454	250,000	205,000	524,454
Interest and other expenditures	27,944	586,637	108,246	722,827
Total expenditures	5,812,615	836,637	576,394	7,225,646
Deficiency of revenues over expenditures	(427,080)	(272,468)	(78,472)	(778,020)

See Accompanying Notes to Financial Statements

Vestaburg Community Schools
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014

	General Fund	2009 Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Other Financing Sources				
Proceeds from school bond loan fund	\$ -	\$ 273,844	\$ 90,736	\$ 364,580
Insurance recoveries	67,487	-	-	67,487
Total other financing sources	67,487	273,844	90,736	432,067
Net change in fund balance	(359,593)	1,376	12,264	(345,953)
Fund balance - beginning	936,343	44,006	147,790	1,128,139
Fund balance - ending	<u>\$ 576,750</u>	<u>\$ 45,382</u>	<u>\$ 160,054</u>	<u>\$ 782,186</u>

See Accompanying Notes to Financial Statements

Vestaburg 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, 2014

Net change in fund balances - Total governmental funds	\$ (345,953)
<p>Total change in net position reported for governmental activities in the statement of activities is different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Depreciation expense	(481,088)
<p>Expenses are recorded when incurred in the statement of activities.</p>	
Interest	(62,031)
<p>Bond and note proceeds and capital leases are reported as financing sources in the governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.</p>	
Debt issued	(364,580)
Repayments of long-term debt	524,454
Amortization of bond discount	(2,448)
	(712,574)
Change in net position of governmental activities	<u><u>\$ (731,646)</u></u>

Vestaburg Community Schools
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2014

	<u>Agency Funds</u>
Assets	
Cash	\$ 34,346
Investments	<u>54,255</u>
 Total assets	 <u><u>\$ 88,601</u></u>
 Liabilities	
Due to agency fund activities	 <u><u>\$ 88,601</u></u>

See Accompanying Notes to Financial Statements

Vestaburg Community Schools
Notes to Financial Statements
June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate component units of the School District. The School District has no component units.

District-wide Financial Statements

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

The statement of net position presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This

method recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net position are reported in three parts (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position.

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

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). In creating the district-wide financial statements the School District has eliminated interfund transactions.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

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

2009 Debt Service Fund – Debt Service Funds are used to record tax, interest, and other revenue and the payment of interest, principal, and other expenditures on long-term debt.

Additionally, the School District reports the following fund types:

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

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

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

Assets, Liabilities and Net Position or Equity

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

Vestaburg Community Schools
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reporting fund. These balances are paid back as cash flow permits.

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

Property taxes collected are based upon the approved tax rate for the year of levy. For the fiscal year ended June 30, 2014, the rates are as follows per \$1,000 of assessed value.

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

School property taxes are assessed and collected in accordance with enabling state legislation by cities and townships within the School District's boundaries. Approximately 98% of the School District's tax roll lies within Richland Township, Ferris Township and Fremont Township.

The property tax levy runs from July 1 to June 30. Property taxes become a lien on the first day of the levy year and are due on or before February 28. Collections are forwarded to the School District as collected by the assessing municipalities. Real property taxes uncollected as of March 1 are purchased by the County of Montcalm and remitted to the School District by May 15.

Investments – Investments are stated at fair value based on a quoted market price. Certificates of deposit are stated at cost which approximates fair value.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased.

Certain payments to vendors reflect costs applicable to future fiscal years. For such payments in governmental funds the School District follows the consumption method, and they therefore are capitalized as prepaid items in both district-wide and fund financial statements.

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

Buildings and additions	30-50 years
Site improvements	10-20 years
Equipment and furniture	5-20 years
Buses and other vehicles	8-15 years

Vestaburg Community Schools
Notes to Financial Statements
June 30, 2014

Deferred outflows of resources – A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period. There were no deferred outflows of resources for the current year.

Compensated Absences – District employees are not allowed to accumulate or carryover leave time and therefore, no liability is required in the district-wide financial statements.

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

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

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

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

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

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

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

Assigned – amounts intended to be used for specific purposes, as determined by the board of education, the budget or finance committee, or the Superintendent. The board of education has granted the finance committee and Superintendent the authority to assign funds. Residual amounts in governmental funds other than the general fund are automatically assigned by their nature.

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

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

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as well as deferred inflows and deferred outflows of resources at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Eliminations and Reclassifications

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

Upcoming Accounting and Reporting Changes

The Government Accounting Standards Board has issued *Statement 68, Accounting and Financial Reporting for Pensions*, and *Statement 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net

pension liability will be recorded on the government-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. The District is evaluating the impact these standards will have on its financial reporting. Statement 68 and 71 is effective for the year ending June 30, 2015.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

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

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

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

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

Excess of Expenditures over Appropriations

The School District had the following expenditure budget variances.

Function	Final Budget	Amount of Expenditures	Budget Variances
General Fund			
Basic programs	\$ 2,895,487	\$ 2,897,836	\$ 2,349
Operations and maintenance	490,340	511,386	21,046
Central	96,663	96,701	38
Intergovernmental payments	111,753	114,077	2,324
Debt - interest and fiscal charges	27,913	27,944	31

Net Asset Deficit

The School District has an accumulated net asset deficit for the District-wide Financial Statements in the amount of \$5,491,198.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash	\$ 883,245	\$ 34,346	\$ 917,591
Investments	-	54,255	54,255
	<u>\$ 883,245</u>	<u>\$ 88,601</u>	<u>\$ 971,846</u>

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

Deposits (checking, savings accounts, money markets, certificates of deposit)	\$ 917,091
Investments in securities, mutual funds, and similar vehicles	54,255
Petty cash and cash on hand	<u>500</u>
Total	<u><u>\$ 971,846</u></u>

As of year end, the District had the following investments:

Investment	Fair Value	Maturities	Rating	Rating Organization
MI LAF + MAX Class	<u>\$ 54,255</u>	6 months	AAAm	Standard and Poor's

Interest rate risk – The District does not have a formal investment policy to manage its exposure to fair value losses arising from changes in interest rates.

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Credit risk – State statutes authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District has no investment policy that would further limit its investment choices.

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

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of year-end, \$653,791 of the District's bank balance of \$976,777 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of year end, none of the district's investments were exposed to custodial credit risk.

NOTE 4 - CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets being depreciated				
Buildings and additions	9,209,452	-	-	9,209,452
Site improvements	921,455	-	-	921,455
Equipment and furniture	3,074,793	-	-	3,074,793
Buses and other vehicles	657,939	-	46,177	611,762
Total capital assets being depreciated	13,863,639	-	46,177	13,817,462
Less accumulated depreciation for				
Buildings and additions	(3,135,300)	(271,182)	-	(3,406,482)
Site improvements	(92,146)	(46,073)	-	(138,219)
Equipment and furniture	(2,356,397)	(137,497)	-	(2,493,894)
Buses and other vehicles	(569,505)	(26,336)	(46,177)	(549,664)
Total accumulated depreciation	(6,153,348)	(481,088)	(46,177)	(6,588,259)
Net capital assets being depreciated	7,710,291	(481,088)	-	7,229,203
Net capital assets	\$ 7,785,291	\$ (481,088)	\$ -	\$ 7,304,203

Vestaburg Community Schools
Notes to Financial Statements
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Depreciation expense was charged to activities of the School District as follows:

Governmental activities	
Instruction	\$ 300,441
Supporting services	<u>180,647</u>
 Total governmental activities	 <u><u>\$ 481,088</u></u>

NOTE 5 - UNEARNED REVENUE

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

Other - student lunch deposits	<u>\$ 2,429</u>
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NOTE 6 - STATE AID ANTICIPATION NOTE

The School District issues state aid anticipation notes in advance of state aid collections, depositing the proceeds in the General Fund. These notes are necessary because the School District receives state aid from October through the following August for its fiscal year ending June 30th. Short-term debt activity for the year was as follows:

	Beginning Balance	Proceeds	Repayments	Ending Balance
State aid anticipation note	<u>\$ 570,915</u>	<u>\$ 700,000</u>	<u>\$ 785,905</u>	<u>\$ 485,010</u>

The state aid anticipation note agreement includes an irrevocable set-aside of \$214,990 at year end that is considered defeased debt and not included in the ending balance.

NOTE 7 - LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include claims and judgments, termination benefits, and certain risk liabilities.

Long-term obligation activity is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Government obligation bonds	\$ 11,895,000	\$ -	\$ 515,000	\$ 11,380,000	\$ 515,000
School Bond Loan	1,601,423	364,580	-	1,966,003	-
Installment Note	28,788	-	9,454	19,334	9,595
Discount on bonds	(63,648)	-	(2,448)	(61,200)	-
 Total	 <u>\$ 13,461,563</u>	 <u>\$ 364,580</u>	 <u>\$ 522,006</u>	 <u>\$ 13,304,137</u>	 <u>\$ 524,595</u>

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

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

2005 refunding bond due in annual installments of \$205,000 through May 1, 2026, interest at 3.75% to 4.25%	\$ 2,460,000
2008 energy bond due in annual installments of \$60,000 to \$75,000 through May 1, 2019, interest at 4.6% to 5.2%	340,000
2009 school building and site bonds due in annual installments of \$250,000 to \$380,000 through May 1, 2039, interest at 4.45% to 7.32%	<u>8,580,000</u>
Total general obligation bonded debt	<u>\$ 11,380,000</u>

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

	Principal	Interest	Total
Year Ending June 30,			
2015	\$ 515,000	\$ 693,395	\$ 1,208,395
2016	540,000	371,823	911,823
2018	565,000	646,845	1,211,845
2018	590,000	619,527	1,209,527
2019	610,000	590,120	1,200,120
2020-2024	2,695,000	2,500,498	5,195,498
2025-2029	2,150,000	1,747,350	3,897,350
2030-2034	1,830,000	1,093,608	2,923,608
2035-2039	<u>1,885,000</u>	<u>415,776</u>	<u>2,300,776</u>
Total	<u>\$11,380,000</u>	<u>\$ 8,678,942</u>	<u>\$20,058,942</u>

The general obligation bonds are payable from the Debt Service Funds. As of year end, the funds had a balance of \$73,058 to pay this debt. Future debt and interest will be payable from future tax levies.

State School Bond Loan

The State School Bond Loan consists of a borrowing agreement with the State of Michigan for the purpose of meeting the financing of current debt maturities on the School District's bond issues. Since 2005, the School District issued bonds to renovate School District facilities. The bond election, as passed by the voters, specified that the School District debt millage would not exceed the pre-bond voted millage of 7 mills. Since the monies generated by the 7 mills are presently not sufficient to cover the entire debt service requirements of the School District, it has been necessary for the School District to borrow a total of \$1,966,003 to meet debt service requirements. Management of the School District anticipates that as bonds mature, the revenues provided by the debt millage will be sufficient to satisfy the future debt service requirements of the bonds and all necessary borrowing from the State School Bond Loan Fund. During the year, the School District borrowed \$364,580 and had an outstanding balance at year of \$1,966,003, from the State School Bond Loan Fund. The School District has agreed to repay the loan amount with interest at rates and at times to be determined by the State Treasurer.

Installment Note

The School District obtained an installment note to purchase a vehicle. The interest rate is 1.49% and the note matures March 28, 2016. The outstanding balance at June 30, 2014 was \$19,334.

Vestaburg Community Schools
Notes to Financial Statements
June 30, 2014

Future principal and interest requirements for the installment note are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 9,595	\$ 288	\$ 9,883
2016	9,739	145	9,884
Total	<u>\$ 19,334</u>	<u>\$ 433</u>	<u>\$ 19,767</u>

Interest expenditures for the fiscal year in the General Fund and Debt Service Funds were \$27,944 and \$694,883, respectively.

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) and certain medical benefits provided to employees. The School District has purchased commercial insurance for general liability, property and casualty and health and vision claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The School District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method, the School District must reimburse the Employment Commission for all benefits charged against the School District. The School District had \$8,952 of unemployment compensation expense for the year. No provision has been made for possible future claims in the district wide statements.

NOTE 9 - PENSION PLANS AND POST EMPLOYMENT BENEFITS

Plan Description

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

The plans provide retirement, survivor and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and their beneficiaries who elect to receive the benefits.

MPERS operates within the Michigan Department of Technology, Management and Budget, Office of Retirement Services, under the authority established by the Michigan Public School Employees Retirement Act (Retirement Act), as enacted and amended by the Michigan Legislature. The Michigan Legislature has the authority to amend the Retirement Act. The Michigan Department of Technology, Management and Budget issues a publicly-available financial report that includes financial statements and required supplementary information for MPERS. The report provides information for the plans as a whole and information helpful for understanding the scale of the information presented relative to the School. That report may be obtained by writing Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909-7671, calling 800-381-5111 or on the web at <http://www.michigan.gov/orsschools>. Full details on each of these plans are available on the MPERS website.

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June 30, 2014

Funding Policy

Employer contributions to MPSERS result from the applying rules and applicable changes of the School Finance Reform Act. Accordingly, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. Depending on the plan selected, a plan member's contribution may range from 0% to 7% of their gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

For the period July 1, 2013 through September 30, 2013, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP	Pension Plus	Pension Plus PHF (first worked September 4, 2012 or later)	Pension Plus to DC with PHF (first worked September 4, 2012 or later)	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Defined contribution plan employer contributions:							
DC	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
PHF	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

For the period October 1, 2013 through June 30, 2014, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP	Pension Plus	Pension Plus PHF (first worked September 4, 2012 or later)	Pension Plus to DC with PHF (first worked September 4, 2012 or later)	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Defined contribution plan employer contributions:							
DC	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
PHF	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%

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The School District's required and actual contributions to the plans for the years ended June 30, 2014, 2013, and 2012 were approximately \$518,289, \$443,353, and \$458,780, respectively. Contributions made by the participants of the plan for the year ended June 30, 2014 were \$228,675.

Post Employment Benefits

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

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

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

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

For the periods July 1, 2013 through September 30, 2013, and October 1, 2013 through June 30, 2014, the employer contribution rate ranged from 8.18% to 9.11% and 5.52% to 6.45%, respectively. See above two tables for rates.

The District's actual contributions match the required contributions for the years ended June 30, 2014, 2013, and 2012 and were approximately \$210,031, \$264,057, and \$238,137, respectively.

Unfunded Accrued Actuarial Liability

During the year ended June 30, 2014, the District had contributions in the amount of \$146,260 to the Michigan Public School Employee Retirement System (MPERS). This amount represents the additional employer contributions attributed to the unfunded accrued actuarial liability (UAAL) rate, which was approximately 4.56% for the year. These contributions are not included in the above tables.

NOTE 10 - CONTINGENT LIABILITIES

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

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Notes to Financial Statements
June 30, 2014

NOTE 11 - FEDERAL REVENUE

Federal revenue recorded in the School District's financial statements exceeded \$500,000, the threshold for a single audit, however, a portion of that revenue is in the form of a federal interest subsidy on the 2009 School Building and Site Bonds. Following is a reconciliation of the federal revenue to the expenditures of federal awards. Because the expenditure of federal awards does not exceed \$500,000, no single audit was obtained.

Federal revenue per the financial statements	\$ 676,747
Less: federal interest subsidy	<u>(187,461)</u>
Expenditures of federal awards	<u><u>\$ 489,286</u></u>

NOTE - 12 SUBSEQUENT EVENT

Subsequent to June 30, 2014, the School District has paid the balance of \$570,915 and accrued interest on the short-term state aid anticipation note borrowed in August 2013 and has subsequently borrowed \$900,000 in short-term state aid anticipation notes through the Michigan Municipal Bond Authority. Proceeds from the borrowing were distributed to the School District during August 2014.

REQUIRED SUPPLEMENTARY INFORMATION

Vestaburg Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Revenues				
Local sources	\$ 417,162	\$ 454,706	\$ 454,799	\$ 93
State sources	4,666,920	4,578,936	4,579,614	678
Federal sources	322,002	296,280	291,046	(5,234)
Interdistrict sources	34,000	52,493	60,076	7,583
Total revenues	5,440,084	5,382,415	5,385,535	3,120
Expenditures				
Instruction				
Basic programs	2,932,297	2,895,487	2,897,836	2,349
Added needs	573,979	594,124	590,717	(3,407)
Supporting services				
Pupil	323,713	265,410	264,776	(634)
Instructional staff	49,420	59,909	57,609	(2,300)
General administration	277,524	249,555	246,695	(2,860)
School administration	338,700	389,977	388,283	(1,694)
Business	108,323	95,508	93,007	(2,501)
Operations and maintenance	505,915	490,340	511,386	21,046
Pupil transportation services	312,826	307,842	295,200	(12,642)
Central	91,794	96,663	96,701	38
Athletic activities	150,535	144,758	143,915	(843)
Community services	-	1,318	1,318	-
Intergovernmental payments	90,000	111,753	114,077	2,324
Capital outlay	38,000	14,490	13,697	(793)

Vestaburg Community Schools
Required Supplementary Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Over (Under) Budget
	Original	Final		
Debt service				
Principal	\$ 60,000	\$ 69,488	\$ 69,454	\$ (34)
Interest and fiscal charges	33,000	27,913	27,944	31
Total expenditures	5,886,026	5,814,535	5,812,615	(1,920)
Deficiency of revenues over expenditures	(445,942)	(432,120)	(427,080)	5,040
Other Financing Sources				
Insurance recoveries	-	46,211	67,487	21,276
Net change in fund balance	(445,942)	(385,909)	(359,593)	26,316
Fund balance - beginning	936,343	936,343	936,343	-
Fund balance - ending	<u>\$ 490,401</u>	<u>\$ 550,434</u>	<u>\$ 576,750</u>	<u>\$ 26,316</u>

OTHER SUPPLEMENTARY INFORMATION

Vestaburg Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2014

	Special Revenue Fund <u>Food Service</u>	Debt Service Fund <u>2005 Debt Retirement</u>	Total Nonmajor Governmental Funds <u> </u>
Assets			
Cash	\$ 131,452	\$ 27,676	\$ 159,128
Due from other governmental units	7,893	-	7,893
Inventory	2,923	-	2,923
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 142,268</u>	<u>\$ 27,676</u>	<u>\$ 169,944</u>
Liabilities and Fund Balance			
Liabilities			
Accounts payable	\$ 2,682	\$ -	\$ 2,682
Accrued expenditures	1,279	-	1,279
Accrued salaries payable	3,500	-	3,500
Unearned revenue	2,429	-	2,429
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>9,890</u>	<u>-</u>	<u>9,890</u>
Fund Balance			
Non-spendable			
Inventory	2,923	-	2,923
Restricted for:			
Food service	129,455	-	129,455
Debt service	-	27,676	27,676
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>132,378</u>	<u>27,676</u>	<u>160,054</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 142,268</u>	<u>\$ 27,676</u>	<u>\$ 169,944</u>

Vestaburg Community Schools
Other Supplementary Information
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014

	Special Revenue Fund <u>Food Service</u>	Debt Service Fund <u>2005 Debt Retirement</u>	Total Nonmajor Governmental Funds <u></u>
Revenues			
Local sources	\$ 67,703	\$ 222,576	\$ 290,279
State sources	9,403	-	9,403
Federal sources	198,240	-	198,240
	<u>275,346</u>	<u>222,576</u>	<u>497,922</u>
Expenditures			
Current			
Food services	259,689	-	259,689
Capital outlay	3,459	-	3,459
Debt service			
Principal	-	205,000	205,000
Interest and other expenditures	-	108,246	108,246
	<u>263,148</u>	<u>313,246</u>	<u>576,394</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures	<u>12,198</u>	<u>(90,670)</u>	<u>(78,472)</u>
Other Financing Sources			
Proceeds from school bond loan fund	-	90,736	90,736
Net change in fund balance	12,198	66	12,264
Fund balance - beginning	<u>120,180</u>	<u>27,610</u>	<u>147,790</u>
Fund balance - ending	<u>\$ 132,378</u>	<u>\$ 27,676</u>	<u>\$ 160,054</u>

Vestaburg Community Schools
Other Supplementary Information
General Fund
Comparative Balance Sheet
June 30, 2014

	2014	2013
Assets		
Cash	\$ 678,735	\$ 1,228,020
Due from other governmental units	933,197	1,016,076
Interest receivable	-	33
Inventory	8,469	8,469
	\$ 1,620,401	\$ 2,252,598
Liabilities and Fund Balance		
Liabilities		
Accounts payable	\$ 83,283	\$ 104,156
State aid anticipation note payable	485,010	570,915
Accrued expenditures	198,587	267,646
Accrued salaries payable	276,771	361,069
Unearned revenue	-	12,469
	1,043,651	1,316,255
Fund Balance		
Non-spendable		
Inventory	8,469	8,469
Assigned		
Future budget deficit	345,090	445,942
Unassigned	223,191	481,932
	576,750	936,343
Total fund balance	\$ 1,620,401	\$ 2,252,598
Total liabilities and fund balance	\$ 1,620,401	\$ 2,252,598

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Revenues Compared to Budget
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue from local sources				
Property tax levy	\$ 387,312	\$ 400,569	\$ 400,632	\$ 63
Earnings on investments	1,500	2,177	2,192	15
Student activities	28,000	35,620	35,480	(140)
Community service activities	-	4,793	4,793	-
Other local revenues	350	11,547	11,702	155
Total revenues from local sources	417,162	454,706	454,799	93
Revenues from state sources				
Grants - unrestricted	4,181,812	3,922,653	3,924,426	1,773
Grants - restricted	485,108	656,283	655,188	(1,095)
Total revenues from state sources	4,666,920	4,578,936	4,579,614	678
Revenues from federal sources				
Grants	322,002	296,280	291,046	(5,234)
Interdistrict sources				
Transportation	7,500	7,500	7,500	-
Other	26,500	44,993	52,576	7,583
Total interdistrict sources	34,000	52,493	60,076	7,583
Other financing sources				
Insurance recoveries	-	46,211	67,487	21,276
Total revenue and other financing sources	\$ 5,440,084	\$ 5,428,626	\$ 5,453,022	\$ 24,396

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - elementary				
Salaries	\$ 892,108	\$ 854,932	\$ 857,231	\$ 2,299
Employee benefits	558,961	506,888	510,582	3,694
Purchased services	46,900	36,916	35,999	(917)
Supplies and materials	65,365	40,406	40,750	344
Total elementary	<u>1,563,334</u>	<u>1,439,142</u>	<u>1,444,562</u>	<u>5,420</u>
Basic program - high school				
Salaries	727,886	770,214	769,988	(226)
Employee benefits	436,678	460,494	458,158	(2,336)
Purchased services	41,250	40,109	40,109	-
Supplies and materials	39,900	39,125	39,125	-
Other	750	1,635	1,636	1
Total high school	<u>1,246,464</u>	<u>1,311,577</u>	<u>1,309,016</u>	<u>(2,561)</u>
Basic program - pre-school				
Salaries	74,297	74,968	74,968	-
Employee benefits	45,244	47,151	46,774	(377)
Purchased services	-	1,458	1,458	-
Supplies and materials	-	6,783	6,649	(134)
Other	-	75	76	1
Total pre-school	<u>119,541</u>	<u>130,435</u>	<u>129,925</u>	<u>(510)</u>

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Basic program - summer school				
Salaries	\$ -	\$ 1,495	\$ 1,495	\$ -
Employee benefits	-	475	475	-
Supplies and materials	2,958	12,363	12,363	-
Total summer school	2,958	14,333	14,333	-
Added needs - special education				
Salaries	194,840	206,426	206,513	87
Employee benefits	134,954	139,322	138,071	(1,251)
Purchased services	4,400	19,944	19,647	(297)
Supplies and materials	8,000	687	702	15
Total special education	342,194	366,379	364,933	(1,446)
Added needs - compensatory education				
Salaries	144,809	134,634	133,658	(976)
Employee benefits	85,678	74,227	73,241	(986)
Purchased services	-	600	600	-
Supplies and materials	1,298	18,284	18,285	1
Total compensatory education	231,785	227,745	225,784	(1,961)
Pupil - guidance services				
Salaries	108,092	108,091	108,599	508
Employee benefits	73,196	72,743	72,149	(594)
Purchased services	500	205	205	-
Supplies and materials	650	1,203	894	(309)
Other	150	150	149	(1)
Total guidance services	182,588	182,392	181,996	(396)

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil - speech services				
Salaries	\$ 43,203	\$ 30,922	\$ 30,740	\$ (182)
Employee benefits	32,586	15,260	15,204	(56)
Total speech services	75,789	46,182	45,944	(238)
Pupil - social work services				
Salaries	35,573	-	-	-
Employee benefits	29,763	-	-	-
Purchased services	-	36,836	36,836	-
Total social work services	65,336	36,836	36,836	-
Instructional staff - improvement of education				
Salaries	7,125	5,580	5,580	-
Employee benefits	2,439	1,810	1,765	(45)
Purchased services	22,522	41,311	38,972	(2,339)
Total improvement of education	32,086	48,701	46,317	(2,384)
Instructional staff - educational media services				
Salaries	11,727	7,499	7,499	-
Employee benefits	5,307	3,376	3,461	85
Supplies and materials	300	333	332	(1)
Total educational media services	17,334	11,208	11,292	84

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
General administration - board of education				
Purchased services	\$ 47,900	\$ 40,694	\$ 38,991	\$ (1,703)
Supplies and materials	4,000	294	347	53
Other	8,600	4,173	4,712	539
Total board of education	<u>60,500</u>	<u>45,161</u>	<u>44,050</u>	<u>(1,111)</u>
General administration - executive administration				
Salaries	126,388	123,145	123,145	-
Employee benefits	78,636	73,857	72,108	(1,749)
Purchased services	2,000	1,975	1,975	-
Supplies and materials	8,000	3,177	3,177	-
Other	2,000	2,240	2,240	-
Total executive administration	<u>217,024</u>	<u>204,394</u>	<u>202,645</u>	<u>(1,749)</u>
School administration - office of the principal				
Salaries	209,756	248,395	247,144	(1,251)
Employee benefits	120,444	134,790	134,282	(508)
Purchased services	7,600	4,379	4,446	67
Supplies and materials	500	979	979	-
Other	400	1,434	1,432	(2)
Total office of the principal	<u>338,700</u>	<u>389,977</u>	<u>388,283</u>	<u>(1,694)</u>

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Business - fiscal services				
Salaries	\$ 38,028	\$ 38,028	\$ 38,028	\$ -
Employee benefits	32,395	35,645	33,113	(2,532)
Purchased services	2,350	2,367	2,378	11
Supplies and materials	950	970	990	20
Other	2,600	174	174	-
Total fiscal services	76,323	77,184	74,683	(2,501)
Business - other				
Purchased services	15,000	14,929	14,929	-
Other	17,000	3,395	3,395	-
Total other business	32,000	18,324	18,324	-
Operations and maintenance - operating building services				
Salaries	72,207	54,241	54,946	705
Employee benefits	49,808	38,959	41,400	2,441
Purchased services	323,500	358,621	377,530	18,909
Supplies and materials	56,000	35,443	34,439	(1,004)
Other	4,400	3,076	3,071	(5)
Total operating building services	505,915	490,340	511,386	21,046

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Pupil transportation services				
Salaries	\$ 148,984	\$ 140,918	\$ 141,091	\$ 173
Employee benefits	54,592	61,361	51,668	(9,693)
Purchased services	26,900	19,421	20,609	1,188
Supplies and materials	81,650	85,212	80,905	(4,307)
Other	700	930	927	(3)
Total transportation services	<u>312,826</u>	<u>307,842</u>	<u>295,200</u>	<u>(12,642)</u>
Central - staff/personnel services				
Employee benefits	5,000	-	-	-
Purchased services	594	2,235	2,344	109
Total staff/personnel services	<u>5,594</u>	<u>2,235</u>	<u>2,344</u>	<u>109</u>
Central - support services technology				
Purchased services	56,000	68,000	68,000	-
Supplies and materials	30,200	26,428	26,357	(71)
Total support services technology	<u>86,200</u>	<u>94,428</u>	<u>94,357</u>	<u>(71)</u>
Athletic activities				
Salaries	25,618	25,633	25,881	248
Employee benefits	18,317	16,582	16,584	2
Purchased services	66,800	66,445	66,445	-
Supplies and materials	26,300	21,056	21,056	-
Other	13,500	15,042	13,949	(1,093)
Total athletic activities	<u>150,535</u>	<u>144,758</u>	<u>143,915</u>	<u>(843)</u>

Vestaburg Community Schools
Other Supplementary Information
General Fund
Schedule of Expenditures Compared to Budget
For the Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Community services - community activities				
Supplies and materials	\$ -	\$ 1,318	\$ 1,318	\$ -
Intergovernmental payments				
Payments to other public schools	90,000	111,753	114,077	2,324
Capital outlay				
Operations and maintenance - operating building services	13,000	-	-	-
Central - support services technology	25,000	14,490	13,697	(793)
Total capital outlay	38,000	14,490	13,697	(793)
Debt service				
Principal	60,000	69,488	69,454	(34)
Interest and other expenditures	33,000	27,913	27,944	31
Total debt service	93,000	97,401	97,398	(3)
Total expenditures and financing uses	<u>\$ 5,886,026</u>	<u>\$ 5,814,535</u>	<u>\$ 5,812,615</u>	<u>\$ (1,920)</u>

Vestaburg Community Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2014

Year Ending June 30,	2005 Refunding Bond	2008 Energy Bond	2009 Building Bond	Total
2015	\$ 205,000	\$ 60,000	\$ 250,000	\$ 515,000
2016	205,000	65,000	270,000	540,000
2017	205,000	70,000	290,000	565,000
2018	205,000	70,000	315,000	590,000
2019	205,000	75,000	330,000	610,000
2020	205,000	-	330,000	535,000
2021	205,000	-	330,000	535,000
2022	205,000	-	335,000	540,000
2023	205,000	-	335,000	540,000
2024	205,000	-	340,000	545,000
2025	205,000	-	340,000	545,000
2026	205,000	-	340,000	545,000
2027	-	-	350,000	350,000
2028	-	-	350,000	350,000
2029	-	-	360,000	360,000
2030	-	-	360,000	360,000
2031	-	-	365,000	365,000
2032	-	-	365,000	365,000
2033	-	-	370,000	370,000
2034	-	-	370,000	370,000
2035	-	-	370,000	370,000
2036	-	-	375,000	375,000
2037	-	-	380,000	380,000
2038	-	-	380,000	380,000
2039	-	-	380,000	380,000
Total	<u>\$ 2,460,000</u>	<u>\$ 340,000</u>	<u>\$ 8,580,000</u>	<u>\$ 11,380,000</u>

Vestaburg Community Schools
Other Supplementary Information
Schedule of Outstanding Bonded Indebtedness
June 30, 2014

	<u>2005</u> <u>Refunding Bond</u>	<u>2008</u> <u>Energy Bond</u>	<u>2009</u> <u>Building Bond</u>
Principal payments due the first day of	May 1st	May 1st	May 1st
Interest payments due the first day of	May 1st and November 1st	May 1st and November 1st	May 1st and November 1st
Interest rate	3.50% - 4.25%	3.90% - 5.20%	2.44% - 7.32%
Original issue	<u>\$ 3,920,000</u>	<u>\$ 605,000</u>	<u>\$ 9,180,000</u>



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditors' Report

Management and the Board of Education
Vestaburg Community Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vestaburg Community Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Vestaburg Community Schools' basic financial statements, and have issued our report thereon dated September 11, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Vestaburg 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Vestaburg Community Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of Vestaburg Community Schools' internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Vestaburg 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Alma, MI
September 11, 2014



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September 11, 2014

Management and the Board of Education
Vestaburg Community Schools
7188 Avenue B
Vestaburg, MI 48891

We have completed our audit of the financial statements of Vestaburg Community Schools as of and for the year ended June 30, 2014, and have issued our report dated September 11, 2014. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit.

Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, *Government Auditing Standards* 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 engagement letter dated April 9, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the district are described in Note 1 of the financial statements. We noted no transactions entered into by the district during the year where there is lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statement 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 estimate affecting the Vestaburg Community Schools' financial statements was:

Management's estimate of the useful lives of fixed assets, which is based on the length of time management believes those assets will provide some economic benefit in the future.

Disclosures in the financial statements are neutral, consistent and clear.

Accounting Standards and Regulatory Updates

Upcoming Changes for June 30, 2015 and after

Accounting Standards

The Government Accounting Standards Board (“The GASB”) has issued Statement 68, *Accounting and Financial Reporting for Pensions*, and Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. The net pension liability will be recorded on the government-wide statements. Statement 71 amends Statement 68 to address an issue concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement 68 by employers and non-employer contributing entities. Statements 68 and 71 are effective for the year ending June 30, 2015.

The GASB has also issued Statement 69, *Government Combinations and Disposals of Government Operations*. Statement 69 provides detailed requirements for the accounting and disclosure of various types of government combinations, such as mergers, acquisitions, and transfers of operations. The guidance available previously was limited to nongovernmental entities, and therefore did not provide practical examples for situations common in government-specific combinations and disposals. The accounting and disclosure requirements for these events vary based on whether a significant payment is made, the continuation or termination of services, and the legal structure of the new or continuing entity. Statement 69 is effective for the year ending June 30, 2015.

Uniform Grant Guidance (aka Omni Circular or Super Circular)

In December 2013, the Federal Office of Management and Budget (OMB) issued final guidance on administrative requirements, the Guidance supersedes and streamlines requirements from OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102 and A-133 and the guidance in Circular A-50 on Single Audit Act follow-up. Districts will need to implement the new administrative requirements and Cost Principles for all new federal grants awarded after December 26, 2014, and to additional funding to existing awards (referred to as funding increments) made after that date. EDGAR will be the source for guidance school districts will follow.

Highlights of the Omni Circular:

- Raises the single audit threshold from \$500,000 to \$750,000 (federal expenditures during the June 30, 2016, year end)
- Increases monitoring and risk assessment necessary by federal program offices
- Focuses heavily on internal controls and policies/procedures, which should be in compliance with COSO
- Additional monitoring by pass-through agencies of sub recipients
- New rules for procurement/property management
- Cost principles are more principles based, with intention to reduce administrative burden

Additional information and resources are available at the following websites:

- OMB http://www.whitehouse.gov/omb/grants_docs
- Council on Federal Assistance Reform (COFAR)_ <https://cfo.gov/cofar/>
- US Department of Education <http://1.usa.gov/1rzFswz>
- EDGAR (<http://1.usa.gov/1pOUq2p>)

Sec. 147c- State Share of Unfunded Liability – Michigan Public School Employees Retirement System (MPSERS)

For 2014-15 the method in which the State will allocate the State Share of the Unfunded Liability will not change. However, the rate will increase to an estimated 7.63% of payroll. The funding was increased to accommodate the unfunded liability statutory cap of 20.96%.

Audit and FID Submission Deadline

For the upcoming year, June 30, 2015, the deadline to submit the Financial Information Database (FID) and the school district financial audits will be October 15th.

Sec. 22f - Best Practices

For the upcoming year, June 30, 2015, fiscal year your district must meet 7 out of 9 Best Practices. Per pupil funding, if this is met, will be \$50. The nine best practices are as follows:

- Act as policyholder for health care services benefits
- Competitively bid at least one non-instructional service
- Participate in schools of choice
- Provide online learning opportunities
- Provide a public online dashboard with finance and academic metrics
- Use teacher and administrator job performance as a significant factor in determining compensation
- requirements under MCL 380.1250
- Collective bargaining agreements shall not include any prohibited subjects of bargaining as required under the Public Employment Relations Act
- Implement a comprehensive guidance and counseling program.
- Offer pupils in grades K to 8 the opportunity to complete coursework or other learning experiences that are substantially equivalent to 1 credit in a language other than English

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

There were no uncorrected misstatements that were more than trivial.

Disagreements with Management

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

Management Representations

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

Management's Consultations with Other Accountants

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

Other Audit Findings or Issues

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

Report on Required Supplementary Information

With respect to the required supplementary information accompanying the financial statements, which includes management's discussion and analysis and budgetary comparison information, we applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

Report on Other Information

With respect to the supplementary information accompanying the financial statements, other than list of the Members of the Board of Education and Administration, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the

prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

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

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

Yeo & Yeo, P.C.

Alma, Michigan



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Alma, MI 48801
(989) 463-6108
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September 11, 2014

Management
Vestaburg Community Schools
7188 Avenue B
Vestaburg, MI 48891

We have completed our audit of the financial statements of Vestaburg Community Schools as of and for the year ended June 30, 2014, and have issued our report dated September 11, 2014. In planning and performing our audit, we considered Vestaburg Community Schools' internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the district's internal control. Accordingly, we do not express an opinion on the effectiveness of the district's internal control.

However, during our audit we became aware of a matter that is an opportunity for correcting noncompliance. This letter does not affect our report dated September 11, 2014, on the financial statements of Vestaburg Community Schools. Our comment and recommendation regarding that matter is:

CHILD NUTRITION CLUSTER – CASH MANAGEMENT – NONCOMPLIANCE

Situation

Federal register section 7 CFR Part 210.14b requires school districts to limit its School Breakfast and Lunch Fund net cash resources to an amount that does not exceed three months average expenditures. The District's net cash resources exceeded three months average expenditures at June 30, 2014. At June 30, 2014, the Districts Food Service Fund had \$131,452 in cash. Three months average expenditures for this fund are \$87,716. The Districts net cash resources exceeded the three months average expenditures by \$43,736.

Management was aware of the requirement to limit net cash resources to not exceed three months average expenditures. At the beginning of the fiscal year, a plan was designed to spend down the funds; however, the food service operations continued to be profitable.

Recommendation

We recommend that the District review the Food Service Fund's net cash resources periodically to ensure that the fund will not have an excess of three months average expenditures at the fiscal year end. The District should take this requirement into consideration when preparing the annual budget, and any subsequent adjustments to the budget.

This communication is intended solely for the information and use of management and others within the district, and is not intended to be and should not be used by anyone other than those specified parties.

Yeo & Yeo, P.C.

Alma, Michigan