

Moran Township School

Basic Financial Statements

June 30, 2014

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Independent Auditor's Report

Superintendent and Board of Education
Moran Township School
St. Ignace, MI 49781

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Superintendent and Board of Education
Moran Township School

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 Moran Township School, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 31 through 32 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2014 on our consideration of the Moran Township School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Moran Township School's internal control over financial reporting and compliance.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

September 22, 2014

Management's Discussion and Analysis

Moran Township School is a K-8 School District located in Mackinac County, Michigan. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Moran Township School management's discussion and analysis of the financial results for the fiscal year ended June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Government-wide Financial Statements and Fund Financial Statements.

Government-Wide Financial Statements:

The Government-Wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Position of the Government-Wide financial statements.

Fund Financial Statements:

The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the District's major instruction and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including the Food Service Fund.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. Capital assets are not reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Summary of Net Position:

The following summarizes the net position at fiscal year ended June 30, 2014 and 2013.

Net Position Summary

	<u>2014</u>	<u>2013</u>
Assets		
Current assets	<u>\$ 1,507,156</u>	<u>\$ 1,247,581</u>
Capital assets	3,039,810	3,027,743
Less: accumulated depreciation	<u>(2,020,079)</u>	<u>(1,963,161)</u>
Capital assets, net book value	<u>1,019,731</u>	<u>1,064,582</u>
Total assets	<u>\$ 2,526,887</u>	<u>\$ 2,312,163</u>
Liabilities		
Current liabilities	<u>\$ 188,215</u>	<u>\$ 185,701</u>
Long-term liabilities	<u>54,028</u>	<u>40,746</u>
Total liabilities	<u>242,243</u>	<u>226,447</u>
Net Position		
Net investment in capital assets	1,019,731	1,064,582
Restricted for sinking fund and food service	240,322	187,820
Unrestricted	<u>1,024,591</u>	<u>833,314</u>
Total net position	<u>2,284,644</u>	<u>2,085,716</u>
Total liabilities and net position	<u>\$ 2,526,887</u>	<u>\$ 2,312,163</u>

Financial Analysis of the School's Funds

During fiscal year ended June 30, 2014, the District's net position increased by \$198,928. A few of the significant factors affecting net position during the year are discussed below:

- Increased Federal and State sources.
- Increased other local revenue sources.

During the 2013/2014 fiscal year, the District continued to implement several financial measures taken in previous fiscal years to ensure the continued survival of the Moran Township School District. Those measures included:

- Employment of a part-time superintendent.
- Contracting with outside sources for the district's accounting and business services.
- Contracting with a neighboring district for pupil transportation and athletics.
- Cooperating with EUPISD for technology services, data collection, professional development activities, and special education administrative and pupil services.
- Contracting with an outside source for speech therapy services.

A. Depreciation Expense

GASB 34 requires School Districts to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net position.

For fiscal year ended June 30, 2014 depreciation expense was \$60,320.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value.

B. Capital Outlay Acquisitions

Actual capital acquisitions for fiscal year ended June 30, 2014 were \$17,626.

Combined with the increase in accumulated depreciation, net position (i.e., net book value) invested in capital assets decreased by \$44,851 during the year. This is the additional amount the District would have had to spend to maintain the same net value of assets.

Since accumulated depreciation is based on original cost, it does not take into consideration inflation. As a result, the actual investment in capital outlay would have to be more than depreciation expense in order to maintain assets at the same level of maintenance and upkeep.

Results of Operations:

For the fiscal year ended June 30, 2014 and 2013 the District wide results of operations were:

	<u>2014</u>	<u>2013</u>
General Revenue:		
Property Taxes levied for General Operations	\$ 1,206,522	\$ 983,858
Property Taxes levied for Sinking Fund	51,628	43,944
Other – Federal, State and Local	17,471	3,128
Other – Investment Earnings, Fees	<u>12,633</u>	<u>10,642</u>
Total General Revenue	<u>1,288,254</u>	<u>1,041,572</u>
Program Revenue:		
Charges for Services – Local	10,975	12,523
Operating Grants – Federal and State	<u>151,829</u>	<u>182,173</u>
Total Program Revenue	<u>162,804</u>	<u>194,696</u>
Expenses:		
Instruction	722,080	739,317
Support Services	413,179	362,843
Food Services	56,551	53,305
Depreciation (Unallocated)	<u>60,320</u>	<u>59,275</u>
Total Expenses	<u>1,252,130</u>	<u>1,214,740</u>
Changes in Net Position	198,928	21,528
Net Position – Beginning	<u>2,085,716</u>	<u>2,064,188</u>
Net Position – Ending	<u>\$ 2,284,644</u>	<u>\$ 2,085,716</u>

Property Taxes levied for General Operations (General Fund Property Taxes)

The District levies 16.8734 mills of property taxes for operations (General Fund) on Non-Exempt Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5%, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50% of the market value.

During fiscal year 2013/2014, the District's Non-Exempt taxable value was \$60,155,575 as reported to the district by Mackinac County on the L-4029 in May of 2013. Throughout the year, however, the Non-Exempt taxable values can be adjusted by the Michigan Tax Tribunal, July or December Township Boards of Reviews, and/or a Michigan State Tax Commission Official Order. Given the District's 16.8734 mills levied, the district anticipated generating \$1,206,522 from Non-Exempt taxable values and approximately \$1,800 from other local taxing sources: ie: delinquent taxes and other tax adjustments.

State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- a. State of Michigan Aid Act per student foundation allowance
- b. The District's non-exempt levy

During the 2013/2014 fiscal year, the Moran Township School District was not eligible to receive State funding based on pupil membership under Section 22a Prop A Obligation or Section 22b Discretionary Payment. This was due to the fact that the District's local non-exempt tax collection exceeded the State's per pupil foundation allowance of \$7,033. During 2013/2014 the district did receive \$3,755 under Section 22D (4) Isolated Districts funding. Again, as in past years, the Michigan Department of Education found the District ineligible for At-Risk funding due to the fact that the District exceeds the program's established per pupil funding level.

Per Student, Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The Moran Township School foundation allowance was \$7,033 per student for the 2013/2014 school year. This was a \$60 increase per student compared to the 2012/2013 school year.

Student Enrollment

For the fall student count in October of 2013, the District's student FTE was 86.44 for general education and .28 for special education. The February count showed a very small change in membership for general education and special education with 82.71 and .25 respectively.

	<u>Student FTE</u>
2013 – 2014	83
2012 – 2013	82
2011 – 2012	79
2010 – 2011	78
2009 – 2010	78

Food Service Sales to Students & Adults

During the 2013/2014 school year, the District generated approximately \$11,035 in local revenue for lunch and milk sales and received \$29,451 from the State of Michigan for the School Breakfast and National School Lunch Programs operated by the District. In addition, the District received \$582 in Section 31d 2012 School Lunch Funds.

The District operates both a breakfast and lunch program under the School Breakfast Program and the National School Lunch Program, federally funded programs administered by the State of Michigan's Department of Education. Michigan school districts are reimbursed at specified rates for each fully paid, reduced price, and free breakfast or lunch meal served to students.

The District's October, 2013 federal reimbursement claim form indicated that approximately 55% of the District's students were eligible for free and reduced lunches. As in the case of most districts, the Moran Township School District's General Fund annually subsidizes the District's Hot Lunch Fund to prevent a deficit in that fund. In total, the District transferred \$18,129 from the General Fund to the Food Service Fund. This amount reflects a decrease over the previous year by \$3,371. The most notable factors contributing to this adjustment include higher food costs, higher personnel costs, and a decrease in both student enrollment and participation in program.

Federal Funding

The Moran Township School District normally receives a minimal amount of federal dollars under the No Child Left Behind (NCLB) legislation. These funds had been used to support the Reading Recovery program. However, during the 2013/2014 fiscal year the School District chose to decline Title I and Title II-A funds as there were not enough eligible students to warrant the operation of a Reading Recovery program.

Student Transportation

2013/2014 was the tenth year that the Moran Township School District entered into a cooperative agreement with the St. Ignace Area Schools to provide transportation services for Moran's students. This agreement, which originally began in October of 2004, provided the Moran Township School District with a means to reduce the annual expenditures they had been spending on transportation while at the same time providing the same service.

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES**General Fund Revenue Budget Vs. Actual 5-Year History**

<u>Fiscal Year</u>	<u>Revenues Original Budget</u>	<u>Revenues Final Budget</u>	<u>Revenues Final Actual</u>	<u>Revenues Variance Actual & Original Budget</u>	<u>Revenues Variance Actual & Final Budget</u>
2009 – 2010	\$ 1,071,677	\$ 1,175,729	\$ 1,174,403	\$ 102,726	\$ (1,326)
2010 – 2011	1,086,328	1,226,815	1,223,274	136,946	(3,541)
2011 – 2012	1,058,333	1,164,483	1,147,705	89,372	(16,778)
2012 – 2013	1,075,457	1,138,435	1,154,028	78,571	15,593
2013 – 2014	1,133,471	1,345,069	1,358,882	225,411	13,813

General Fund Expenditures Budget Vs. Actual 5-Year History

<u>Fiscal Year</u>	<u>Expenditures Original Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Actual</u>	<u>Expenditures Variance Actual & Original Budget</u>	<u>Expenditures Variance Actual & Final Budget</u>
2009 – 2010	\$ 1,048,040	\$ 1,054,902	\$ 990,514	\$ 57,526	\$ 64,388
2010 – 2011	1,060,278	1,083,276	1,056,166	4,112	27,110
2011 – 2012	1,093,389	1,169,663	1,153,118	(59,729)	16,545
2012 – 2013	1,121,960	1,100,672	1,091,916	30,044	8,756
2013 - 2014	1,215,888	1,241,434	1,137,669	78,219	103,765

Original vs. Final Budget

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

As a matter of practice, Moran Township School amends its budget quarterly during the school year. For the fiscal year 2013/2014, the budget was amended throughout the year. The June 2014 budget amendment was the final budget for the fiscal year. The Moran Township School Board does not budget for expenditures covered by grants or for the grant revenue until an award is received.

Economic Factors and Next Year's Budget

The General Fund of the Moran Township School District for fiscal year 2014-2015 includes 16.8734 mills of ad valorem taxes to be levied on non-homestead and non-qualified agricultural property which will generate \$1,422,914. That amount, along with other local, state, and federal sources bring the total projected revenue for 2014-2015 to \$1,503,112. The District's anticipated expenditures for 2014-2015 are budgeted at \$1,499,496. With anticipated revenues exceeding expenditures by \$3,616, the District will increase their unrestricted fund balance.

Contacting the District's Financial Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Administration Office, Moran Township School at 906-643-7970.

Basic Financial Statements

Moran Township School

Statement of Net Position June 30, 2014

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 1,483,574
Accounts receivable	469
Due from governmental units	21,794
Inventory	1,319
Capital assets, not depreciated	79,093
Capital assets, net of current depreciation	940,638
Total assets	<u>\$ 2,526,887</u>
Liabilities	
Accounts payable	\$ 109,819
Accrued liabilities	78,396
Accrued sick leave payable - Due in more than one year	24,028
Accrued retirement benefits payable - Due in more than one year	30,000
Total liabilities	<u>242,243</u>
Net Position	
Net investment in capital assets	1,019,731
Restricted for sinking fund and food service	240,322
Unrestricted	1,024,591
Total net position	<u>\$ 2,284,644</u>

Moran Township School

Statement of Activities For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Governmental Activities:				
Instruction:				
Regular	\$ 674,881	\$ -	\$ 92,606	\$ (582,275)
Special education	47,199	-	29,191	(18,008)
Supporting services:				
School administration	83,204	-	-	(83,204)
General administration	41,199	-	-	(41,199)
Business operations	43,371	-	-	(43,371)
Operations & maintenance	130,833	-	-	(130,833)
Pupil transportation	87,482	-	-	(87,482)
Athletics	27,090	-	-	(27,090)
Food services	56,551	10,975	30,032	(15,544)
Depreciation - (unallocated)	60,320	-	-	(60,320)
Total Governmental Activities	<u>\$ 1,252,130</u>	<u>\$ 10,975</u>	<u>\$ 151,829</u>	(1,089,326)
General Revenues:				
Taxes:				
Property taxes, levied for general operations				1,206,522
Property taxes, levied for sinking fund				51,628
Other income				19,628
Gain (Loss) on disposal of capital assets				(2,157)
Interest and investment earnings				12,633
Total General Revenues				<u>1,288,254</u>
Changes in Net Position				198,928
Net position - beginning				<u>2,085,716</u>
Net position - ending				<u>\$ 2,284,644</u>

Moran Township School

Balance Sheet Governmental Funds June 30, 2014

	General Fund	Capital Projects Sinking Fund	Food Service Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 1,238,637	\$ 229,151	\$ 15,786	\$ 1,483,574
Accounts receivable	-	-	469	469
Due from governmental units	21,794	-	-	21,794
Due from other funds	5,084	-	-	5,084
Inventory	-	-	1,319	1,319
Total Assets	<u>\$ 1,265,515</u>	<u>\$ 229,151</u>	<u>\$ 17,574</u>	<u>\$ 1,512,240</u>
Liabilities				
Accounts payable	\$ 109,819	\$ -	\$ -	\$ 109,819
Due to other funds	-	-	5,084	5,084
Accrued liabilities and expenses	78,396	-	-	78,396
Total liabilities	<u>188,215</u>	<u>-</u>	<u>5,084</u>	<u>193,299</u>
Fund Balances				
Nonspendable	-	-	1,319	1,319
Restricted	-	229,151	11,171	240,322
Committed	54,028	-	-	54,028
Assigned	120,000	-	-	120,000
Unassigned	903,272	-	-	903,272
Total fund balances	<u>1,077,300</u>	<u>229,151</u>	<u>12,490</u>	<u>1,318,941</u>
Total liabilities and fund balances	<u>\$ 1,265,515</u>	<u>\$ 229,151</u>	<u>\$ 17,574</u>	

Reconciliation to amounts reported for governmental activities in the statement of net position:

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

Capital assets used by governmental activities are not financial resources, and are not reported in the funds.

The cost of capital assets is	3,039,810	
Accumulated depreciation is	<u>(2,020,079)</u>	1,019,731
Long-term liabilities are not due and payable in the current period and are not reported in the funds.		
Accrued sick leave payable		(24,028)
Accrued retirement benefits payable		<u>(30,000)</u>
Net position of governmental activities		<u>\$ 2,284,644</u>

Moran Township School

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2014

	General Fund	Capital Projects Sinking Fund	Food Service Fund	Total Governmental Funds
Revenues				
Local sources	\$ 1,240,828	\$ 53,265	\$ 11,035	\$ 1,305,128
State sources	72,442	-	582	73,024
Federal sources	45,612	-	29,451	75,063
Total revenues	1,358,882	53,265	41,068	1,453,215
Expenditures				
Instruction:				
Regular	671,599	-	-	671,599
Special education	47,199	-	-	47,199
Supporting services:				
School administration	83,204	-	-	83,204
General administration	41,199	-	-	41,199
Business operations	43,371	-	-	43,371
Operations & maintenance	129,972	861	-	130,833
Pupil transportation	87,482	-	-	87,482
Athletics	27,090	-	-	27,090
Food service	-	-	56,551	56,551
Capital outlay	6,553	11,073	-	17,626
Total expenditures	1,137,669	11,934	56,551	1,206,154
Excess of Revenues (Expenditures)	221,213	41,331	(15,483)	247,061
Other Financing Sources (Uses)				
Operating transfers in	-	-	18,129	18,129
Operating transfers out	(18,129)	-	-	(18,129)
Total other financing sources (uses)	(18,129)	-	18,129	-
Net Changes in Fund Balances	203,084	41,331	2,646	247,061
Fund Balances- beginning of year	874,216	187,820	9,844	1,071,880
Fund Balances- end of year	\$ 1,077,300	\$ 229,151	\$ 12,490	\$ 1,318,941

**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 changes in fund balances - total governmental funds \$ 247,061

The change in net position reported for governmental activities in the statement of activities is different because:

Governmental funds reported capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$ 60,320) exceeded capital outlay \$ 17,626. (42,694)

The book value of capital assets sold or disposed of is reported on the government-wide statement of activities but not reported in the governmental funds. (2,157)

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Accrued benefits payouts (3,282)

Changes in net position of governmental activities \$ 198,928

**Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014**

	<u>Agency Fund</u>
	Student
	<u>Activities</u>
Assets	
Cash	\$ <u>13,571</u>
Liabilities	
Due To Clubs and Organizations	\$ <u>13,571</u>

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The accounting policies of Moran Township School conform to U.S. generally accepted accounting principles as applicable to School Districts. The following is a summary of the significant accounting policies:

Financial Reporting Entity

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units.

BASIS OF PRESENTATION**Government-wide Statements**

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

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

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (grants, certain intergovernmental revenues, and charges, etc.) 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 (state sources and federal sources, interest income, etc.)

The District does not allocate indirect costs. In creating the government-wide financial statements, the District has eliminated interfund transactions.

Note 1 - Summary of Significant Accounting Policies (Continued)

The government-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 the current year's activities.

Fund Financial Statements

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The various funds are grouped, in the basic financial statements in this report, into generic fund types of broad fund categories as follows:

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

The School reports the following funds:

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget.

Special Revenue Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds.

Capital Project Fund – The Capital Project fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets with transfers made for the General fund. The School District's Capital Project fund is the Sinking Fund.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net position and results of operations are not included in the district-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Activities (Agency) Fund – The School District presently maintains a Student Activities Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Fund***Major:***

General Fund

Special Revenue Fund:
Food Service FundCapital Projects Fund:
Sinking Fund

There were no Nonmajor Funds.

Measurement Focus and Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the district-wide statement uses the economic resources measurement focus.

Accrual

Governmental activities in the district-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

Note 1 - Summary of Significant Accounting Policies (Continued)

The District reports unearned revenue on its governmental fund balance sheet. Unearned revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed from the combined balance sheet and revenue is recognized.

For Moran Township School taxpayers properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100% of the taxes which are due September 15.

The tax rates for the year ended June 30, 2014, are as follows:

<u>PURPOSE</u>	<u>RATE/ASSESSED VALUATION</u>
General Fund	16.8734 per \$1,000 taxable value (Non-Exempt Property Only)
Sinking Fund	.5 per \$1,000 taxable value (Exempt and Non-Exempt Property) (Note: voter approved at 1.75, levied .5)

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

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

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

Cash and Cash Equivalents – For the purpose of the Statement of Net Position, “cash and cash equivalents” includes all demand, savings accounts, and certificates of deposits of the District. Deposits are recorded at cost.

Investments are carried at fair value except for short-term U.S. Treasury obligations with a remaining maturity at the time of purchase of one year or less. Those investments are reported at amortized cost. Fair value is based on quoted market price.

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables – In the district-wide statements, receivables consist of all revenues earned at year end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. The allowance for June 30, 2014 is \$0. Major receivable balances for the governmental activities include grants.

Inventories – Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. The Food Services Fund inventory consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received. The District capitalizes only those assets over \$5,000 and estimated useful life in excess of one year.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

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

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

Land Improvements	20 – 50 years
Buildings	20 – 50 years
Equipment	5 – 20 years

Accrued Sick Leave and Retirement Benefits – The liability for accrued sick leave and retirement benefits reported in the district-wide statements consist of unpaid, accumulated annual and vacation balances as well as retirement payouts. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The School District has no items that qualify for reporting in this category.

Note 1 - Summary of Significant Accounting Policies (Continued)Deferred Inflows of Resources

In addition to liabilities, the statement of net position and governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has no items that qualify for reporting in this category.

Fund Balance Classification – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the School is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Board has classified Inventories as being Nonspendable as these items are not expected to be converted to cash within the next year. The School has the food service fund inventory amount of \$1,319 classified as nonspendable.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Board has classified its Sinking Fund as restricted as well as \$11,171 in the Food Service fund. Restricted funds total \$240,322.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board has committed accrued sick leave and retirement benefits in the amount of \$54,028.
- Assigned: This classification includes amounts that are constrained by the Board's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The General Fund has \$120,000 assigned for future technology needs and kitchen upgrades.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Board would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

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

Note 2 - Budgets

The School District formally adopted General Fund and Special Revenue Fund budgets by function for the fiscal year ended June 30, 2014. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund and Food Service Fund is presented as Required Supplementary Information.

Note 3 - Cash and Cash Equivalents

The School District's deposits are held at one local financial institution. Deposits are carried at cost.

	<u>Governmental</u>	<u>Fiduciary</u>
Deposits per Financial Statements:		
Checking, Savings and		
Certificates of Deposit	<u>\$ 1,483,574</u>	<u>\$ 13,571</u>

Investment and Deposit Risk

Interest Rate Risk. Through its investment policy, the School manages its exposure risk to fair value losses arising from increasing interest rates by limiting the duration of its investment portfolio to one year or less.

Credit Risk. The Schools policy limits investments in bonds, bills, or notes of the United States; certificates of deposits; commercial paper rated prime 1 or prime 2, maturing 270 days or less.

Note 3 - Cash and Cash Equivalents (Continued)

Custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$1,287,340 of the School's bank balance of \$1,537,340 was exposed to credit risk because it was uninsured and uncollateralized.

Statutory Authority:

Public Act 152, entitled "An act relative to the investment of funds of public corporations of the state; and to validate certain investments," by amending section 1 (MCL 129.91), as amended by 2009 PA 21.

Except as provided in section 5, the governing body by resolution may authorize its investment officer to invest the funds of that public corporation in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2); certificates of deposit obtained through a financial institution as provided in subsection (5); or deposit accounts of a financial institution as provided in subsection (6).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.
- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, 15 USC 80a-1 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of any of the following:
 - (i) The purchase of securities on a when-issued or delayed delivery basis.
 - (ii) The ability to lend portfolio securities as long as the mutual fund receives collateral at all times equal to at least 100% of the value of the securities loaned.
 - (iii) The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the urban cooperation act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.

Note 3 - Cash and Cash Equivalents (Continued)

- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The District's deposits are in accordance with state statutes.

Note 4 - Capital Assets

A summary of changes in governmental capital assets follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Adjustments/ Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 79,093	\$ -	\$ -	\$ 79,093
<i>Capital assets being depreciated:</i>				
Land Improvements	336,885	-	-	336,885
Buildings	2,371,567	11,073	-	2,382,640
Equipment	<u>240,198</u>	<u>6,553</u>	<u>(5,559)</u>	<u>241,192</u>
Subtotal	<u>2,948,650</u>	<u>17,626</u>	<u>(5,559)</u>	<u>2,960,717</u>
<i>Less accumulated depreciation for:</i>				
Land Improvements	(76,995)	(22,459)	-	(99,454)
Buildings	(1,701,098)	(29,172)	-	(1,730,270)
Equipment	<u>(185,068)</u>	<u>(8,689)</u>	<u>3,402</u>	<u>(190,355)</u>
Subtotal	<u>(1,963,161)</u>	<u>(60,320)</u>	<u>3,402</u>	<u>(2,020,079)</u>
Net capital assets being depreciated	<u>985,489</u>	<u>(42,694)</u>	<u>(2,157)</u>	<u>940,638</u>
Governmental activity capital assets – net of depreciation	<u>\$ 1,064,582</u>	<u>\$ (42,694)</u>	<u>\$ (2,157)</u>	<u>\$ 1,019,731</u>

Depreciation expense for the School District is \$60,320. The School determined that it was impractical to allocate depreciation to various governmental activities as the assets serve multiple functions.

Note 5 - Long-Term Liabilities

The following is a summary of changes in the Long-Term Liabilities for the year ending June 30, 2014:

	<u>Accrued Sick Leave</u>	<u>Accrued Retirement Benefits</u>	<u>Total</u>	<u>Due Within One Year</u>
Balance, July 1, 2013	\$ 20,746	\$ 30,000	\$ 50,746	\$ 24,028
Additions - net	<u>3,282</u>	<u>-</u>	<u>3,282</u>	<u>-</u>
Balance, June 30, 2014	<u>\$ 24,028</u>	<u>\$ 30,000</u>	<u>\$ 54,028</u>	<u>\$ 24,028</u>

The debt service requirements for accrued employee benefits are dependent upon future employee retirements and terminations.

Note 6 - Compensated Absences and Post-Retirement Benefits**Sick Leave**

Vested sick leave is computed as follows:

<u>Employer Group</u>	<u>Rate/Day</u>	<u>Maximum Days</u>
Teachers	110.00	180
Support Staff	Current Pay Rate	180

Sick leave is vested after 5 years and is paid to the employees upon retirement or termination.

Personal Leave Time

Personal leave time is accounted for as sick leave for payout purposes.

Retirement Benefits

Retirement benefits are vested to teachers and administrators who qualify for retirement under the terms of the State retirement plan in which the School District participates.

Retirement benefits are computed as follows:

- 1) Qualified employee hired in 2001 and after qualify for a one time lump sum payout at retirement of \$10,000.
- 2) Qualified employee hired before 2001 qualify for a one time lump sum payout at retirement of \$20,000.

Note 7 - Pension

Plan Description – The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

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

On May 10, 2010, the Governor signed Public Act 75 of 2010 into law. As a result, any member of MPERS who became a member of MPERS after June 30, 2010 is a Pension Plus Member. The Pension Plus Plan pairs a guaranteed retirement income (defined benefit pension) with a flexible and transferrable retirement savings (defined contribution) account.

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

The District is required to contribute the full actuarial funding contribution amount to the pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public Schools Employee Retirement System. MPERS is administered by the State of Michigan. These contributions are required by law and are calculated by using different contribution rates ranging from 25.52% to 29.35%. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the year ended June 30, 2014, 2013, and 2012 were \$103,050, \$92,778, and \$98,292, respectively, equal to the required contribution for each year.

Note 7 - Pension (Continued)

The District is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Post Employment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPSERS plan discussed above.

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

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

Note 8 - Interfund Receivables and Payables, and Transfers

The School reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net position/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in Interfund Receivables and Payables are as follows:

Interfund Payables:

DUE TO OTHER FUNDS	DUE FROM OTHER FUNDS	
		General Fund
	Food Service Fund	\$ <u>5,084</u>

Note 8 - Interfund Receivables and Payables, and Transfers (Continued)

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers:

TRANSFERS IN	TRANSFERS OUT
	General Fund
Food Service Fund	\$ <u>18,129</u>

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

Note 9 - Risk Management

The School District is exposed to risks of loss related to property loss, torts, errors, and omissions, employee injuries (worker's compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for School Districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Accrued Employee Benefits

The district offered its teachers and administrative personnel early retirement incentives. A liability for amounts payable in years subsequent to the year ended June 30, 2014 of \$30,000 was recorded.

Note 11 - Related Party

Consortium - The School has executed a consortium agreement with the EUPISD for various business and maintenance services.

Moran Township School District joined as part of a consortium to purchase a new financial software system that will be used by all districts in the EUPISD. The amount paid to the ISD for this purchase was \$14,008 in fiscal year 2013 and will cover any district financial obligation for the program for the next four years.

Moran Township School District contracted with the EUPISD for many services. In the technology area, the EUPISD provided internet access, web hosting, and technical support for servers, computers, and other equipment. The EUPISD charged Moran Township School District fees for providing special education supervisory services, REMC materials, and participation at fall EUP wide conference. In addition, the district pays license renewal fees and/or support materials to the ISD for Data Director, McRel, Reading Recovery, and Compass Learning.

The total amount paid to the ISD for all other services totaled \$25,116.

Note 12 - Commitments and Contingencies

Grants – The School District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School District at June 30, 2014.

Note 13 - Sinking Fund

The Capital Project Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

Required Supplementary Information

Moran Township School

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 1,033,404	\$ 1,241,284	\$ 1,240,828	\$ (456)
State sources	19,600	58,163	72,442	14,279
Federal sources	80,467	45,622	45,612	(10)
Total revenues	1,133,471	1,345,069	1,358,882	13,813
Expenditures				
Instruction:				
Regular	753,813	769,385	671,599	97,786
Special education	54,039	47,852	47,199	653
Supporting services:				
School administration	82,082	83,586	83,204	382
General administration	42,504	41,260	41,199	61
Business operations	37,232	43,474	43,371	103
Operations & maintenance	128,665	131,234	129,972	1,262
Pupil transportation	91,000	91,000	87,482	3,518
Athletics	20,000	27,090	27,090	-
Capital Outlay	6,553	6,553	6,553	-
Total expenditures	1,215,888	1,241,434	1,137,669	103,765
Excess of Revenues (Expenditures)	(82,417)	103,635	221,213	117,578
Other Financing Sources (Uses)				
Operating Transfers Out	(21,000)	(18,129)	(18,129)	-
Total other financing sources (uses)	(21,000)	(18,129)	(18,129)	-
Net Changes in Fund Balances	\$ (103,417)	\$ 85,506	203,084	\$ 117,578
Fund Balances- beginning of year			874,216	
Fund Balances - end of year			<u>\$ 1,077,300</u>	

Moran Township School

Required Supplementary Information Budgetary Comparison Schedule-Food Service Fund For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Local sources	\$ 11,710	\$ 10,935	\$ 11,035	\$ 100
State sources	1,000	585	582	(3)
Federal sources	23,390	29,450	29,451	1
Total revenues	36,100	40,970	41,068	98
Expenditures				
Food service	60,278	58,238	56,551	1,687
Total expenditures	60,278	58,238	56,551	1,687
Excess of Revenues (Expenditures)	(24,178)	(17,268)	(15,483)	1,785
Other Financing Sources (Uses)				
Operating Transfers In	21,000	18,129	18,129	-
Total other financing sources (uses)	21,000	18,129	18,129	-
Net Changes in Fund Balances	<u>\$ (3,178)</u>	<u>\$ 861</u>	2,646	<u>\$ 1,785</u>
Fund Balances- beginning of year			9,844	
Fund Balances - end of year			<u>\$ 12,490</u>	

Report on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

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DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

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

Superintendent and Board of Education
Moran Township School
St. Ignace, MI 49781

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 as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Moran Township School's basic financial statements and have issued our report thereon dated September 22, 2014.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency, listed as 2014-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Moran Township School's 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*.

Moran Township School's Response to Findings

The Moran Township School's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Moran Township School's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

September 22, 2014

Internal Control Over Financial Reporting

Significant Deficiencies

**Preparation of the Financial Statements in Accordance
with Generally Accepted Accounting Principles**

Finding 2014-001

Specific Requirement: Establishment and maintenance of internal control over the financial reporting process as defined by Statement on Auditing Standards Number 115 requires management to prepare annual audit statements in accordance with GASB Statement Number 34. (Audit report format)

Criteria: Internal controls should be in place to provide reasonable assurance to the School that management reports financial statements (with GASB Statement number 34 formats) necessary to monitor and report annual financial activity without auditor intervention.

Condition: Auditor assists in the preparation of financial statements and annual report in compliance with GASB 34.

Effect: The effect of this condition places a reliance on the independent auditor as part of the School's internal controls over financial reporting.

Cause: Unknown.

Recommendation: The School should consider subcontracting financial statement preparation activities to monitor and report annual financial activity in accordance with GASB Statement Number 34 or provide appropriate training.

Corrective Action Planned: As a result of limited funding, the School does not have resources to fund this process. We intend to re-evaluate once funding becomes available for the additional reporting and monitoring based on a cost – benefit analysis.

- *Contact Person Responsible for Correction:*
William Peltier, Superintendent



ANDERSON, TACKMAN & COMPANY, PLC
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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Superintendent and Board of Education
Moran Township School
St. Ignace, Michigan 49781

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Moran Township School for the year ended June 30, 2014, and have issued our report thereon dated September 22, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 30, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the School District's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the management's discussion and analysis and budgetary comparison schedules, which supplement(s) the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI will not be audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we will not express an opinion or provide any assurance on the RSI.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on July 30, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Moran Township School are described in Note 1 to the financial statements. One new accounting policy was adopted regarding the implementation of GASB 65 and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

- Management's estimate of the depreciation expense is based on estimated lives. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the accrued compensated absences and retirement payouts is based on current hourly rates and policies regarding payment of sick, vacation banks and retirement payouts.
- Management's estimate of the allowance for uncollectible accounts receivable is based on past experience and future expectations of collection of various account balances and has been determined to be zero.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 22, 2014.

Management Consultations with Other Independent 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 governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedules, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and our knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Audit Findings or Issues

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

Comments and Recommendations

The following is a summary of our observations with suggestions for improvements we believe should be brought to your attention. We noted no material matters involving the internal control over financial reporting and compliance, as reported in a separate letter in accordance with Government Auditing Standards of the basic financial statement audit report.

Purchasing (Bid Policy) (Prior Year)

The School Board should consider amending its bidding policy to include practices outside of state bidding thresholds. Purchasing practices generally include conflict of interest, local preferences, expense and travel, price quotation methods, credit card usage, and other provisions. A more specific policy would provide further assurance regarding cash management practices.

Status: Uncorrected.

Reports on Controls (Prior Year)

As the School continues to expand its use of the Third Party Service Providers, for accounting, payroll, technology etc., assurance should be requested that systems are adequate and effective related to computer processing. A "Report on Controls Placed in Operation" and tests of effectiveness should be requested to assure proper backups are maintained, disaster recovery procedures are in place and other controls are reliable from any third party system vendors.

Status: Uncorrected.

Confidentiality Provisions (Prior Year)

We reviewed selected independent service contracts and noted that provisions regarding confidentiality and security of school and pupil information were not included. Professional service contracts should include a confidentiality statement to provide assurance that privileged information is not released by independent contractors.

Status: Uncorrected.

Pension Reporting

In June 2012, the Governmental Accounting Standards Board (GASB) approved a pair of related Statements that implement substantial changes to the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements. These requirements include a provision for reporting net pension liabilities on the accrual based statement of net position and measuring investments at fair value as well as additional footnote and required supplementary information disclosures.

The Board and Management should review the procedures for implementation of these new standards effective in fiscal 2015 and assess the impact on the local unit of government's financial reporting.

Capital Outlay (Prior Year)

During testing, it was noted that a capitalized asset was not coded to the proper account on the general ledger. We recommend that capital purchases be recorded in the proper general ledger capital outlay account to help ensure accuracy of accounting records.

Status: Corrected.

Year End Accruals

Several receivable accruals were not completed at the time of audit. Care should be taken to properly accrue these amounts for proper reporting.

Conclusion

This letter is intended solely for the information and use of the Board of Education, management, federal awarding agencies, pass through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any further assistance, please contact us.



Anderson, Tackman & Company, PLC
Certified Public Accountants
Kincheloe, Michigan

September 22, 2014