

MORENCI AREA SCHOOLS

REPORT ON FINANCIAL STATEMENTS
**(with required supplementary and additional
supplementary information)**

YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Morenci Area Schools

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issue 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 of 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 District'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 District'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 Morenci Area Schools as of June 30, 2013, 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.

Emphasis of Matter - Change in Accounting Principle

As discussed in Note 12 to the financial statements, Morenci Area Schools implemented Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements*, and Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

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 Morenci Area Schools' basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2013 on our consideration of Morenci Area 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 Morenci Area Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

September 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Morenci Area Schools (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary and additional information that presents all the District's revenue and expenditures by program.

FINANCIAL HIGHLIGHTS

Reporting the School District as a Whole - District Wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the District's financial statements, report information about the District as a whole and its activities in a way that helps answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position. In order to measure the District's financial health or net position, we examine the difference between assets and liabilities, as reported in the statement of net position. Over time, increases or decreases in the District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results.

It is important to remember that the School District's goal is to provide the best educational opportunities and services possible to Morenci students and not to generate profits as commercial entities do. In keeping, the District must account for the long term stability and continuation of the District by weighing expenditures against the ability to continue existence. The District must keep in check significant decreases in net position over time.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Our financial statements provide insights into the results of this year's operations.

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$740,172 (*net position*). The reason for this is that the District owes less money than the value of assets in which the debt was issued. Of the total net position the District was able to obtain a positive unrestricted net position amount of \$372,049. This amount may be used to meet the District's ongoing obligations for general district programs.
- The District's total net position increased by \$211,425.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$801,167, an increase of \$136,363 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the District's operating fund (general fund) was \$336,052 or 6% of the total expenditures of this operating fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

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

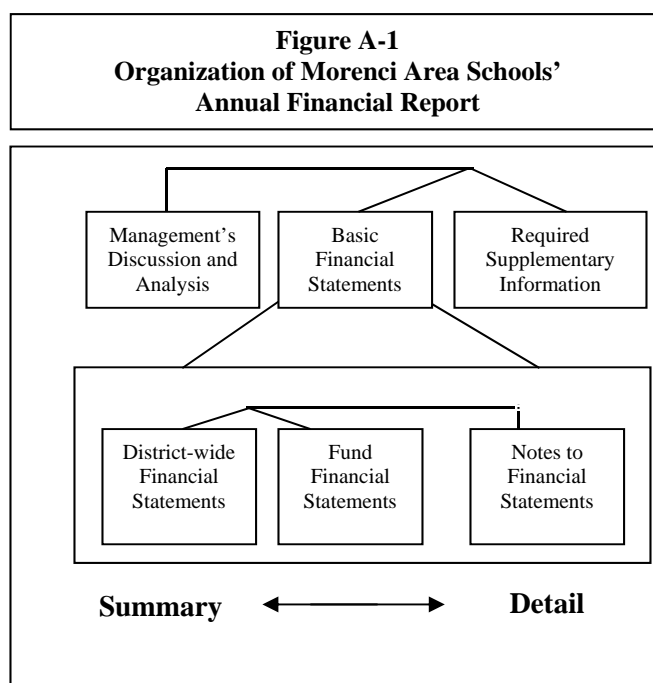


Figure A-2
Major Features of District-Wide and Fund Financial Statements

	District-wide statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Morenci's funds do not currently contain capital assets, although they can
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when good or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position was higher on June 30, 2013 than the year before, increasing by \$211,425 to \$740,172. The reason for the increase in net position is due to the paying down of the long-term debt. The paying down of the debt outpaced the depreciation of the capital assets.

Table A-3		
Morenci Area Schools		
	2013	2012
Current and other assets	\$ 2,651,359	\$ 2,077,985
Capital assets	10,891,305	11,242,267
Total assets	13,542,664	13,320,252
Long-term liabilities	10,959,121	11,396,499
Other liabilities	1,843,371	1,395,006
Total liabilities	12,802,492	12,791,505
Net position:		
Net investment in capital assets	45,789	(14,754)
Restricted for debt service	194,792	110,323
Restricted for food service	127,542	134,193
Unrestricted	372,049	298,985
Total net position	\$ 740,172	\$ 528,747

Table A-4
Changes in Morenci Area Schools' Net Position

	2013	2012
Revenues:		
Program revenues:		
Charges for services	\$ 163,994	\$ 150,485
Operating grants	782,642	772,232
General revenues:		
Property taxes	1,282,974	1,183,372
Investment	2,870	2,578
State aid - unrestricted	4,619,562	4,783,006
Federal education jobs sources - unrestricted	-	190,294
Intermediate sources	376,124	206,000
Other	120,756	40,907
Total revenues	<u>7,348,922</u>	<u>7,328,874</u>
Expenses:		
Instruction	4,059,134	4,442,131
Support services	2,130,727	2,235,540
Community services	645	-
Intergovernmental	82,774	107,558
Food services	379,538	349,790
Interest on long-term debt	484,679	430,765
Total expenses	<u>7,137,497</u>	<u>7,565,784</u>
Change in net position	<u>\$ 211,425</u>	<u>\$ (236,910)</u>

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A established the student foundation grant concept. The foundation grant has increased from \$4,362 per student in 1995 to \$6,966 per student in 2013.
- Student growth in the District has decreased. In fiscal year 1999 state aid membership was 1,147 and in twelve years has decreased by 37% to 719. Morenci Area Schools does participate in School of Choice and Open Enrollment to attract new students to the District.
- Many of the District's employees have been part of a total compensation method of determining their wage and benefit package, which has allowed the District's total compensation to generally keep pace with the decrease in District revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District as a whole has a combined fund balance is \$801,167 compared to \$664,804 in 2012. The fund balance increased by \$136,363 during the year. The District continued the construction projects from the proceeds of the building and site bonds issued in the prior year. The District was also able to control costs even with a decrease in revenue, primarily due to tight budgetary controls. There are debt service funds with a combined net fund balance of \$270,395, capital projects fund with a net fund balance of \$58,808 and a special revenue fund with a net fund balance of \$135,912. The general fund increased its fund balance by \$79,888, capital projects fund decreased its fund balance by \$16,544, and other nonmajor governmental funds increased by \$73,019 (food service and debt service funds).

The general fund's expenditures and operating transfers were about 1% less than yearly revenues.

General Fund and Budget Highlights

During the 2013 fiscal year the original budget was amended two times to reflect changes which affected the District.

The District's initial amendments took place in January. This amendment included the adjustments for the fall student count, property tax revenue adjustments, and additional adjustments to reduce the projected deficit.

A second and final amendment was made in late June that restated expenditures and revenues closer to actual. This included actual salaries and benefits resulting from the completion of the school year. This amendment also included amendments to insurance, utilities to additional line items that had seen reductions in spending from the January amendment. The final amendment additionally included the ORS UAAL Rate Stabilization funds of \$64,381 received from the State of Michigan.

The final amended budget was to have expenditures and outgoing transfers exceeding revenues by \$49,430. The final results showed that revenues came in more \$39,680 than were anticipated. This was largely attributed to the increase in local and intermediate revenue. Once again this year, expenditures came in \$88,130 less than budgeted in June. The change in expenditures was attributed to basic instruction, supporting services, and largely tied to the budget to actual variance in the District's State Aid Note interest expense. The net result after other financing sources and (uses) was a change in fund balance of \$79,888, increasing the fund balance to \$336,052.

General fund expenditures came within 1.47% of final budgeted amounts. General fund revenues came within .67% of final budget. Once again this year, tight budgetary controls allowed the District to maintain the rising costs with the decrease in revenue sources. The staff continues to be effective in reducing actual expenditures when compared to budget.

Overall, the difference between the District's final amended budget and end of the year figures amounted to a \$129,963 variance. The change from the Board adopted budget of June 2012 amounted to \$349,570 to the final budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

Table A-5 Morenci Area Schools				
	2013		2012	
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 351,668	\$ -	\$ 351,668	\$ 351,668
Buildings and improvements	14,524,592	4,694,486	9,830,106	10,111,910
Furniture and fixtures	4,150,039	3,575,315	574,724	603,079
Transportation equipment	739,954	605,147	134,807	175,610
Total	<u>\$ 19,766,253</u>	<u>\$ 8,874,948</u>	<u>\$ 10,891,305</u>	<u>\$ 11,242,267</u>

The change in the net book value is due mostly to current year depreciation outpacing the construction process.

LONG-TERM DEBT

At year end the District had \$10,959,121 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

The District made principal payments in the amount of \$522,916 which has decreased the long-term debt.

A decrease in compensated absences of \$9,329 was also recorded.

Table A-6 Morenci Area Schools Outstanding Long-Term Debt		
	2013	2012
General obligation bonds and other debt	\$ 10,812,187	\$ 11,309,457
Installment note	-	17,025
Durant - limited obligation bonds	-	5,891
Compensated absences	54,797	64,126
	<u>\$ 10,866,984</u>	<u>\$ 11,396,499</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- \$60 per pupil increase in the foundation allowance for the 2013-2014 school year.
Therefore, the district has anticipated a foundation allowance of \$7,026 per student.
- A \$50.00 per student equity payment increase
- MPSERS cost offset at a 36% reduction from 2012- 2013 levels.
- Best Practice Grant at \$52 per student.
- Technology Infrastructure Grant at \$7,200
- The student count is projected to decline slowly over the next five years. Budget estimates are approximated at 700 full time equivalency for 2013 - 2014 fiscal year.
- Costs continue to increase slightly.
- Retirement rates have been estimated based upon the FY 2013 2014 employer contribution rate, effective October 1, 2013.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Morenci Area Schools, 500 Page St., Morenci, MI 49256.

BASIC FINANCIAL STATEMENTS

**MORENCI AREA SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	<u>Governmental activities</u>
ASSETS:	
Cash and cash equivalents	\$ 1,339,433
Receivables:	
Accounts receivable	38,016
Taxes receivable	33,523
Intergovernmental	1,160,915
Inventories	3,960
Restricted cash and cash equivalents - capital projects	75,512
Capital assets not being depreciated	351,668
Capital assets, net of accumulated depreciation	<u>10,539,637</u>
TOTAL ASSETS	<u>13,542,664</u>
LIABILITIES:	
Accounts payable	138,620
Note payable	755,771
Accrued interest	83,662
Accrued salaries and related items	652,543
Unearned revenue	212,775
Noncurrent liabilities:	
Due within one year	545,959
Due in more than one year	<u>10,413,162</u>
TOTAL LIABILITIES	<u>12,802,492</u>
NET POSITION:	
Net investment in capital assets	45,789
Restricted for debt service	194,792
Restricted for food service	127,542
Unrestricted	<u>372,049</u>
TOTAL NET POSITION	<u><u>\$ 740,172</u></u>

**MORENCI AREA SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	\$ 4,059,134	\$ -	\$ 444,996	\$ (3,614,138)
Support services	2,130,727	38,680	31,236	(2,060,811)
Community services	645	14,182	-	13,537
Intergovernmental	82,774	-	-	(82,774)
Food services	379,538	111,132	306,410	38,004
Interest on long-term debt	484,679	-	-	(484,679)
Total governmental activities	<u>\$ 7,137,497</u>	<u>\$ 163,994</u>	<u>\$ 782,642</u>	<u>(6,190,861)</u>
General revenues:				
Property taxes, levied for general purposes				356,574
Property taxes, levied for debt service				926,400
State sources				4,619,562
Intermediate sources				376,124
Investment earnings				2,870
Other				<u>120,756</u>
Total general revenues				<u>6,402,286</u>
CHANGE IN NET POSITION				211,425
NET POSITION, beginning of year				<u>528,747</u>
NET POSITION, end of year				<u><u>\$ 740,172</u></u>

**MORENCI AREA SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General Fund</u>	<u>Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
ASSETS:				
Cash and cash equivalents	\$ 925,676	\$ -	\$ 413,757	\$ 1,339,433
Receivables:				
Accounts receivable	36,931	-	1,085	38,016
Taxes receivable	26,681	-	6,842	33,523
Due from other funds	-	-	12,540	12,540
Intergovernmental	1,160,915	-	-	1,160,915
Inventories	-	-	3,960	3,960
Restricted cash and cash equivalents - capital projects	-	75,512	-	75,512
TOTAL ASSETS	<u><u>\$ 2,150,203</u></u>	<u><u>\$ 75,512</u></u>	<u><u>\$ 438,184</u></u>	<u><u>\$ 2,663,899</u></u>
LIABILITIES:				
Payables:				
Accounts payable	\$ 118,543	\$ 16,704	\$ 3,373	\$ 138,620
Due to other funds	12,540	-	-	12,540
Note payable	755,771	-	-	755,771
Accrued interest	6,032	-	-	6,032
Accrued salaries and related items	634,105	-	18,438	652,543
Unearned revenue	209,551	-	3,224	212,775
TOTAL LIABILITIES	<u><u>1,736,542</u></u>	<u><u>16,704</u></u>	<u><u>25,035</u></u>	<u><u>1,778,281</u></u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	<u><u>77,609</u></u>	<u><u>-</u></u>	<u><u>6,842</u></u>	<u><u>84,451</u></u>

See notes to financial statements.

	<u>General Fund</u>	<u>Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES:				
Nonspendable:				
Inventories	\$ -	\$ -	\$ 3,960	\$ 3,960
Restricted for:				
Capital projects	-	58,808	-	58,808
Debt service	-	-	270,395	270,395
Food service	-	-	127,542	127,542
Assigned for subsequent year expenditures	-	-	4,410	4,410
Unassigned	336,052	-	-	336,052
TOTAL FUND BALANCES	<u>336,052</u>	<u>58,808</u>	<u>406,307</u>	<u>801,167</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,150,203</u>	<u>\$ 75,512</u>	<u>\$ 438,184</u>	<u>\$ 2,663,899</u>
Total governmental fund balances				\$ 801,167
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			\$ 19,766,253	
Accumulated depreciation is			<u>(8,874,948)</u>	
				10,891,305
Revenue not recorded in the funds due to not being collected until after September 1st:				
Unavailable revenue - property taxes and special education claims				84,451
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds payable				(10,904,324)
Compensated absences				(54,797)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				<u>(77,630)</u>
Net position of governmental activities				<u>\$ 740,172</u>

See notes to financial statements.

MORENCI AREA SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	<u>General Fund</u>	<u>Capital projects fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 355,082	\$ -	\$ 961,479	\$ 1,316,561
Food sales	-	-	102,024	102,024
Investment earnings	2,079	160	975	3,214
Other	165,254	-	8,803	174,057
	<hr/>	<hr/>	<hr/>	<hr/>
Total local sources	522,415	160	1,073,281	1,595,856
State sources	4,905,021	-	28,871	4,933,892
Federal sources	190,773	-	284,392	475,165
Intermediate school districts	354,476	-	-	354,476
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	5,972,685	160	1,386,544	7,359,389
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES:				
Current:				
Instruction	3,734,121	-	-	3,734,121
Supporting services	2,072,887	-	-	2,072,887
Community services	645	-	-	645
Food service activities	-	-	400,699	400,699
Intergovernmental	82,774	-	-	82,774

See notes to financial statements.

	General Fund	Capital projects fund	Total nonmajor funds	Total governmental funds
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	\$ 17,025	\$ -	\$ 505,891	\$ 522,916
Interest	12,498	-	473,447	485,945
Other	-	-	625	625
Capital outlay	-	16,704	-	16,704
Total expenditures	<u>5,919,950</u>	<u>16,704</u>	<u>1,380,662</u>	<u>7,317,316</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>52,735</u>	<u>(16,544)</u>	<u>5,882</u>	<u>42,073</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	25,000	-	-	25,000
Transfers out	-	-	(25,000)	(25,000)
Proceeds from school loan revolving fund	-	-	92,137	92,137
Sale of capital asset	2,153	-	-	2,153
Total other financing sources (uses)	<u>27,153</u>	<u>-</u>	<u>67,137</u>	<u>94,290</u>
NET CHANGE IN FUND BALANCES	<u>79,888</u>	<u>(16,544)</u>	<u>73,019</u>	<u>136,363</u>
FUND BALANCES:				
Beginning of year	<u>256,164</u>	<u>75,352</u>	<u>333,288</u>	<u>664,804</u>
End of year	<u>\$ 336,052</u>	<u>\$ 58,808</u>	<u>\$ 406,307</u>	<u>\$ 801,167</u>

See notes to financial statements.

MORENCI AREA SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Net change in fund balances total governmental funds \$ 136,363

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

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(429,289)
Capital outlay	78,327

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

Accrued interest payable, beginning of the year	78,896
Accrued interest payable, end of the year	(77,630)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Payments on bonded debt	522,916
Proceeds from school loan revolving fund	(92,137)
Amortization of bond discounts	(2,730)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Unavailable revenue, beginning of year	(97,071)
Unavailable revenue, end of year	84,451

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences, beginning of the year	64,126
Accrued compensated absences, end of the year	(54,797)

Change in net position of governmental activities	\$ 211,425
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**MORENCI AREA SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2013**

	<u>Agency fund</u>
ASSETS:	
Cash and cash equivalents	<u>\$ 83,742</u>
 LIABILITIES:	
Due to student and other groups	<u>\$ 83,742</u>

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

B. Reporting Entity

The Morenci Area Schools (the “District”) is governed by the Morenci Area Schools Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements.

C. Basis of Presentation - Government-wide Financial Statements

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

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

D. Basis of Presentation - Fund Financial Statements

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Continued)

The District reports the following major governmental funds:

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

The *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

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

Beginning with the year of bond issuance, the District has reported the annual construction activity in the capital projects fund. The projects for which the 2008 Serial Bonds were issued were in process as of June 30, 2013 and the cumulative expenditures recognized for the construction period were as follows.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

	<u>Capital projects</u>
Revenue and other financing sources	<u>\$ 1,429,019</u>
Expenditures and other financing uses	<u>\$ 1,370,211</u>

Revenue and other financing sources include the net bond proceeds of \$1,400,000.

Other Non-major Funds

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in the special revenue fund.

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

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

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

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the current year ended, the foundation allowance was based on pupil membership counts taken in February and October of the previous calendar year.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information

4. Transfers may be made for budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2013. The District does not consider these amendments to be significant.

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

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. Standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

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

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated fair value at the date of donation.

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

Land and construction in progress, if any, are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Building and additions	20 - 50
Equipment and furniture	5 - 10
Transportation equipment	5 - 10

5. Deferred outflows/inflows of resources

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Deferred outflows/inflows of resources (Concluded)

In addition to liabilities, the statement of net position 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 District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from two sources: property taxes and receipts that exceeded 60 days of year end. These amounts are unavailable and recognized as an inflow of resources in the period that the amounts become available.

6. Net position flow assumption

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

In the computation of net invested in capital assets, school bond revolving fund principal proceeds of \$92,137 are considered capital-related debt. Accrued interest on the school bond loan fund of \$2,027 has been included in the calculation of unrestricted net position.

7. Fund balance flow assumptions

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Fund balance policies

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

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

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

Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses (Continued)

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2013, the District levied the following amounts per \$1,000 of assessed valuation:

Fund	Mills
General fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	7.00

3. Compensated absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations, or retirements.

4. Long-term obligations

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations (Concluded)

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

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

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

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

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2013, \$1,480,412 of the District's bank balance of \$1,730,412 was exposed to custodial credit risk because it was uninsured. The carrying balance was \$1,498,687.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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

The above amounts as previously reported in Note 2:

Deposits - including fiduciary funds of \$83,742	<u><u>\$ 1,498,687</u></u>
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Deposits are reported in the financial statements as follows:

Fiduciary fund:	
Cash and cash equivalents	\$ 83,742
District wide:	
Current assets:	
Cash and cash equivalents	1,339,433
Restricted cash and cash equivalents - capital projects	<u>75,512</u>
	<u><u>\$ 1,498,687</u></u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2013 consist of the following:

	Government wide
State aid	\$ 970,069
Federal revenue	139,919
Intermediate school district	<u>50,927</u>
	<u><u>\$ 1,160,915</u></u>

Intergovernmental receivables include amounts due from federal, state and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Assets not being depreciated:				
Land	\$ 351,668	\$ -	\$ -	\$ 351,668
Other capital assets:				
Building and additions	14,524,592		-	14,524,592
Equipment and furniture	4,071,712	78,327	-	4,150,039
Transportation equipment	792,233		52,279	739,954
Subtotal	19,388,537	78,327	52,279	19,414,585
Accumulated depreciation:				
Building and additions	4,412,682	281,804	-	4,694,486
Equipment and furniture	3,468,633	106,682	-	3,575,315
Transportation equipment	616,623	40,803	52,279	605,147
Total accumulated depreciation	8,497,938	429,289	52,279	8,874,948
Net capital assets being depreciated	10,890,599	(350,962)	-	10,539,637
Net governmental capital assets	\$ 11,242,267	\$ (350,962)	\$ -	\$ 10,891,305

Depreciation for the fiscal year ended June 30, 2013 amounted to \$429,289 which was allocated in the following manner:

Instruction	\$ 367,318
Support services	61,971
	<u>\$ 429,289</u>

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2013, the District has notes payable outstanding of \$400,000 (Note 2012 B-1) and \$700,000 (Note 2012 B-2, B-3). The notes bear interest rates of 0.40% and 1.554%, respectively, and mature August 20, 2013. Note 2012 B-1 required payments to an irrevocable set-aside account of \$344,229 at June 30, 2013. At year end the balance of these payments are considered defeased debt and are not included in the year-end balance. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
<u>\$ 433,058</u>	<u>\$ 1,100,000</u>	<u>\$ 777,287</u>	<u>\$ 755,771</u>

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

	General obligation bonds (including deferred charges and discounts)	School loan revolving fund	Bus Note	Compensated absences	Total
Balance July 1, 2012	\$ 11,315,348	\$ -	\$ 17,025	\$ 64,126	\$ 11,396,499
Additions	-	92,137	-	-	92,137
Deletions	(503,161)	-	(17,025)	(9,329)	(529,515)
Balance June 30, 2013	10,812,187	92,137	-	54,797	10,959,121
Due within one year	(535,000)	-	-	(10,959)	(545,959)
Due in more than one year	<u>\$ 10,277,187</u>	<u>\$ 92,137</u>	<u>\$ -</u>	<u>\$ 43,838</u>	<u>\$ 10,413,162</u>

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

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

2002 serial bonds due in annual installments of \$395,000 to \$490,000 through May 1, 2016 with interest from 3.25% to 5.25%.	\$ 1,325,000
2005 refunding bonds due in annual installments of \$30,000 to \$830,000 through May 1, 2028 with interest from 3.75% to 4.25%.	8,330,000
2008 serial bonds due in annual installments of \$75,000 to \$100,000 through May 1, 2028 with interest from 3.00% to 4.50%.	1,200,000
Less: issuance discounts	<u>(42,813)</u>
Total bonded debt and other long-term obligations	10,812,187
Borrowings from the State of Michigan under the School Loan Revolving Program. Interest at June 30, 2013 was 3.53%	92,137
Compensated absences	<u>54,797</u>
Total general long-term debt	<u><u>\$ 10,959,121</u></u>

Interest expense (all funds) for the year ended June 30, 2013 was approximately \$486,000.

Borrowing from the State of Michigan - The school loan revolving fund payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates of 3.53% for the School Loan Revolving Fund notes have been assessed for the year ended June 30, 2013. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.00 mills. The school district is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. The District currently levies 7.00 debt mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the following amortization schedule.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

In prior years, the District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2013, \$8,255,000 of bonds outstanding are considered defeased.

The annual requirements to amortize long-term debt outstanding as of June 30, 2013, including interest of \$3,969,621 are as follows:

Year ending June 30,	Principal	Interest	Total
2014	\$ 535,000	\$ 453,616	\$ 988,616
2015	570,000	432,216	1,002,216
2016	595,000	408,730	1,003,730
2017	615,000	378,766	993,766
2018	640,000	354,166	994,166
2019 - 2023	3,555,000	1,368,192	4,923,192
2024 - 2028	4,345,000	571,908	4,916,908
	10,855,000	3,967,594	14,822,594
Issuance discounts	(42,813)	-	(42,813)
School Loan Revolving Fund program	92,137	2,027	94,164
Compensated absences	54,797	-	54,797
	<u>\$ 10,959,121</u>	<u>\$ 3,969,621</u>	<u>\$ 14,928,742</u>

At June 30, 2013, fund balance of \$270,395 is available in the debt service funds to service the general obligation debt.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2013 are as follows:

<u>Receivable fund</u>		<u>Payable fund</u>	
Food service	<u>\$ 12,540</u>	General fund	<u>\$ 12,540</u>

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

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description - The District participates in the statewide Michigan Public School Employees' Retirement System (System) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefit Provisions - Pension

Introduction

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

Pension Reform 2010

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

Pension Reform 2012

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefit Provisions - Pension (Continued)

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

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

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

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

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefit Provisions - Pension (Concluded)

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

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

Funding Policy

Member Contributions

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

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Funding Policy (Continued)

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

Employer Contributions

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

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

<u>Fiscal Year Ending June 30,</u>	<u>Contributions to MPSERS</u>
2013	\$ 846,073
2012	801,572
2011	690,844

Included in the amounts paid above, the District received \$64,381 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2013.

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

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

		4 months ended 1/31/2013			
Public School Employee Pension Rates (FYE Sept. 30th)		First worked before 7/1/10	First worked between 6/30/10 and 9/3/12	Pension Plus and First worked after 9/3/12	Elected DC and First worked after 9/3/12
Pension Normal Cost (Prefunded)		3.47%	2.24%	2.24%	0.00%
Pension Unfunded Accrued Liability		11.42%	11.42%	11.42%	11.42%
Early Retirement Incentive Program		1.36%	1.36%	1.36%	1.36%
Pension Total Rate		16.25%	15.02%	15.02%	12.78%
Retiree Health Care Contribution (Cash basis)		0.93%	0.93%	0.00%	0.00%
Surcharge due to Injunction		8.18%	8.18%	8.18%	8.18%
Health Total Rate		9.11%	9.11%	8.18%	8.18%
Total		25.36%	24.13%	23.20%	20.96%

		Fiscal Years 2012 and 2011					
Public School Employee Pension Rates (FYE Sept. 30th)		FY 2011 - 2012		11 months ended 9/30/11		1 month ended 10/31/10	
		First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10
Pension Normal Cost (Prefunded)		3.47%	2.24%	3.74%	2.24%	3.74%	2.24%
Pension Unfunded Accrued Liability		12.49%	12.49%	8.42%	8.42%	8.42%	8.42%
Early Retirement Incentive Program		0.00%	0.00%	N/A	N/A	N/A	N/A
Pension Total Rate		15.96%	14.73%	12.16%	10.66%	12.16%	10.66%
Retiree Health Care Contribution (Cash basis)		5.50%	5.50%	5.50%	5.50%	7.25%	7.25%
Surcharge due to Injunction		3.00%	3.00%	3.00%	3.00%	N/A	N/A
Health Total Rate		8.50%	8.50%	8.50%	8.50%	7.25%	7.25%
Total		24.46%	23.23%	20.66%	19.16%	19.41%	17.91%

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefit Provisions - Other Postemployment

Introduction

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

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

Retiree Healthcare Reform of 2012

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

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefit Provisions - Other Postemployment (Continued)

Retiree Healthcare Reform of 2012 (Concluded)

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

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

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefit Provisions - Other Postemployment (Continued)

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

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

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

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.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Concluded)

Benefit Provisions - Other Postemployment (Concluded)

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.

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.

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**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 10 - TRANSFERS

The food service fund transferred \$25,000 to the general fund. The transfer from the food service fund was made to allocate indirect costs between the funds.

NOTE 11 - SUBSEQUENT EVENTS

The District has approved borrowing \$1,100,000 for fiscal year 2014 to replace the note payable as described in Note 5.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 - NEW ACCOUNTING STANDARDS

For the year end June 30, 2013 the District implemented the following new pronouncements:

GASB Statement 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

Summary:

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

GASB Statement 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement 65 - Items Previously Reported as Assets and Liabilities.

Summary:

These Statements provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB Statement 65 also states that bond issuance costs should be expensed in the year which they are incurred. The District had no bond issuance costs to expense.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 - UPCOMING ACCOUNTING PRONOUNCEMENT

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

REQUIRED SUPPLEMENTARY INFORMATION

**MORENCI AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013**

	Original budget	Final budget	Actual	Variance with final budget
REVENUES:				
Local sources	\$ 582,072	502,366	\$ 522,415	\$ 20,049
State sources	4,953,988	4,909,574	4,905,021	(4,553)
Federal sources	182,790	178,633	190,773	12,140
Intermediate school districts	-	342,432	354,476	12,044
Total revenues	<u>5,718,850</u>	<u>5,933,005</u>	<u>5,972,685</u>	<u>39,680</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	3,105,582	3,062,628	3,148,801	(86,173)
Added needs	<u>847,698</u>	<u>714,901</u>	<u>585,320</u>	<u>129,581</u>
Total instruction	<u>3,953,280</u>	<u>3,777,529</u>	<u>3,734,121</u>	<u>43,408</u>
Supporting services:				
Pupil	127,988	113,326	113,325	1
Instructional staff	-	24,128	39,868	(15,740)
General administration	198,750	191,662	188,706	2,956
School administration	<u>437,837</u>	<u>448,897</u>	<u>446,513</u>	<u>2,384</u>
Business	175,060	168,137	164,182	3,955
Operation/maintenance	604,071	595,642	586,286	9,356
Pupil transportation	235,214	243,404	241,803	1,601
Central	45,050	54,931	59,334	(4,403)
Athletics	<u>234,600</u>	<u>234,205</u>	<u>232,870</u>	<u>1,335</u>
Total supporting services	<u>2,058,570</u>	<u>2,074,332</u>	<u>2,072,887</u>	<u>1,445</u>
Community services	-	-	645	(645)
Intergovernmental expenditures	<u>48,000</u>	<u>82,858</u>	<u>82,774</u>	<u>84</u>
Debt service:				
Principal payments	22,500	17,026	17,025	1
Interest	<u>35,500</u>	<u>55,690</u>	<u>12,498</u>	<u>43,192</u>
Total debt service	<u>58,000</u>	<u>72,716</u>	<u>29,523</u>	<u>43,193</u>
Total expenditures	<u>6,117,850</u>	<u>6,007,435</u>	<u>5,919,950</u>	<u>88,130</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(399,000)</u>	<u>(74,430)</u>	<u>52,735</u>	<u>127,810</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	25,000	25,000	-
Sale of capital assets	-	-	2,153	2,153
Total other financing sources (uses)	<u>-</u>	<u>25,000</u>	<u>27,153</u>	<u>2,153</u>
NET CHANGE IN FUND BALANCE	<u>\$ (399,000)</u>	<u>\$ (49,430)</u>	<u>79,888</u>	<u>\$ 129,963</u>
FUND BALANCE:				
Beginning of year			<u>256,164</u>	
End of year			<u>\$ 336,052</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**MORENCI AREA SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2013**

	Special revenue fund - Food Service	Debt service funds	Total nonmajor funds
ASSETS:			
Cash and cash equivalents	\$ 143,362	\$ 270,395	\$ 413,757
Receivables:			
Accounts receivable	1,085	-	1,085
Taxes receivable	-	6,842	6,842
Due from other funds	12,540	-	12,540
Inventories	3,960	-	3,960
TOTAL ASSETS	\$ 160,947	\$ 277,237	\$ 438,184
LIABILITIES:			
Accounts payable	\$ 3,373	\$ -	\$ 3,373
Accrued salaries and related items	18,438	-	18,438
Unearned revenue	3,224	-	3,224
TOTAL LIABILITIES	25,035	-	25,035
DEFERRED INFLOWS OF RESOURCES:			
Unavailable revenue	-	6,842	6,842
FUND BALANCES:			
Nonspendable for inventories	3,960	-	3,960
Restricted for debt service	-	270,395	270,395
Restricted for food service	127,542	-	127,542
Assigned for subsequent years expenditures	4,410	-	4,410
TOTAL FUND BALANCES	135,912	270,395	406,307
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 160,947	\$ 277,237	\$ 438,184

MORENCI AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2013

	Special revenue fund - Food Service	Debt service funds	Total nonmajor funds
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 961,479	\$ 961,479
Food sales	102,024	-	102,024
Investment earnings	305	670	975
Other	8,803	-	8,803
State sources	22,699	6,172	28,871
Federal sources	283,711	681	284,392
Total revenues	<u>417,542</u>	<u>969,002</u>	<u>1,386,544</u>
EXPENDITURES:			
Current:			
Food service activities			
Salaries	121,854	-	121,854
Benefits	39,713	-	39,713
Purchased services	6,840	-	6,840
Supplies and materials	207,968	-	207,968
Capital outlay	21,161	-	21,161
Other expenses	3,163	-	3,163
Debt service:			
Principal repayment	-	505,891	505,891
Interest	-	473,447	473,447
Other expenses	-	625	625
Total expenditures	<u>400,699</u>	<u>979,963</u>	<u>1,380,662</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>16,843</u>	<u>(10,961)</u>	<u>5,882</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from school loan revolving fund	-	92,137	92,137
Transfers out	(25,000)	-	(25,000)
Total other financing sources (uses)	<u>(25,000)</u>	<u>92,137</u>	<u>67,137</u>
NET CHANGE IN FUND BALANCES	<u>(8,157)</u>	<u>81,176</u>	<u>73,019</u>
FUND BALANCES:			
Beginning of year	<u>144,069</u>	<u>189,219</u>	<u>333,288</u>
End of year	<u><u>\$ 135,912</u></u>	<u><u>\$ 270,395</u></u>	<u><u>\$ 406,307</u></u>

**MORENCI AREA SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	2002 Building and Site Bonds	2005 Refunding	2008 Building and Site Bonds	Totals
ASSETS:				
Cash and cash equivalents	\$ 118,289	\$ 123,452	\$ 28,654	\$ 270,395
Taxes receivable	6,842	-	-	6,842
TOTAL ASSETS	<u><u>\$ 125,131</u></u>	<u><u>\$ 123,452</u></u>	<u><u>\$ 28,654</u></u>	<u><u>\$ 277,237</u></u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	<u>\$ 6,842</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,842</u>
FUND BALANCES:				
Restricted for debt service	<u>118,289</u>	<u>123,452</u>	<u>28,654</u>	<u>270,395</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u><u>\$ 125,131</u></u>	<u><u>\$ 123,452</u></u>	<u><u>\$ 28,654</u></u>	<u><u>\$ 277,237</u></u>

MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2013

	2002 Building and Site Bonds	2005 Refunding	2008 Building and Site Bonds	Durant	Totals
REVENUES:					
Property taxes	\$ 423,642	\$ 413,450	\$ 124,387	\$ -	\$ 961,479
Investment earnings	296	300	74	-	670
State sources	-	-	-	6,172	6,172
Other	-	681	-	-	681
Total revenues	<u>423,938</u>	<u>414,431</u>	<u>124,461</u>	<u>6,172</u>	<u>969,002</u>
EXPENDITURES:					
Principal repayment	355,000	70,000	75,000	5,891	505,891
Interest	73,876	345,702	53,588	281	473,447
Other expenses	625	-	-	-	625
Total expenditures	<u>429,501</u>	<u>415,702</u>	<u>128,588</u>	<u>6,172</u>	<u>979,963</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(5,563)	(1,271)	(4,127)	-	(10,961)
OTHER FINANCING SOURCES:					
Proceeds from school loan revolving fund	<u>40,540</u>	<u>39,619</u>	<u>11,978</u>	<u>-</u>	<u>92,137</u>
NET CHANGE IN FUND BALANCES	34,977	38,348	7,851	-	81,176
FUND BALANCES:					
Beginning of year	<u>83,312</u>	<u>85,104</u>	<u>20,803</u>	<u>-</u>	<u>189,219</u>
End of year	<u><u>\$ 118,289</u></u>	<u><u>\$ 123,452</u></u>	<u><u>\$ 28,654</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 270,395</u></u>

MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2013

\$11,750,000 2002 School Building and Site Bonds were partially refunded with bonds issued in 2005 and the remaining 2002 bonds were restructured with the following debt service requirements:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 395,000	\$ 29,838	\$ 29,838	2014	\$ 454,676
440,000	21,937	21,938	2015	483,875
490,000	12,862	12,862	2016	515,724
<u>\$ 1,325,000</u>	<u>\$ 64,637</u>	<u>\$ 64,638</u>		<u>\$ 1,454,275</u>

The bonds were approved by the board of education for the purpose of erecting, furnishing and equipping a new middle school as an addition to the high school; acquiring, installing and equipping the new middle school addition for technology; erecting, furnishing and equipping additions to and partially remodeling, furnishing and refurbishing, equipping and re-equipping the high school facilities; partially remodeling the elementary school; and developing and improving sites. The bonds will carry interest rates from 3.25% to 5.25%.

MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2013

\$8,900,000 Refunding bonds issued in 2005:

Bonded debt

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 65,000	\$ 171,451	\$ 171,451	2014	\$ 407,902
55,000	170,151	170,151	2015	395,302
30,000	168,983	168,983	2016	367,966
540,000	168,364	168,364	2017	876,728
565,000	157,564	157,564	2018	880,128
585,000	146,264	146,264	2019	877,528
610,000	134,564	134,564	2020	879,128
635,000	122,364	122,364	2021	879,728
660,000	109,664	109,664	2022	879,328
690,000	96,464	96,464	2023	882,928
720,000	82,319	82,319	2024	884,638
750,000	67,469	67,469	2025	884,938
780,000	51,530	51,530	2026	883,060
815,000	34,955	34,955	2027	884,910
830,000	17,637	17,637	2028	865,274
<u>\$ 8,330,000</u>	<u>\$ 1,699,743</u>	<u>\$ 1,699,743</u>		<u>\$ 11,729,486</u>

The bonds were approved by the board of education for refunding a portion of the 2002 School Building and Site bond issuance. The portion of the prior bonds being refunded are the bonds which mature or are subject to mandatory redemption beginning May 1, 2017 and ending May 1, 2028. The bonds will carry interest rates from 3.75% to 4.25%.

MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2013

\$1,400,000 2008 School Building and Site Bonds:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 75,000	\$ 25,519	\$ 25,519	2014	\$ 126,038
75,000	24,019	24,019	2015	123,038
75,000	22,519	22,519	2016	120,038
75,000	21,019	21,019	2017	117,038
75,000	19,519	19,519	2018	114,038
75,000	18,019	18,019	2019	111,038
75,000	16,519	16,519	2020	108,038
75,000	15,019	15,019	2021	105,038
75,000	13,444	13,444	2022	101,888
75,000	11,775	11,775	2023	98,550
75,000	10,106	10,106	2024	95,212
75,000	8,438	8,438	2025	91,876
100,000	6,750	6,750	2026	113,500
100,000	4,500	4,500	2027	109,000
100,000	2,250	2,250	2028	104,500
<u>\$ 1,200,000</u>	<u>\$ 219,415</u>	<u>\$ 219,415</u>		<u>\$ 1,638,830</u>

The bonds were approved by the board of education to be used for the purpose of partially remodeling, furnishing and refurnishing, equipping and re-equipping school facilities; acquiring, installing and equipping educational technology; constructing a new running track; and developing and improving sites. The bonds will carry interest rates from 3.00% to 4.50%.

**MORENCI AREA SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL LOAN REVOLVING FUND
JUNE 30, 2013**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Interest expense</u>	<u>Loan balance (net change)</u>
2013	<u>\$ 92,137</u>	<u>\$ 2,027</u>	<u>\$ 94,164</u>

**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 AUDITOR'S REPORT

To the Board of Education
Morenci Area Schools

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Morenci Area Schools as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Morenci Area Schools' basic financial statements and have issued our report thereon dated September 27, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morenci Area Schools' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Morenci Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Morenci Area 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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Maney Costeiran PC

September 27, 2013

September 27, 2013

To the Board of Education
Morenci Area Schools

In planning and performing our audit of the financial statements of Morenci Area Schools as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered Morenci Area Schools' internal control over financial reporting (internal control) as a basis for designing our auditing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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 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. We did not identify any deficiencies in internal control to be material weaknesses.

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. We consider the following deficiency in Morenci Area Schools' internal control to be a significant deficiency

Segregation of Duties

Throughout the course of our procedures, we identified several areas where segregation of duties could be improved, such as bank reconciliations and journal entries. The District has two employees in the business office and only had a part-time Superintendent during 2012-13. With a limited staff, it is inherently difficult to achieve adequate segregation of duties, so we recommend that the staff continue to perform reviews of each other's work, and that the reviews be documented. The District has hired a full-time Superintendent who can also provide assistance to the business office by reviewing their work, which would further strengthen segregation of duties and internal control.

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 27, 2013 on the financial statements of Morenci Area Schools. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Develop an Accounting Procedures Manual (repeat)

We noted that the District does not have a formal accounting procedures manual. Written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs. We recommend the District implement a formal accounting policies and procedures manual detailing the process each business services employee completes when performing their job functions.

Michigan Department of Education (MDE) Policies and Procedures (repeat)

The MDE has issued guidance on policies and procedures that districts should implement. Their website has several templates available to assist districts in drafting the policies and procedures. We recommend that Morenci implement the written policies and procedures that are recommended by MDE.

Food Service Fund Balance (repeat)

During our audit procedures, it came to our attention that the Food Service fund balance exceeded the limit as established by the USDA, which is three months operating expenditures. We recommend that the Food Service fund balance be reduced in the upcoming year in order to return to compliance.

Budget Transparency Reporting

As part of our procedures, we reviewed the documents posted to the website as required by section 18(2) of the State School Aid Act. We noted several documents which were either outdated or not dated at all. We recommend that the District review the documents posted to the website regularly in order to ensure that the District is in compliance with the State requirements.

This report 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 these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maney Costeiran PC

September 27, 2013

To the Board of Education
Morenci Area Schools

We have audited the financial statements of Morenci Area Schools for the year ended June 30, 2013, and have issued our report thereon dated September 27, 2013. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. 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 Morenci Area Schools. 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 test of Morenci Area Schools' 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.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on July 17, 2013.

Significant Audit Findings

1. 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 Morenci Area Schools are described in Note 1 to the financial statements. The District implemented GASB Statement 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement 65 - *Items Previously Reported as Assets and Liabilities*. We noted no transactions during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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:

Estimates have been used in calculating the liability for employee compensated absences. The estimated liability is approximately \$55,000. In addition, certain amounts included in capital assets have been based on an outside appraisal company.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We did not identify any sensitive disclosures.

2. Difficulties Encountered in Performing the Audit

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

3. Corrected and Uncorrected Misstatements

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

4. *Disagreements with Management*

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

5. *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 27, 2013.

6. *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 Morenci Area Schools' 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.

7. *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 Morenci Area Schools' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. *Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, 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.

This information is intended solely for the use of the Board of Education and management of Morenci Area Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maney Costeiran PC