

**Ashley Community School District
Ashley, Michigan**

Financial Statements
With Supplemental Information
June 30, 2014



Ashley Community School District
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Ashley Public 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 Ashley Public Schools (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 the District's basic financial statements. The other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Roslund, Prestage & Company, P.C." The signature is written in black ink and is positioned above the typed name of the firm.

Roslund, Prestage & Company, P.C.
September 28, 2014

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

Our discussion and analysis of the Ashley Community School District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2014. Please read this discussion and analysis in conjunction with the District's financial statement beginning on page 1.

I. Description of the Basic Financial Statements

District-Wide Financial Statements

The Statement of Net Position and the Statement of Activities on pages 1 and 2 provide information concerning the operation of the District as a whole. This reporting model takes into consideration the cost of capital assets of the district, as well as, reflects the District's operations on the accrual basis of accounting similar to that used in industry. Most notable is the fact that capital assets are not recorded as an expense at the time of purchase. Instead, under this model, capital assets are depreciated over their expected life. Accumulated depreciation is recorded as an offset to capital assets. This reporting model is intended to present a clearer picture of the cost of utilizing capital assets in the District's operations. This model generally has a long-term focus.

Fund Financial Statements

The Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balance on pages 3 and 5 provide financial information for the individual governmental funds. The focus of this presentation is to present resources available at the beginning of the year, the receipt and use of resources during the year, and the balance of resources available at year-end to be used in future years. This model is referred to as modified accrual and is focused on available spendable resources. This model generally has a short-term focus.

Reconciliation

The statements on pages 4 and 6 reconcile the differences between the District-Wide Financial Statements and the Fund Financial Statements.

Trust and Agency Funds

The Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position present the financial activity of funds held for the benefit of other individuals and/or entities. These amounts are not reflected in the Government-Wide Financial Statements because these resources are not intended to be used to finance the operations of the District.

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

II. Condensed Government-Wide Financial Information

The change in assets, liabilities, and net position from the previous year for the government-wide financial statements were significant.

Current assets increased over the prior year due to the increase in cash balances at June 30, 2014. This increase is attributed to the reduction in payroll and general fund expenditures during the fiscal year.

The increase in capital assets net of depreciation indicates that capital assets are depreciating at a faster rate than they are being replaced. This was expected since the District had deficit fund equity and all capital expenditures were delayed to reduce the deficit. Capital assets purchased during the year totaled \$-0- while current year depreciation was \$163,845.

The current liabilities did not change significantly from the prior year.

The net increase in noncurrent liabilities is comprised primarily of the reclassification of the current portion of the Bonds payable of \$220,000 to current liabilities (a decrease) which was partially offset by the amortized portion of the bond premium (\$164,741) and the additional borrowing of \$92,742 from the School Bond Loan Fund (an increase).

Total net position for governmental activities increased by 0% for the period.

All information presented in Table 1 relates to governmental activities. The District does not have any business-type activities.

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

Table 1
Comparative Summary of Assets, Liabilities, and Net Position
At June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Current Assets	\$ 1,020,061	\$ 825,434	\$ 194,627
Noncurrent Assets	<u>4,146,109</u>	<u>4,309,954</u>	<u>-163,845</u>
Total Assets and Deferred Outflows	<u>\$5,166,170</u>	<u>\$5,135,388</u>	<u>\$ 30,782</u>
Current Liabilities	\$1,263,714	\$1,264,885	-\$ 1,171
Noncurrent Liabilities	<u>4,796,473</u>	<u>4,764,590</u>	<u>31,883</u>
Total Liabilities	<u>\$6,060,187</u>	<u>\$6,029,475</u>	<u>\$ 30,712</u>
Investment in Capital Assets (Net of Related Debt)	-\$500,888	-\$244,954	-\$ 745,842
Restricted	108,197	-42,381	65,816
Unrestricted	<u>-501,326</u>	<u>1,181,422</u>	<u>680,096</u>
Total Net Position	<u>-\$894,017</u>	<u>\$894,087</u>	<u>\$70</u>

Total revenues reported on the Statement of Activities varied slightly from the previous year. Charges for Services increased by \$25,896 due to the inclusion of Athletic revenue on the Statement of Activities this year that was included under Other revenues in the prior year. Operating Grants and Contributions decreased by \$210,981 due primarily to the reclassification of revenues on the Statement of Activities, as well as the reduction in the Title grants of \$60,857. The increase in State Aid Not Restricted to Specific Purpose by \$252,175 is due primarily to the reclassification of revenues on the Statement of Activities and the increase in MPSERS 147c revenues of \$37,529.

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

Table 2
Comparative Summary of Program, General, and Total Revenues
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Charges for Services	\$54,416	\$28,520	\$25,896
Operating Grants and Contributions	270,372	481,353	-210,981
Total Program Revenues	<u>\$324,788</u>	<u>\$509,873</u>	<u>-\$185,085</u>
Property Taxes	\$462,806	\$462,258	\$548
State Aid Not Restricted to Specific Purposes	2,138,630	1,886,055	252,575
Other General Revenues	20,287	66,972	-46,685
Total General Revenues	<u>\$2,621,723</u>	<u>\$2,415,285</u>	<u>\$206,438</u>
Total Revenues	<u>\$2,946,511</u>	<u>\$2,925,158</u>	<u>\$21,353</u>

Total expenses varied significantly from the previous year. Instruction and support services costs decreased primarily due to staff reductions. A reduction in staff was needed to attempt to balance the budget because of declining enrollment. Interest and Fees increased due to the cost to refinance the 2004 Bond issue.

Table 3
Comparative Summary of Program Expenses by Function and Total Expenses
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Instruction	\$1,523,431	\$1,594,014	-\$70,583
Support Services	811,203	948,925	-137,722
Community Services		50	-50
Food Service	108,703	120,829	-12,126
Athletics	53,984		53,984
Interest and Fees on Long-term Debt	279,362	202,055	77,307
Other Expenses	5,914	8,070	-2,156
Depreciation – Unallocated	163,845	163,389	456
Total Expenses	<u>\$2,946,442</u>	<u>\$3,037,332</u>	<u>-\$90,890</u>

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

III. Analysis of the Overall Financial Position and Results of Operations for Governmental Activities

Governmental Activities

The net position and changes in net position are presented in table 4 below. Since the District does not have any business-type activities, this change is entirely comprised of governmental type activities.

Table 4
Comparative Summary of Net Position and Changes in Net Position
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Net Position – Beginning	-\$894,086	-\$781,913	
Increase (Decrease) in Net Position	69	-112,174	112,243
Net Position – Ending	<u><u>-\$894,017</u></u>	<u><u>-\$894,087</u></u>	

The District normally operates under the philosophy that it should neither increase or decrease fund balance from one year to the next based on the Fund Financial Statements (modified accrual). To increase fund balance is an indication that taxpayer money is not being fully utilized for the education of the children. To decrease fund equity is not sustainable for the long-term and would result in cuts to programs in the future. To operate at break-even allows the full utilization of resources to finance education in a sustainable fashion.

During the current year the District experienced a small increase of 7 students resulting in a corresponding increase in revenues. The District made significant budget reductions but was unable to balance the budget. The District did, however, substantially reduce the deficit spending from the previous year.

The decrease in Net Position is a function of the difference between the District-Wide Financial Statements and the Fund Financial Statements. The reconciliation between these two methods is presented on page 6. One major difference between the two models is the depreciation of capital assets of \$163,845. These purchases are recorded as assets on the District-Wide Financial Statements and depreciated over their useful lives. On the Fund Financial Statements the acquisitions are recorded as expenditures at the time of purchase. Other differences include the payment of principal on outstanding bonds (\$4,073,671) which was offset by the proceeds received for the 2014 bond refinance (\$4,013,412) and proceeds from the School Bond Loan Fund (\$59,410).

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

Statement of Activities

The Statement of Activities on page 2 is significantly different from the Statement of Revenues, Expenditures, and Changes in Fund Balance. This statement is organized by program listing the expenses in the first column, charges for services in the second column, grants/contributions in the third column, and net expense/revenue in the fourth column. This manner of presentation illustrates the expenses each program generates as well as the corresponding revenues. The net expense/revenue indicates the portion of that program that must be financed with general revenues of the district or, in the case of food service, may not require any general revenues.

To help the user better understand this statement, the significant program revenues have been identified as follows:

Instruction	Special Education tax levy (from intermediate school district), Title IA grant, Title IIA grant, and REAP grant.
Support Services	Medicaid
Food Service	Hot lunch sales, State Hot Lunch funds, and Federal Hot Lunch funds.
Athletics	Gate receipts, Season passes, Other revenues.

All other revenues are considered General Revenues and are listed at the bottom of the Statement of Activities.

IV. Significant Transactions and Changes in Individual Funds

The overall financial position of the individual governmental funds of the District changed significantly from the previous year for the General Fund and Hot Lunch Fund.

The General Fund realized a significant increase in fund equity due to the expenditure reductions made, in the attempt to balance the budget, as well as the modest increase in revenues.

The Hot Lunch Fund realized a slight increase in fund equity due to an increase in the use of commodities, resulting in a decrease in the cost of food, as well as an increase in Federal revenues related to an increase in program eligible students.

Ashley Community School District
 Management Discussion and Analysis
 For the Year Ended June 30, 2014

A comparison of the change in fund balance to the revenues and other financing sources for each of the governmental funds is as follows:

	Revenues and Other Financing <u>Sources</u>	Net Change in Fund Balance <u>From Prior Year</u>	Percent Change in Fund Balance as a Percent of Revenues and Other Financing <u>Sources</u>
General	\$2,527,940	135,226	5.35%
Food Service	110,832	2,357	2.13%
Debt Service	307,739	63,459	20.62%

General Fund

Approximately 83% of the General Fund budget is spent on salaries and benefits. Since this represents such a large portion of the budget, every attempt is made to adjust staffing levels and settle bargaining agreements to reduce this percentage to a more sustainable amount. Staff reductions are much more difficult in small districts because the reduction in one teacher can have such a drastic impact on class size. The District was able to reduce salaries and benefits to 83% of the budget, but was unable to eliminate the deficit during the year.

Food Service Fund

The Food Service Fund for the District ended the year with a small fund balance, as it was able to control food costs through increased use of commodity foods coupled with an increase in Federal revenues due to increased eligibility under the program.

Debt Service Fund

The Debt Service Fund collects property taxes and receives interest earnings on bank deposits to finance the payment of interest and principal on bonds issued to construct facilities throughout the District. The tax rate is set each year at a level to pay the current year principal and interest payments on the bond issue with a maximum levy of 7.0 mills. Since the maximum tax levy does not generate sufficient revenues to pay the principal and interest payments, the District participates in the School Bond Loan Fund and will receive loans from this fund to fill the shortfall in the revenues until the tax levy equals or exceeds the debt service requirements for a given year. The District will then begin to pay back the state the amount borrowed plus interest.

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

V. Changes to Budget and Comparison to Actual Results

It is required by State law to adopt the original budget before the beginning of the fiscal year. For the fiscal year ended June 30, 2014 the original budget was adopted on June 17, 2013. The original budget is adopted two months before school is in session and, therefore, many assumptions are made in constructing the budget for unknowns such as the number of students we will have for the year. Since much of the District's revenue is determined based on the number of students enrolled, this unknown could have a significant impact on the budget. Often there are a number of unforeseen events that occur throughout the year that impact the budget and/or cause budget variances. The significant variances for the fiscal year ended June 30, 2014 are as follows:

General Fund

Changes from Original Budget to Final Budget

- Local Sources – The budget for property tax revenue was increased to reflect actual amounts received.
- State Sources – The budget for state revenues was increased to reflect the small increase in student enrollment and additional MPSERS 147c revenue.
- Federal Sources – The budget was amended to reflect the actual Title IA grant allocation.
- Other Sources – The budget was increased to reflect additional revenues from the intermediate school district in association with the Vocational Education millage that was passed during the year.
- Added Needs – The original budget did not include any costs for all Special Education staff and was increased to represent actual Title IA grant approved budget expenditures.
- Pupil – The original budget included expenditures related to the counselor position. The counselor position was covered under the Title IA grant.
- Business Services – The original budget was increased for worker compensation insurance, unemployment compensation insurance and umbrella insurance. No budget during the year to cover business services provided by the intermediate school district. The intermediate school district did not charge for their services because the District is in deficit.
- Operations and Maintenance – The original budget was increased to reflect an increase in building repairs and maintenance costs and to include property insurance costs.
- Pupil Transportation – The original budget was increased to cover additional vehicle repairs and other transportation supplies.

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

Variances between Final Budget and Actual Amounts

Local Sources – Actual property tax collections were less than anticipated.

State Sources – State grant of \$2,818 was not recognized as those funds were not spent by year end.

Federal Sources – Federal grants of \$39,327 were not recognized as those funds were not spent by year end and the REAP grant budget was overstated by \$6,052.

Food Service Fund

Changes from Original Budget to Final Budget

The original budget was not amended during the year.

Variances between Final Budget and Actual Amounts

Local Sources – revenues from lunch sales were down significantly from the budgeted amount because of reduced participation in the hot lunch/breakfast program.

Federal Sources – federal revenues from lunch sales were down slightly from the budgeted amount because the budget was overstated.

Food Service – The actual expenditures for food service were slightly less than anticipated.

VI. Capital Assets and Long-Term Debt Activity during the Year

Capital Assets

A summary of the changes in the District's capital assets is presented on page 14. The significant additions and disposals are described as follows:

There were no additions or disposals during the year.

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

Long-Term Debt

A summary of the changes in long-term debt is presented on page 15. Detailed notes for these long-term debts are on page 15 and 16. Of significant note is the 2014 Refunding Bond issue. The District issued \$3,840,000 in 2014 refunding bonds with an average interest rate of 3.86%. The refunding bonds were used to pay \$3,845,000 in 2004 bonds with an average interest rate of 4.35%. As a result, the refunding reduced total debt service payments by approximately \$621,353, which represents an economic gain of approximately \$536,123 taking refunding costs of \$85,230.

VII. Known Facts, Decisions, or Conditions Having Significant Affect on Future Operations.

The District has encountered significant challenges during the past two years with the loss of 31 students and 38 students for the years ended June 30, 2012 and 2013 respectively. Though the District experienced a slight gain of 7 students for the year ended June 30, 2014, it has significantly fallen short in recapturing the lost enrollment of the two previous years. The District made great strides in significantly reducing the deficit accumulated in the prior two fiscal years by offsetting the deficit by a surplus at June 30, 2014 of \$135,226.

Looking forward to fiscal year 2014/2015, the District has taken a conservative approach by basing the budget on a reduction of 18 students, also factoring in the \$175 per student State funding increase. Staffing will remain relatively at the same level as in 2013-14 with the exception of the elimination of one secretary position. The district has a one year negotiated contract in place for the 2014-2015 school year. Administration believes that the District's budget will be balanced for the fiscal year ending June 30, 2015.

**DISTRICT-WIDE
FINANCIAL STATEMENTS**



Ashley Community School District
Statement of Net Position
June 30, 2014

Assets

Current assets	
Cash and cash equivalents	\$ 561,796
Due from other governmental units	451,595
Inventory	5,222
Prepaid expenditures	1,448
Total current assets	1,020,061
Noncurrent assets	
Capital assets less accumulated depreciation	4,146,109
Total assets	5,166,170

Liabilities

Current liabilities	
Accounts payable	10,389
Due to other govt units	21,012
Salaries payable	212,450
Accrued interest	24,357
Accrued expenses	19,456
Unearned revenue	3,404
Short-term note payable	750,000
Bonds payable due within one year	220,000
Compensated absences due within one year	2,646
Total current liabilities	1,263,714
Non-current liabilities	
Bonds payable	3,620,000
Bond premium	164,741
Compensated absences	14,993
School loan revolving fund payable	892,022
School bond loan fund payable	104,717
Total non-current liabilities	4,796,473
Total liabilities	6,060,187

Net position

Net investment in capital assets	(500,888)
Restricted for:	
Debt service	91,074
Food service	17,123
Unrestricted	(501,326)
Total net position	\$ (894,017)

Ashley Community School District
Statement of Activities
For the Year Ended June 30, 2014

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 1,523,431	\$ 2,147	\$ 175,036	\$ (1,346,248)
Support services	811,203	-	6,558	(804,645)
Food service	108,703	22,054	88,778	2,129
Athletics	53,984	30,215	-	(23,769)
Interest and fees on long-term debt	279,362	-	-	(279,362)
Other expenses	5,914	-	-	(5,914)
Depreciation - unallocated	163,845	-	-	(163,845)
Total school district	<u>\$ 2,946,442</u>	<u>\$ 54,416</u>	<u>\$ 270,372</u>	<u>(2,621,654)</u>
General revenues:				
Property taxes				462,806
State sources				2,138,630
Unrestricted interest and investment earnings				406
Restricted interest and investment earnings				260
Other revenues				19,621
Total general revenues				<u>2,621,723</u>
Change in net position				69
Net position - beginning of year				<u>(894,086)</u>
Net position - end of year				<u>\$ (894,017)</u>

FUND FINANCIAL STATEMENTS



Ashley Community School District
Balance Sheet - Governmental Funds (Major Funds)
June 30, 2014

	General	Food Service	Debt Service	Totals
Assets				
Cash and cash equivalents	\$ 465,743	\$ 4,979	\$ 91,074	\$ 561,796
Due from other funds	14,766	215	-	14,981
Due from other governmental units	446,111	5,484	-	451,595
Inventory	-	5,222	-	5,222
Prepaid expenditures	225	1,223	-	1,448
Total assets	<u>\$ 926,845</u>	<u>\$ 17,123</u>	<u>\$ 91,074</u>	<u>\$ 1,035,042</u>
Liabilities				
Accounts payable	\$ 10,389	\$ -	\$ -	\$ 10,389
Due to other funds	215	14,766	-	14,981
Due to other govt units	21,012	-	-	21,012
Salaries payable	212,450	-	-	212,450
Accrued expenses	19,456	-	-	19,456
Unearned revenue	3,404	-	-	3,404
Short-term note payable	750,000	-	-	750,000
Total liabilities	<u>1,016,926</u>	<u>14,766</u>	<u>-</u>	<u>1,031,692</u>
Fund balances				
Non-spendable	225	6,445	-	6,670
Restricted	-	-	91,074	91,074
Unassigned	(90,306)	(4,088)	-	(94,394)
Total fund balances	<u>(90,081)</u>	<u>2,357</u>	<u>91,074</u>	<u>3,350</u>
Total liabilities and fund balances	<u>\$ 926,845</u>	<u>\$ 17,123</u>	<u>\$ 91,074</u>	<u>\$ 1,035,042</u>

Ashley Community School District
 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
 to Net Position of Governmental Activities on the Statement of Net Position
 For the Year Ended June 30, 2014

Total fund balance - governmental funds \$ 3,350

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

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

Add: Cost of capital assets	\$ 6,607,402	
Deduct: Accumulated depreciation	<u>(2,461,293)</u>	
		4,146,109

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:

Deduct: 2014 bonds payable	(3,840,000)	
Deduct: 2014 bond premium	(164,741)	
Deduct: Compensated absences payable	(17,639)	
Deduct: School loan revolving fund payable	(892,022)	
Deduct: School bond loan fund payable	(104,717)	
Deduct: Accrued interest on long-term liabilities	<u>(24,357)</u>	
		<u>(5,043,476)</u>

Total net position - governmental activities \$ (894,017)

Ashley Community School District
Statement of Revenues, Expenditures, and Changes In Fund Balances
Governmental Funds (Major Funds)
For the Year Ended June 30, 2014

Revenues	General	Food Service	Debt Service	Totals
Local sources	\$ 175,354	\$ 22,054	\$ 307,739	\$ 505,147
State sources	2,138,630	2,819	-	2,141,449
Federal sources	97,007	85,959	-	182,966
Other sources	116,949	-	-	116,949
Total revenues	2,527,940	110,832	307,739	2,946,511
Expenditures				
Instruction				
Basic programs	1,183,531	-	-	1,183,531
Added needs	337,854	-	-	337,854
Total instruction	1,521,385	-	-	1,521,385
Support services				
Guidance services	5,105	-	-	5,105
Improvement of instruction	710	-	-	710
Educational media services	25,832	-	-	25,832
Instruction related technology	16,116	-	-	16,116
Board of education	14,262	-	-	14,262
Executive administration	76,913	-	-	76,913
Office of the Principal	172,682	-	-	172,682
Other business services	29,337	-	-	29,337
Operating buildings services	297,960	-	-	297,960
Pupil transportation	163,517	-	-	163,517
Staff/Personnel Services	168	-	-	168
Non-Instructional Technology Services	8,601	-	-	8,601
Athletics	53,984	-	-	53,984
Total support services	865,187	-	-	865,187
Food service	-	108,703	-	108,703
Debt service - principal	-	-	4,065,000	4,065,000
Debt service - interest and other	-	-	252,102	252,102
Other expenses	5,914	-	-	5,914
Total expenditures	2,392,486	108,703	4,317,102	6,818,291
Revenues over (under) expenditures	135,454	2,129	(4,009,363)	(3,871,780)
Other financing sources (uses)				
Transfer in	-	228	-	228
Transfer out	(228)	-	-	(228)
Proceeds from revolving fund	-	-	59,410	59,410
Proceeds from refinancing debt	-	-	4,013,412	4,013,412
Revenues and other sources over (under) expenditures and other uses	135,226	2,357	63,459	201,042
Fund balance - beginning of year	(225,307)	-	27,615	(197,692)
Fund balance - end of year	\$ (90,081)	\$ 2,357	\$ 91,074	\$ 3,350

Ashley Community School District
 Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$	201,042
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Deduct: Depreciation expense		(163,845)
<p>Payment of principal on long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).</p>		
Add: 2004 bond payment		4,065,000
Add: 2014 bond payment		-
Add: 2014 bond premium amortization		8,671
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.</p>		
Deduct: Increase in accrual for compensated absences		(2,046)
Deduct: Increase in accrued interest on school loan revolving fund		(29,770)
Deduct: Increase in accrued interest on school bond loan fund		(3,562)
Deduct: Increase in accrual interest on long-term liabilities		(2,599)
<p>Proceeds from long-term debt issuance is an other financial source in the governmental funds, but not in the statement of activities (where it increases long-term debt).</p>		
Deduct: Proceeds from school loan revolving fund		(59,410)
Deduct: Proceeds from 2014 bond issuance		(4,013,412)
		(4,013,412)
Change in net position of governmental activities	\$	69

Ashley Community School District
Statement of Net Position – Fiduciary Fund
For the Year Ended June 30, 2014

Assets	
Cash and cash equivalents	\$ 27,793
Liabilities	
Due to student and other groups	<u>27,793</u>
Net position	
Restricted	<u><u>\$ -</u></u>

NOTES TO THE FINANCIAL STATEMENTS



NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Ashley Community School District (the District) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the District.

Reporting Entity

The District is governed by a seven member Board of Education 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 government sources and must comply with all of the requirements of these funding source entities. 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.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the District's reporting entity, and which organizations are legally separate, component units of the District. Based on the application of the criteria, the District does not contain any component units.

District-Wide and Fund Financial Statements

The District-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items, including taxes and intergovernmental payments, not properly included among program revenues, are reported instead as general revenues.

Net position is restricted when constraints placed on it are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted sources first, then unrestricted resources as they are needed.

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Fund Financial Statements - 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

Ashley Community School District
Notes to the Financial Statements

District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. 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 severance pay, are recorded only when payment is due.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

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 debt service fund is used to record tax, interest and other revenue for payment of principal and other expenditures on the long-term debt.
- Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The school service funds are special revenue funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The District maintains full control of these funds. The school service funds maintained by the District is the food service fund.

Additionally, the District reports the following fund types:

- Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary fund net position and results of operations are not included in the District-wide statements. Agency funds are custodial in nature (i.e. assets equal liabilities) and do not involve measurement of results of operations. The District presently maintains a student activity fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Budgetary Data

Budgets are adopted by the District for the general and special revenue funds. The budgets are adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level and control is exercised at the activity level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The District's deposits are in accordance with statutory authority.

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the State of Michigan.

Property Tax Revenue

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 interest and penalties may be assessed by the collecting entity.

The District levied 18.0 mills for school general operations on the non-homestead taxable value. The District also levied an additional 7.0 mills for the 2014 debt on all property in the District for the purpose of debt service.

State Aid Revenue

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

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

Inventory

Inventories are valued at cost, on a first in, first out (FIFO) basis. Fund balance is reserved for the amount of inventories on hand as of June 30th.

USDA donated commodities are recorded as a unearned revenue and inventory when received based on their fair market value as determined by the U.S. Department of Agriculture. Revenues and expenditures are then recognized when the commodities are used.

The amount of inventories at year end, including USDA donated commodities, was not significant and, therefore, was not recorded in the financial statements.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the District-wide financial statements. Capital assets are defined by the District as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at 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.

The District does not have infrastructure-type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the District-wide financial statements.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Ashley Community School District
Notes to the Financial Statements

Assets	Years
Buildings & Additions	15 – 50
Equipment	5 – 20
Vehicles	5 – 10
Furniture	10 – 25

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Compensated Absences

Employees who are not teachers are awarded vacation based on years of employment. The school board's policy does not allow for the accumulation of vacation days. The vacation pay liability is not reflected in the financial statements because it does not exceed a normal year's accumulation.

The District has various policies for earning sick days. Sick days are earned at the rate of ten (10) days annually. A maximum of 90 days may be accumulated by teachers. All others accumulate up to a maximum of 40 days. Retiring teachers must have at least ten (10) years of service to receive payment for sick leave. They will then be paid for unused accumulated sick days at a rate of \$15.00 per day, or \$1,350 maximum. All other employees receive nothing upon retirement or termination of employment. The sick leave liability as of June 30, 2014 is \$17,639.

Unearned Revenue

Unearned revenues arise when resources are received by the District before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the fund financial statements and District-wide financial statements, and revenue is recognized.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. 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 no items that qualify for reporting in this category.

Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term liabilities are reported as liabilities in the statement of net position.

Fund Balance

Beginning with fiscal year 2011, the District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- *Nonspendable fund balance* – amounts that are in nonspendable form (such as inventory or prepaid expenditures) or are either legally or contractually required to be maintained intact.
- *Restricted fund balance* – amounts constrained to specific purposes by their providers (such as taxpayers, grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The District's Capital Projects and Debt Service fund balances are considered restricted. The

District would typically use restricted fund balance first, followed by committed resources, and then assigned resources as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these classified funds.

- *Committed fund balance* – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (Board of Education). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- *Assigned fund balance* – amounts the District intends to use for a specific purpose. Intent can be expressed by the Board of Education or by an official or body to which the Board of Education delegates the authority.
- *Unassigned fund balance* – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Unemployment Compensation

The District is subject to the Michigan Employment Security Act and has elected to pay unemployment claims on a direct self-insured basis. Under this method the District must reimburse the Employment Commission for all benefits charged against the District for the year. No provision has been made for possible future claims.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess Of Expenditures Over Appropriations

Budgets are adopted at the functional level and on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Encumbrance accounting is not employed in governmental funds.

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

- 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.
- Public hearings are conducted to obtain taxpayer comments.
- 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.
- Management is authorized to transfer 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.
- Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
- The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2014. The District does not consider these amendments to be significant.

During the current year the District incurred expenditures in excess of the amounts budgeted as indicated in the budget comparison schedules as unfavorable variances.

Also, see Note regarding the General Fund Deficit.

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2014, the carrying amount of the District’s cash, deposits and investments was as follows:

Description	Amount
Petty Cash	\$ 400
Checking, Savings, Money Market Accounts	561,396
Total	\$ 561,796

At year-end, the carrying amount of the District’s deposits was \$561,396 and the bank balance was \$561,942. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

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. See above for amount of deposits held by the District that are exposed to custodial credit risk because it is uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, it 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. 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 prequalifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

NOTE 4 - ACCOUNTS RECEIVABLE

These receivables consist of various amounts owed to the District that are due from non-governmental units.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables at June 30th are as follows:

Receivable fund	Amount	Payable fund	Amount
General Fund	\$ 14,766	General Fund	\$ 215
Food Service Fund	215	Food Service Fund	14,766
Total	\$ 14,981	Total	\$ 14,981

NOTE 6 - DUE FROM OTHER GOVERNMENTAL UNITS

As of June 30th, due from other governmental units is comprised of the following amounts:

Description	Amount
State of Michigan – State Aid	\$ 381,005
State of Michigan – Title I	32,274
State of Michigan – Title II	138
Midland ESA – GSRP	15,542
U.S. Department of Education	10,031
Vocational Education Tuition and Transportation	7,121
State of Michigan – State Aid (Food Service)	5,484
Total	\$ 451,595

NOTE 7 - CAPITAL ASSETS

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

Capital Assets	Beginning Balance	Additions	Disposals	Ending Balance
Buildings & Additions	\$ 5,893,694	\$ -	\$ -	\$ 5,893,694
Equipment	269,945	-	-	269,945
Vehicles	357,553	-	-	357,553
Furniture	86,210	-	-	86,210
Total Capital Assets	6,607,402	-	-	6,607,402
Accumulated Depreciation				
Buildings & Additions	(1,727,617)	(136,870)	-	(1,864,487)
Equipment	(225,757)	(13,401)	-	(239,158)
Vehicles	(312,730)	(8,592)	-	(321,322)
Furniture	(31,344)	(4,982)	-	(36,326)
Total Accumulated Depreciation	(2,297,448)	(163,845)	-	(2,461,293)
Net Capital Assets	\$ 4,309,954	\$ (163,845)	\$ -	\$ 4,146,109

Depreciation for the year ended June 30, 2014 totaled \$163,845. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 8 - SALARIES PAYABLE

Accrued wages as of June 30th consist mainly of the remaining balance owed on teacher contracts to be paid during the summer months. This also includes amounts earned by other employees as of year-end but not paid until after year-end.

NOTE 9 - ACCRUED EXPENSES

Accrued expenses as of June 30th are as follows:

Description	Amount
Retirement 147 (c)	\$ 12,697
Other	6,759
Totals	\$ 19,456

NOTE 10 - DUE TO OTHER GOVERNMENTAL UNITS

Due to other governmental units as of June 30th are as follows:

Description	Amount
Salaries payable	\$ 147,907
Retirement payable	36,666
Health insurance payable	12,612
FICA	11,315
Annuity payable	3,950
Totals	\$ 212,450

NOTE 11 - SHORT-TERM NOTE PAYABLE

On August 20, 2013 the District borrowed \$750,000 in the form of a State Aid Anticipation Note for the purpose of providing funds for school operations. The interest rate is stated at 1.05% and the maturity date is August 20, 2014.

On August 20, 2014 (after the end of the current fiscal year) the District borrowed \$725,000 in the form of a State Aid Anticipation Note for the purpose of providing funds for school operations. The interest rate is stated at 3.00% and the maturity date is August 20, 2014.

NOTE 12 - LONG-TERM DEBT

The District issues bonds, notes and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds and refunding bonds are direct obligations and pledge the full faith and credit of the District. Other long-term obligations include compensated absences.

2004 Bond Issue

During 2004 the District issued \$5,465,000 of general obligation bonds for the purpose of erecting, furnishing, and equipping additions to and partially remodeling, furnishing and refurbishing, equipping and re-equipping school buildings; acquiring, installing and equipping the facility for technology; and developing and improving the site.

2014 Refunding Bond Issue

During fiscal year 2013-2014, the District issued \$3,840,000 in 2014 refunding bonds with an average interest rate of 3.86 percent. The refunding bonds were used to pay \$3,845,000 in 2004 bonds with an average interest rate of 4.35 percent. As a result, the bonds are considered to be defeased and the liability for the bonds has been removed from the District's long-term obligations. The refunding reduced total debt service payments by approximately \$621,533, which represents an economic gain of approximately \$536,123.

See schedule of long-term debt in the back of this report.

School Bond Loan Fund and School Loan Revolving Fund

The District has periodically approved the borrowing from the State Of Michigan's School Bond Loan Fund and the School Loan Revolving Fund for the purpose of paying debt service. The interest rates are variable. Repayment of the loans will begin when excess funds are available from the taxes collected for payment of the bond issue.

See bond payment schedules included in the back of this report.

Changes to Long-Term Debt

The long-term obligations currently outstanding are as follows:

Ashley Community School District
Notes to the Financial Statements

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
Compensated Abs.	\$ 15,593	\$ 2,046	\$ -	\$ 17,639	\$ 2,646	\$ 14,993
2004 Bonds	4,065,000	-	(4,065,000)	-	-	-
2014 Refunding Bonds	-	3,840,000	-	3,840,000	220,000	3,620,000
School Bond Loan Fund	101,155	3,562	-	104,717	-	104,717
School Bond Revolving	802,842	89,180	-	892,022	-	892,022
Total	\$ 4,984,589	\$ 3,934,789	\$(4,065,000)	\$ 4,854,378	\$ 222,646	\$ 4,631,732

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2014 are included in the Schedule of Long-Term Debt in the back of this report.

NOTE 13 - 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.

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

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

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members a voluntary election regarding their pension if they first became a member before July 1, 2010 and earned service credit in the 12 months ending September 3, 2012. Any changes to a member's pension are

effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1

Members voluntarily elected to increase their contributions to the pension fund and retain the 1.5% pension factor in their pension formula. Basic Plan members were to contribute 4% and MIP (Fixed, Graded and Plus) members were to contribute 7%. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

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 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 maintain their current level of contribution to the pension fund and therefore not increase their 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 (DC) 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).

Non-electing Members

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.

New Members

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.

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. 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.

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 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 employee's 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 District's contributions to MPSERS were \$370,838 for the year ending June 30, 2014, \$389,167 for the year ending June 30, 2013 and \$380,222 for the year ending June 30, 2012.

Included in the amounts paid above, the District received \$69,799 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2014.

Other Postemployment Benefits

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.

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

NOTE 14 – RISK MANAGEMENT

The District is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The District has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

NOTE 15 – 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.

NOTE 16 – GENERAL FUND DEFICIT

The Michigan State School Aid act states a district receiving money under this act shall not adopt or operate under a deficit budget, and shall not incur an operating deficit in a fund during a school fiscal year. A district having an existing deficit or which incurs a deficit shall not be allotted or paid a further sums under this act until the district submits to the Michigan Department of Education for approval a budget for the current fiscal year and a plan to eliminate the deficit not later than the end of the second fiscal year after the deficit was incurred.

At June 30, 2014, the general fund of the District had a deficit of \$90,081. The District is currently working with the Michigan Department of Education and implementing its deficit elimination plan.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE



Ashley Community School District
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 209,827	\$ 215,095	\$ 175,354	\$ (39,741)
State sources	2,057,241	2,140,857	2,138,630	(2,227)
Federal sources	139,207	143,532	97,007	(46,525)
Other sources	64,000	80,138	116,949	36,811
Total revenues	<u>2,470,275</u>	<u>2,579,622</u>	<u>2,527,940</u>	<u>(51,682)</u>
Expenditures				
Instruction				
Basic programs	1,267,222	1,282,475	1,183,531	98,944
Added needs	129,489	252,177	337,854	(85,677)
Total instruction	<u>1,396,711</u>	<u>1,534,652</u>	<u>1,521,385</u>	<u>13,267</u>
Support services				
Guidance services	46,148	150	5,105	(4,955)
Improvement of instruction	17,715	710	710	-
Educational media services	25,790	25,578	25,832	(254)
Instruction related technology	10,875	16,163	16,116	47
Board of education	21,500	18,616	14,262	4,354
Executive administration	68,748	77,781	76,913	868
Office of the Principal	168,983	174,994	172,682	2,312
Other business services	-	17,797	29,337	(11,540)
Operating buildings services	249,714	294,106	297,960	(3,854)
Pupil transportation	134,779	162,787	163,517	(730)
Staff/Personnel Services	-	-	168	(168)
Non-Instructional Technology Services	2,100	8,601	8,601	-
Athletics	49,500	52,955	53,984	(1,029)
Total support services	<u>795,852</u>	<u>850,238</u>	<u>865,187</u>	<u>(14,949)</u>
Other expenses	7,500	7,500	5,914	1,586
Outgoing transfers	-	-	228	(228)
Total expenditures	<u>2,200,063</u>	<u>2,392,390</u>	<u>2,392,714</u>	<u>(324)</u>
Revenues over (under) expenditures	270,212	187,232	135,226	(52,006)
Fund balance - beginning of year	<u>(225,307)</u>	<u>(225,307)</u>	<u>(225,307)</u>	<u>-</u>
Fund balance - end of year	<u>\$ 44,905</u>	<u>\$ (38,075)</u>	<u>\$ (90,081)</u>	<u>\$ (52,006)</u>

Ashley Community School District
 Budgetary Comparison Schedule for the Food Service Fund
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with final budget
	Original	Final		
Revenues				
Local sources	\$ 38,990	\$ 38,990	\$ 22,054	\$ (16,936)
State sources	4,877	4,877	2,819	(2,058)
Federal sources	71,635	71,635	85,959	14,324
Total revenues	<u>115,502</u>	<u>115,502</u>	<u>110,832</u>	<u>(4,670)</u>
Expenditures				
Food service	114,533	114,533	108,703	5,830
Total expenditures	<u>114,533</u>	<u>114,533</u>	<u>108,703</u>	<u>5,830</u>
Revenues over (under) expenditures	969	969	2,129	1,160
Other financing sources (uses)				
Transfer in	<u>228</u>	<u>228</u>	<u>228</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	1,197	1,197	2,357	1,160
Fund balance - beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 1,197</u></u>	<u><u>\$ 1,197</u></u>	<u><u>\$ 2,357</u></u>	<u><u>\$ 1,160</u></u>

OTHER SUPPLEMENTARY INFORMATION



Ashley Community School District
General Fund - Statement of Revenues
For the Year Ended June 30, 2014

Local sources

Property taxes	\$ 155,327
Interest	406
Rental fees	225
Other local revenues	19,396
Total local sources	<u>175,354</u>

State sources

General state aid	1,904,014
Restricted state aid	234,616
Total state sources	<u>2,138,630</u>

Federal sources

Title I	80,247
Reap grant	15,882
Title II, Part A - Improving teacher quality	878
Total federal sources	<u>97,007</u>

Other financing sources

Transportation payments received	2,147
ISD Collected Millage Tax	78,029
Medicaid	6,558
Other funding sources	30,215
Total other financing sources	<u>116,949</u>

Total revenues	<u><u>\$ 2,527,940</u></u>
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Ashley Community School District
 General Fund - Statement of Expenditures
 For the Year Ended June 30, 2014

Instruction

Basic programs		
Elementary		
Salaries	\$	257,497
Employee benefits		160,212
Purchased services		15,390
Supplies, materials and other		10,935
Total elementary		<u>444,034</u>
Middle school		
Salaries		200,361
Employee benefits		113,903
Purchased services		2,199
Supplies, materials and other		990
Total middle school		<u>317,453</u>
Secondary		
Salaries		228,241
Employee benefits		126,231
Purchased services		9,789
Supplies, materials and other		7,610
Total secondary		<u>371,871</u>
Great Start Readiness Program		
Salaries		32,189
Employee benefits		17,183
Purchased services		377
Supplies, materials and other		424
Total Great Start Readiness Program		<u>50,173</u>
Total basic programs		1,183,531
Added needs		
Special education		
Salaries		138,129
Employee benefits		66,741
Purchased services		1,041
Supplies, materials and other		692
Total special education		<u>206,603</u>
Compensatory education		
Salaries		83,976
Employee benefits		41,775
Total compensatory education		<u>125,751</u>
Career and technical education		
Purchased services		<u>5,500</u>
Total added needs		<u>337,854</u>
Total instruction		1,521,385

Ashley Community School District
 General Fund - Statement of Expenditures
 For the Year Ended June 30, 2014

Supporting services

Guidance services		
Salaries	\$	1,204
Employee benefits		3,901
Total guidance services		<u>5,105</u>
 Improvement of instruction		
Purchased services		710
 Educational media services		
Salaries		18,300
Employee benefits		7,180
Purchased services		2
Supplies, materials and other		<u>350</u>
Total educational media services		25,832
 Instruction related technology		
Salaries		2,060
Employee benefits		757
Purchased services		10,590
Supplies, materials and other		334
Capital outlay		<u>2,375</u>
Total instruction related technology		16,116
 Board of education		
Purchased services		13,597
Supplies, materials and other		<u>665</u>
Total board of education		14,262
 Executive administration		
Salaries		60,871
Employee benefits		12,734
Purchased services		1,118
Capital outlay		75
Supplies, materials and other		<u>2,115</u>
Total executive administration		76,913
 Office of the Principal		
Salaries		111,363
Employee benefits		53,667
Purchased services		3,638
Supplies, materials and other		<u>4,014</u>
Total office of the principal		172,682
 Other business services		
Employee benefits		15,523
Purchased services		1,683
Supplies, materials and other		<u>12,131</u>
Total other business services		29,337

Ashley Community School District
 General Fund - Statement of Expenditures
 For the Year Ended June 30, 2014

Supporting services (continued)

Operating buildings services	
Salaries	\$ 81,070
Employee benefits	57,809
Purchased services	35,357
Supplies, materials and other	123,410
Capital outlay	314
Total operating buildings services	297,960
Pupil transportation	
Salaries	60,966
Employee benefits	19,611
Purchased services	14,198
Supplies, materials and other	68,742
Total pupil transportation	163,517
Staff/Personnel Services	
Purchased services	168
Non-Instructional Technology Services	
Purchased services	8,601
Athletics	
Salaries	12,986
Employee benefits	5,079
Purchased services	32,497
Supplies, materials and other	3,422
Total athletics	53,984
Total support services	865,187
Outgoing transfers and other transactions	
Copier leases	5,914
Transfer to Food Service Fund	228
Total outgoing transfers and other transactions	6,142
Total general fund expenditures and other transactions	\$ 2,392,714

Ashley Community School District
Food Service Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2014

Revenues

Local sources	
Student lunches	\$ 17,938
Adult lunches	681
Ala-carte	3,365
Miscellaneous	70
Total local sources	22,054
State sources	
School lunch program - lunch	2,819
Federal sources	
National school lunch program	79,393
USDA donated & bonus commodities	6,566
Total federal sources	85,959
Total revenues	110,832

Expenditures

Purchased services	52,983
Supplies, materials and other	55,720
Total expenditures	108,703

Revenues over (under) expenditures

2,129

Other financing sources (uses)

Transfer from general fund	228
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Revenues and other sources over (under) expenditures and other uses

2,357

Fund balance - beginning of year

-

Fund balance - end of year

\$ 2,357

Ashley Community School District
Debt Service Fund - Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2014

Revenues

Local sources	
Property tax	\$ 307,479
Interest on investments	260
Total local sources	<u>307,739</u>

Expenditures

Outgoing transfers and other transactions	
Principal	4,065,000
Interest and other charges	252,102
Total expenditures	<u>4,317,102</u>

Revenues over (under) expenditures (4,009,363)

Other financing sources (uses)

Proceeds from school loan revolving fund	59,410
Proceeds from refinancing debt	<u>4,013,412</u>

Revenues and other sources over (under) expenditures and other uses 63,459

Fund balance - beginning of year 27,615

Fund balance - end of year \$ 91,074

Ashley Community School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2014

Fiscal Year Ended June 30,	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
2014 Refunding Bonds - \$3,840,000					
2015	4.00%	\$ 220,000	\$ 97,427	\$ 74,625	\$ 392,052
2016	4.00%	230,000	70,225	70,225	370,450
2017	4.00%	240,000	65,625	65,625	371,250
2018	4.00%	250,000	60,825	60,825	371,650
2019	4.00%	260,000	55,825	55,825	371,650
2020	4.00%	270,000	50,625	50,625	371,250
2021	4.00%	280,000	45,225	45,225	370,450
2022	4.00%	290,000	39,625	39,625	369,250
2023	4.00%	150,000	33,825	33,825	217,650
2024	4.00%	150,000	30,825	30,825	211,650
2025	3.30%	150,000	27,825	27,825	205,650
2026	3.30%	150,000	25,350	25,350	200,700
2027	3.50%	150,000	22,875	22,875	195,750
2028	3.50%	150,000	20,250	20,250	190,500
2029	3.75%	150,000	17,625	17,625	185,250
2030	3.75%	150,000	14,813	14,812	179,625
2031	4.00%	150,000	12,000	12,000	174,000
2032	4.00%	150,000	9,000	9,000	168,000
2033	4.00%	150,000	6,000	6,000	162,000
2034	4.00%	150,000	3,000	3,000	156,000
		<u>\$ 3,840,000</u>	<u>\$ 708,790</u>	<u>\$ 685,987</u>	<u>\$ 5,234,777</u>

Five year groupings					
Year 1		\$ 220,000	\$ 97,427	\$ 74,625	
Year 2		230,000	70,225	70,225	
Year 3		240,000	65,625	65,625	
Year 4		250,000	60,825	60,825	
Year 5		260,000	55,825	55,825	
Years 6-10		1,140,000	200,125	200,125	
Years 11-15		750,000	113,925	113,925	
Years 16-20		750,000	44,813	44,812	
		<u>\$ 3,840,000</u>	<u>\$ 708,790</u>	<u>\$ 685,987</u>	

Ashley Community School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2014

Fiscal Year Ended June 30,	Principal Balance	Interest	June 30th Balance Due
School Bond Loan Fund			
1998	\$ 21,492	\$ 776	\$ 22,268
1999	21,387	997	44,652
2000	25,689	4,100	74,441
2001	10,041	4,006	88,488
2002	18,752	4,244	111,484
2003	-	3,800	115,284
2004	(31,262)	(18,738)	65,284
2004	-	2,434	67,718
2005	-	2,005	69,723
2006	-	2,846	72,569
2007	-	3,444	76,013
2008	-	3,416	79,429
2009	-	3,753	83,182
2010	-	4,710	87,892
2011	-	4,546	92,438
2012	-	4,493	96,931
2013	-	4,224	101,155
2014	-	3,562	104,717
	<u>\$ 66,099</u>	<u>\$ 38,618</u>	

As of June 30, 2014, the interest rate was 3.52268%.

During the year ended June 30, 2004 the District made a \$50,000 payment on this loan, of which \$31,262 was applied to principal.

School Loan Revolving Fund			
2006	\$ 54,000	\$ 492	\$ 54,492
2007	132,454	5,502	192,448
2008	143,559	11,078	347,085
2009	39,933	17,453	404,471
2010	84,427	22,757	511,655
2011	76,476	20,844	608,975
2012	86,028	19,553	714,556
2013	64,611	23,675	802,842
2014	59,410	29,770	892,022
	<u>\$ 740,898</u>	<u>\$ 151,124</u>	

As of June 30, 2014, the interest rate was 3.52268%.



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

To the Board of Education
Ashley Public Schools

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ashley Public Schools (the District), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 28, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as items 2014-001 and 2014-002 that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on

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

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
September 28, 2014

Finding 2014-001

Finding

The District is responsible for designing and implementing the necessary internal controls to safeguard assets from errors, fraud, or abuse and to assure that transactions are properly authorized and financial activity is properly recorded in the records. A fundamental concept in a good system of internal control is the segregation of duties.

During our review of internal controls, we became aware that one staff person is responsible for nearly all duties associated with the District's accounting including: opening bank statements and preparing the bank reconciliations, receiving payments, cash disbursements, and the recording the activity into the accounting records.

Recommendation

We recommend that management review internal controls and segregate the duties as necessary to reduce the risk of errors, fraud, or abuse and to assure that transactions are properly authorized and financial activity is properly recorded in the records.

Response

The District is in agreement with our recommendations and will implement the recommendation stated above. The District has contracted with the ISD to assistance in accounting functions.

Finding 2014-002

Finding

Compliance with the Uniform Budgeting and Accounting Act. MCL (Michigan Compile Laws) 141.436 states, except as otherwise permitted in MCL 388.1702 the local school board shall not adopt a general appropriations act (Budget) or an amendment to that act which causes estimated total expenditures to exceed total estimated revenues including prior year fund balance, or incur an actual fund balance deficit. The District's general fund budgets reflect estimated appropriations greater than current year estimated revenues including prior year fund balance. The District currently has a deficit fund balance in the general fund.

Recommendation

The District has communicated this issue with the Michigan Department of Education and is in the process of implementing a deficit reduction plan.

Response

The District is in agreement with our recommendations and will implement the recommendation stated above.