

Alanson Public Schools

FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2014

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Management's Discussion and Analysis

As management of Alanson Public Schools (the "School District"), we offer readers of the School District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014.

Financial Highlights

- The assets of the School District exceeded its liabilities at the close of the most recent fiscal year by \$2,893,122 (*net position*). Of this amount, \$2,633,452 is invested in capital assets, net of related debt; \$182,805 (*unrestricted net position*) may be used to meet the School District's ongoing obligations; \$54,386 is restricted for debt service and \$22,479 is restricted for school-based activities.
- The School District's total net position increased by \$158,281. See the section entitled District-Wide Financial Analysis, below, for a few of the significant factors affecting net position during the year.
- As of the close of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$1,040,911, an increase of \$601,814 in comparison with the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the School District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the School District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *statement of activities* presents information showing how the School District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused sick or vacation leave).

Both of the District-wide financial statements present functions of the School District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the School District include instruction, supporting services and food services. The School District has no business-type activities as of and for the year ended June 30, 2014.

The District-wide financial statements can be found on pages 5-6 of this report.

Management's Discussion and Analysis - Continued

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a School District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The School District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balances for the General Fund, the 2010 Refunding Bonds Fund and the 2014 Capital Projects Fund, which are considered to be the three major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The School District adopts an annual appropriated budget for its General Fund and the Special Revenue fund. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with that budget. The budgetary comparison schedule can be found on page 26 of this report.

The basic governmental fund financial statements can be found on pages 7-9 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the School District's own programs. The only fiduciary fund of the School District is an agency fund, which does not have a measurement focus.

The basic fiduciary fund financial statement can be found on page 10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 11-24 of this report.

Management's Discussion and Analysis - Continued

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining fund and other statements and schedules can be found on pages 28-29 of this report.

District-wide Financial Analysis

Alanson Public Schools Condensed Statement of Net Position

	Governmental Activities 2013-2014	Governmental Activities 2012-2013
Assets		
Current and other assets	\$ 1,290,611	\$ 693,589
Capital assets	3,575,573	3,707,363
Total assets	4,866,184	4,400,952
Liabilities		
Current liabilities	439,689	684,332
Long-term liabilities	1,533,373	981,779
Total liabilities	1,973,062	1,666,111
Net Position		
Invested in capital assets, net of related debt	2,633,452	2,370,823
Restricted for		
Food service	22,479	23,438
Debt service	54,386	78,447
Unrestricted	182,805	262,133
Total net position	\$ 2,893,122	\$ 2,734,841

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the School District, assets exceeded its liabilities by \$2,893,122 at the close of the most recent fiscal year.

The largest portion of the School District's net position, \$2,633,452 or 91%, reflects its investment in capital assets (e.g., land, buildings, equipment and vehicles and buses) less any related debt used to acquire those assets that are still outstanding. The School District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the School District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

\$54,386 or 2%, represents resources that are subject to external restrictions on how they may be used. \$22,479 or .8% represents resources restricted for the School District's food service program. \$182,805 or 6% is *unrestricted net position* and is available for spending at the School District's discretion.

Management's Discussion and Analysis - Continued

General Fund Operations. The School District's expenditures from General Fund operations exceeded revenues in the amount of \$97,734 for the fiscal year ended June 30, 2014.

Debt Payments. The School District paid \$430,000 toward outstanding bond principal obligations.

Capital Assets. The School District's capital assets decreased by \$131,790 during the year. The School District added \$41,972 to equipment. The net increase in accumulated depreciation was \$173,762.

Alanson Public Schools Condensed Statement of Activities

	2014	2013
Revenues		
Program revenues		
Charges for services	\$ 47,391	\$ 51,855
Operating grants and contributions	820,420	879,637
General revenues		
Property taxes	1,652,492	1,685,814
Unrestricted State Aid	646,905	788,429
Unrestricted investment earnings	528	9,653
Other	195,350	74,907
Total revenues	3,363,086	3,490,295
Expenses		
Instruction	1,819,308	1,926,979
Supporting services	1,048,259	965,004
Food services	133,209	154,729
Other	36,139	10,320
Interest on long-term debt	51,489	60,536
Depreciation – unallocated	116,401	116,402
Total expenses	3,204,805	3,233,970
Change in net position	158,281	256,325
Net position, beginning of year	2,734,841	2,478,516
Net position, end of year	\$ 2,893,122	\$ 2,734,841

Governmental Activities. Governmental activities increased the School District's net position by \$158,281.

Management's Discussion and Analysis - Continued

Financial Analysis of the Government's Funds

As noted earlier, the School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the School District's governmental funds is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the School District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the School District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School District's governmental funds reported combined ending fund balances of \$1,040,911 an increase of \$601,814 in comparison with the prior year. Approximately 18% or \$182,509 of this total amount constitutes *unassigned fund balance*, which is available for spending at the School District's discretion. The remainder of fund balance is *restricted* to indicate that it is not available for new spending because the underlying assets are included in contractual obligations for repayment of bonds, capital improvements and food service and are not available for current expenditures.

The General Fund is the principal operating fund of the School District. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. At the end of the current fiscal year, \$182,509 of the total fund balance of \$231,178 in the General Fund was unassigned and available for spending at the School District's discretion.

The fund balance of the School District's General Fund decreased by \$97,734 during the current fiscal year. This decrease is primarily attributable to reduced Federal and State revenues.

General Fund Budgetary Highlights

The following were differences between the original and final amended budgets:

- Local revenue, original budget \$1,361,320 amended budget \$1,447,338; attributable to new cell phone tower contract.
- State revenue, original budget of \$937,455, amended budget of \$878,029; attributable lower student count than anticipated.
- Instruction, original budget \$1,806,166, amended budget \$1,863,191; attributable to staff changes, discontinuation of the 21st Century program and allocation of State Retirement Unfunded Liability Obligations (UAAL) which are reimbursed through State Aid.
- Support services-pupil, original budget \$51,600, amended budget \$75,216; attributable to expansion of Stretch program and allocation of State Retirement Unfunded Liability Obligations (UAAL) which are reimbursed through State Aid.

Management's Discussion and Analysis - Continued

Capital Asset and Debt Administration

Capital assets. The School District's investment in capital assets for its governmental activities amounted to \$3,575,573 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment and vehicles and buses.

	<u>2014</u>	<u>2013</u>
Land	\$ 6,000	\$ 6,000
Buildings	6,233,988	6,233,988
Site improvements	736,913	736,913
Equipment	401,532	359,560
Vehicles and buses	<u>299,547</u>	<u>299,547</u>
Total	7,671,980	7,636,008
Accumulated depreciation	<u>(4,102,407)</u>	<u>(3,928,645)</u>
Total capital assets, net	<u>\$ 3,575,573</u>	<u>\$ 3,707,363</u>

Additional information on the School District's capital assets can be found in Note E on page 18 of this report.

Long-term debt. At the end of the current fiscal year, the School District had total bonded debt outstanding of \$1,665,000, which all relates to general obligation bonds.

The net decrease in compensated absences was \$18,406.

Additional information on the School District's long-term debt can be found in Note F on pages 19-20 of this report.

Management's Discussion and Analysis - Continued

Factors Bearing on the School District's Future

The following factors were considered in preparing the School District's budget for the 2014-2015 fiscal year:

- Declining enrollment due to regional demographics and economic conditions are the largest concern.
- Energy improvements helped the budget for 2013-2014. There is concern for continuing increases in energy costs and the possibility of a more severe winter for 2014-2015.
- The community passed a bond issue for: technology (1 to 1 devices for students), a bus garage, 1 new bus, a new science lab and gym equipment. These improvements will allow Alanson Public Schools to stay competitive with surrounding schools and protect previously purchased busses. This should help stabilize enrollment.
- The community passed a sinking fund millage that will relieve some pressure on the general fund in funding appropriate projects.

Requests for Information

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jeffrey Liedel, Superintendent, 7400 North Street, Alanson, MI 49706.



Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

Management's Responsibility for the Financial Statements

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

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 School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Alanson Public Schools 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 on pages *i* through *vii*, and budgetary comparison information on page 26, 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 inquires 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 School District's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2014, on our consideration of the School 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 School District's internal control over financial reporting and compliance.

Dennis, Gartland & Niergarth

October 1, 2014

Alanson Public Schools

STATEMENT OF NET POSITION

June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 1,112,881
Other receivables	1,938
Due from other governments	<u>175,792</u>
Total current assets	1,290,611
Capital assets, net of accumulated depreciation	<u>3,575,573</u>
Total assets	<u><u>\$ 4,866,184</u></u>
LIABILITIES AND NET POSITION	
LIABILITIES	
Current liabilities	
Accrued expenses	\$ 61,279
Salaries payable and related liabilities	182,515
Unearned revenue	1,804
Due to other governments	14,091
Current portion of long-term debt	<u>180,000</u>
Total current liabilities	439,689
Non-current portion of long-term debt	<u>1,533,373</u>
Total liabilities	<u>1,973,062</u>
NET POSITION	
Invested in capital assets, net of related debt	2,633,452
Restricted for	
Food service	22,479
Debt service	54,386
Unrestricted	<u>182,805</u>
Total net position	<u>2,893,122</u>
Total liabilities and net position	<u><u>\$ 4,866,184</u></u>

The accompanying notes are an integral part of these financial statements.

Alanson Public Schools

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position Governmental Activities
		Charges For Services	Operating Grants and Contributions	
Governmental activities				
Instruction	\$ 1,819,308	\$ 35,336	\$ 690,544	\$ (1,093,428)
Supporting services	1,048,259	7,966	2,757	(1,037,536)
Food service	133,209	4,089	127,119	(2,001)
Other	36,139	-	-	(36,139)
Interest on long-term debt	51,489	-	-	(51,489)
Depreciation-unallocated	116,401	-	-	(116,401)
Total governmental activities	\$ 3,204,805	\$ 47,391	\$ 820,420	(2,336,994)
General purpose revenues				
Property taxes				
Levied for general purposes				1,196,886
Levied for debt service				455,606
State school aid - unrestricted				646,905
Unrestricted investment earnings				528
Other				195,350
Total general purpose revenues				2,495,275
Change in net position				158,281
Net position, beginning of year				2,734,841
Net position, end of year				\$ 2,893,122

The accompanying notes are an integral part of these financial statements.

Alanson Public Schools

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2014

	General Fund	2010 Refunding Bonds Fund	2014 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 304,450	\$ 51,854	\$ 722,879	\$ 33,698	\$ 1,112,881
Accounts receivable	1,584	-	-	354	1,938
Due from other funds	97	-	-	-	97
Due from other governments	174,747	-	-	1,045	175,792
Total assets	\$ 480,878	\$ 51,854	\$ 722,879	\$ 35,097	\$ 1,290,708
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accrued expenditures	\$ 51,290	\$ -	\$ -	\$ -	\$ 51,290
Salaries payable and related liabilities	182,515	-	-	-	182,515
Unearned revenues	1,804	-	-	-	1,804
Due to other funds	-	-	-	97	97
Due to other governmental units	14,091	-	-	-	14,091
Total liabilities	249,700	-	-	97	249,797
FUND BALANCES					
Restricted					
Food service	-	-	-	22,479	22,479
Debt service	-	51,854	-	12,521	64,375
Capital projects	-	-	722,879	-	722,879
Assigned for subsequent year expenditures	48,669	-	-	-	48,669
Unassigned	182,509	-	-	-	182,509
Total fund balances	231,178	51,854	722,879	35,000	1,040,911
Total liabilities and fund balances	\$ 480,878	\$ 51,854	\$ 722,879	\$ 35,097	

Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$7,677,980 and the accumulated depreciation is \$4,102,407.	3,575,573
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable	(1,665,000)
Accrued interest on bonds	(9,989)
Compensated absences	(48,373)
Total net position - governmental activities	\$ 2,893,122

The accompanying notes are an integral part of these financial statements.

Alanson Public Schools

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2014

	General Fund	2010 Refunding Bonds Fund	2014 Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Local sources					
Property taxes	\$ 1,196,886	\$ 389,935	\$ -	\$ 65,671	\$ 1,652,492
Charges for services	35,336	-	-	4,089	39,425
Interest	310	1,561	57	28	1,956
Other local revenue	204,402	-	-	242	204,644
State sources	880,578	-	-	5,931	886,509
Federal sources	153,120	-	-	121,188	274,308
Interdistrict sources	303,752	-	-	-	303,752
Total revenues	2,774,384	391,496	57	197,149	3,363,086
Expenditures					
Instruction	1,836,417	-	-	-	1,836,417
Supporting services	993,228	-	-	-	993,228
Food service	-	-	-	132,176	132,176
Other	501	-	27,178	-	27,679
Debt service					
Principal	-	400,000	-	30,000	430,000
Interest	-	12,000	-	37,800	49,800
Capital outlay	41,972	-	-	-	41,972
Total expenditures	2,872,118	412,000	27,178	199,976	3,511,272
REVENUES OVER (UNDER) EXPENDITURES	(97,734)	(20,504)	(27,121)	(2,827)	(148,186)
Other financing sources (uses)					
Proceeds from bonds	-	-	750,000	-	750,000
Total other financing sources (uses)	-	-	750,000	-	750,000
REVENUES OVER (UNDER) EXPENDITURES	(97,734)	(20,504)	722,879	(2,827)	601,814
Fund balance, beginning of year	328,912	72,358	-	37,827	439,097
Fund balance, end of year	<u>\$ 231,178</u>	<u>\$ 51,854</u>	<u>\$ 722,879</u>	<u>\$ 35,000</u>	<u>\$ 1,040,911</u>

The accompanying notes are an integral part of these financial statements.

Alanson Public Schools

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Total Net Change in Fund Balances - Governmental Funds \$ 601,814

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, costs that meet the capitalization policy are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period.

Capital outlays	\$ 41,972	
Depreciation expense	<u>(173,762)</u>	(131,790)

Repayment of bond principal are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net position and do not affect the statement of activities.

430,000

Bond proceeds are a financing source in the governmental funds, but are recorded as a liability in the statement of net position.

(750,000)

Amortization of bond issuance costs.

(8,460)

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, compensated absences earned were less than amounts used by \$18,406.

18,406

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is used. The additional interest reported in the statement of activities is the net result of the increase in accrued interest on bonds and notes payable.

(1,689)

Changes in Net Position of Governmental Activities

\$ 158,281

Alanson Public Schools

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS

June 30, 2014

ASSETS

Cash and cash equivalents

\$ 26,494

LIABILITIES

Due to student groups

\$ 26,494

Total liabilities

\$ 26,494

Alanson Public Schools

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

Alanson Public Schools (the "School District") is a Michigan public school district consisting of one building serving elementary through high school students. The School District primarily serves the Alanson community.

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The School District is considered to be a local government unit.

The accounting and reporting framework and the more significant accounting principles and practices of the School District are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2014.

The Financial Reporting Entity

Alanson Public Schools' Board is a special purpose government and considered to be a primary government because it has a separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Alanson Public Schools includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature and significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 14, as amended, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

District-Wide and Fund Financial Statements

District-Wide Financial Statements

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

NOTES TO FINANCIAL STATEMENTS - Continued

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the District-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the School District are prepared in accordance with generally accepted accounting principles ("GAAP"). The School District's reporting entity applies all relevant Governmental Accounting Standards Board ("GASB") pronouncements.

The District-wide and fiduciary fund statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. 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 in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

Fund Types and Major Funds

Activities in Major Funds

The *General Fund* is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS - Continued

The *2010 Refunding Bonds Fund* accounts for the accumulation of resources for, and the payment of principal and interest on the 2010 refunding bonds.

The *2014 Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of capital assets.

Non-Major Governmental Funds

The *Special Revenue Funds* are used to account for restricted resources in the food service program sponsored by the School District.

The *Debt Service Funds* are used to account for the accumulation of resources for, and the payment of, bond principal, interest and related costs.

Non-Major Fiduciary Funds

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

Cash and Cash Equivalents

The School District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturity of three months or less when purchased.

Capital Assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the School District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the School District are depreciated using the straight-line method over the following estimated useful lives:

Buildings	25-50 years
Site improvements	20 years
Equipment	5-20 years
Vehicles and buses	5-8 years

Compensated Absences

School District policy permits certain employees, including teacher and support staff, to accumulate earned but unused sick pay benefits, which are paid when the employee separates from service with the School District. All sick time is accrued when earned in the District-wide statements.

Long-term Debt and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as a liability. Bond discounts and premiums are deferred and amortized over the life of the bonds. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balance is a limitation imposed by a designee of the School Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

Spending Policy

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Program Revenues

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are: 1) charges to customers or applicants for goods, services or privileges provided, and 2) operating grants and contributions.

NOTES TO FINANCIAL STATEMENTS - Continued

Encumbrance Accounting

The School District formally records encumbrances in the accounting records during the year as a normal practice. In accordance with generally accepted accounting principles, outstanding encumbrances at year-end for which goods or services are received are reclassified as expenditures and accounts payable. All other encumbrances in the annual budgeted funds are reversed at year-end and are either canceled or are included as reappropriations of fund balance for the subsequent year.

Allocation of Expenses

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

Use of Estimates in the Preparation of Financial Statements

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

NOTE B - BUDGETARY POLICY AND PRACTICE

Budgetary Information

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which he submits to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budgets and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. This is done by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budgets are adopted on a basis consistent with generally accepted accounting principles.

NOTES TO FINANCIAL STATEMENTS - Continued

7. The budget presented in the financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

Excess of Expenditures over Appropriations in Budgeted Funds

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2014, the School District was out of compliance with the Act as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Supporting services			
General administration	\$ 195,657	\$ 196,862	\$ 1,205
Operations/maintenance	226,925	227,018	93
Transportation	97,204	97,534	330

NOTE C - CASH AND CASH EQUIVALENTS

At June 30, 2014, the School District's cash and cash equivalents include the following:

Cash on hand	\$ 20
Bank deposits	1,127,977
Investments	<u>11,378</u>
	<u>\$ 1,139,375</u>

Bank Deposits

All of the School District's bank deposits are with financial institutions which provide FDIC insurance coverage. As of June 30, 2014, \$701,493 of the School District's bank deposits were uninsured and uncollateralized.

Investments

The School District's investment policy permits investments in the following vehicles:

1. Bonds and other obligations of the United States; the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificate of deposits issued by financial institutions organized and authorized to operate in Michigan.
3. Certain commercial paper.
4. Securities issued or guaranteed by agencies or instruments of the United States government.

NOTES TO FINANCIAL STATEMENTS - Continued

5. United States government of Federal agency obligation repurchase agreements.
6. Banker's acceptance issued by a bank that is a member of the FDIC.
7. Certain mutual funds.
8. Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982.

Investments at June 30, 2014, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Current</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
MILAF	<u>\$ 11,378</u>	<u>\$ 11,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Interest Rate Risk

The School District attempts to minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fail 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 short-term securities or MILAF, and limiting the average maturity.

Credit Risk

State law limits investments to prime or better rating issued by nationally recognized rating organizations. The School District's investment in the MILAF investment pool was rated AAAM by Standard & Poor's.

NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE

Property Taxes Receivable, Unearned Revenue and Property Tax Calendar

Property taxes are levied, billed and attached as enforceable liens in July and December of the School District's fiscal year. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the county as delinquent. Delinquent real property taxes are funded by the county and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as unearned revenue. In the District-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$18 per \$1,000 of equalized non-principal residence property value in the School District of \$65.9 million and \$6 per \$1,000 of commercial personal property value in the School District of \$1.7 million was levied for general operating purposes. For debt service purposes, \$3.33 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value in the School District of \$136.4 million was levied.

NOTES TO FINANCIAL STATEMENTS - Continued

Intergovernmental Receivables and Unearned Revenue

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue received after 60 days is fully recognized as revenue in the District-wide statements if grantor eligibility requirements are met.

Amounts due from other governments at June 30, 2014 are as follows:

Due from the State of Michigan State Aid	\$ 161,088
Due from Federal grants	<u>14,704</u>
	<u>\$ 175,792</u>

NOTE E - INVESTMENTS IN CAPITAL ASSETS

Investments in capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Capital assets being depreciated				
Buildings	6,233,988	-	-	6,233,988
Site improvements	736,913	-	-	736,913
Equipment	359,560	41,972	-	401,532
Vehicles and buses	<u>299,547</u>	<u>-</u>	<u>-</u>	<u>299,547</u>
Total capital assets being depreciated	7,630,008	41,972	-	7,671,980
Less accumulated depreciation	<u>(3,928,645)</u>	<u>(173,762)</u>	<u>-</u>	<u>(4,102,407)</u>
Total capital assets, net	<u>\$ 3,707,363</u>	<u>\$ (131,790)</u>	<u>\$ -</u>	<u>\$ 3,575,573</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Support services	\$ 56,328
Food service	1,033
Unallocated	<u>116,401</u>
Total depreciation expense	<u>\$ 173,762</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE F - LONG-TERM LIABILITIES

Changes in long-term debt during the year ended June 30, 2014 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable					
General obligation bonds	\$ 1,345,000	\$ 750,000	\$ (430,000)	\$ 1,665,000	\$ 180,000
Total bonds payable	<u>1,345,000</u>	<u>750,000</u>	<u>(430,000)</u>	<u>1,665,000</u>	<u>180,000</u>
Other liabilities					
Compensated absences	66,779	-	(18,406)	48,373	-
Unamortized refinancing costs	<u>(8,460)</u>	<u>-</u>	<u>8,460</u>	<u>-</u>	<u>-</u>
Total other liabilities	<u>58,319</u>	<u>-</u>	<u>(9,946)</u>	<u>48,373</u>	<u>-</u>
Total long-term liabilities	<u>\$ 1,403,319</u>	<u>\$ 750,000</u>	<u>\$ (439,946)</u>	<u>\$ 1,713,373</u>	<u>\$ 180,000</u>

Compensated absences are generally liquidated by the General Fund.

At June 30, 2014, the School District's long-term debt consisted of the following:

General Obligation Bonds

2010 Building and Site Bonds, due through May 1, 2020, with annual principal payments ranging from \$140,000 to \$165,000 and semi-annual installments of interest at 4.0%.	\$ 915,000
2014 School Improvement Bonds, due through May 1, 2024, with annual principal payments ranging from \$40,000 to \$115,000 and semi-annual installments of interest at 3.2%.	<u>750,000</u>
Total bonds	1,665,000
Compensated absences	<u>48,373</u>
Total long-term debt	<u>\$ 1,713,373</u>

NOTES TO FINANCIAL STATEMENTS - Continued

Total annual requirements to amortize bonds outstanding as of June 30, 2014 are as follows:

Years Ending June 30,	Principal	Interest	Total
2015	\$ 180,000	\$ 60,267	\$ 240,267
2016	190,000	53,720	243,720
2017	200,000	46,480	246,480
2018	210,000	38,880	248,880
2019	220,000	30,920	250,920
2020-2024	<u>665,000</u>	<u>58,280</u>	<u>723,280</u>
	<u>\$ 1,665,000</u>	<u>\$ 288,547</u>	<u>\$ 1,953,547</u>

Interest expense for the year ended June 30, 2014 was \$51,489.

NOTE G - BALANCES WITHIN THE REPORTING ENTITY

Receivables and Payables

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

At June 30, 2014, the School District's interfund balances consisted of the following:

Fund	Interfund Receivable	Interfund Payable
Major Governmental Funds		
General Fund	\$ 97	\$ -
Non-Major Governmental Funds		
Food Service Fund	<u>-</u>	<u>97</u>
	<u>\$ 97</u>	<u>\$ 97</u>

NOTE H - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; unemployment benefits; and natural disasters, as well as medical benefits provided to employees. The School District manages its risk exposures and provides certain employee benefits through a combination of self-insurance, commercial insurance and risk management pools.

NOTES TO FINANCIAL STATEMENTS - Continued

The School District pays unemployment claims on a reimbursement basis through the Bureau of Workers' and Unemployment Compensation ("BWUC"). As BWUC pays eligible recipients benefits, this amount is billed to Alanson Public Schools. At June 30, 2014, there were no significant unbilled claims.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, disability insurance and errors and omissions coverages. SET-SEG was established pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of SET-SEG is to provide cooperative and comprehensive risk financing and risk control services. SET-SEG provides risk management, underwriting, reinsurance and claim review, and processing services for all member governments pursuant to its charter.

The School District makes annual contributions to SET-SEG based on actuarial studies using historical data and insurance industry statistics. These contributions are primarily paid from the General Fund. Such contributions as received by SET-SEG are allocated between its General and Member Retention Funds. Economic resources in SET-SEG's General Fund are expanded for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the Member Retention Fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs. Any refunds from SET-SEG are deposited in the School District's General Fund.

NOTE I - PENSION PLAN

The School District contributes to the Michigan Public School Employees Retirement Systems ("MPSERS"), statewide cost-sharing multiple-employer defined benefit and defined contribution pension plans administered by the State of Michigan, Department of Management & Budget, Office of Retirement Services ("ORS"). MPSERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. MPSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Office of Retirement System, P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy

Defined Benefit Plan

Employer contributions to the system result from implementing the effects of the School Finance Reform Act. Under these procedures, each school district 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.

Defined Contribution Plan

Employer contributions to the system are dependent on the plan elected by the participant.

NOTES TO FINANCIAL STATEMENTS - Continued

Employee Contributions

Basic plan members are not required to make contributions. Member Investment Plan members contribute at rates ranging for 0 to 7% of gross wages.

Employer Contributions

Employer contributions to the system for covered payroll of the plan were as follows:

Fiscal Year 2013-2014 Employer Contribution Rate
Active Members and Qualified Participants - Effective February 1, 2013

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
Defined Benefit Plan Contributions:							
Pension contributions	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
Health contributions	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
Defined Contribution Plan Contributions:							
Employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

Fiscal Year 2013-2014 Employer Contribution Rate
Active Members and Qualified Participants - Effective October 1, 2013

	Basic/MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus with PHF	Pension Plus to DC with PHF	Basic/MIP to DC with Premium Subsidy	Basic/MIP to DC with PHF	Basic/MIP with PHF
Defined Benefit Plan Contributions:							
Pension contributions	18.34 %	18.11 %	18.11 %	15.44 %	15.44 %	15.44 %	18.34 %
Health contributions	6.45 %	6.45 %	5.52 %	5.52 %	6.45 %	5.52 %	5.52 %
Defined Contribution Plan Contributions:							
Employer contributions	0.00 %	1.00 %	1.00 %	3.00 %	4.00 %	4.00 %	0.00 %
Personal Healthcare Fund	0.00 %	0.00 %	2.00 %	2.00 %	0.00 %	2.00 %	2.00 %

The School District's contributions to the MPSERS Defined Benefit Plan for the years ended June 30, 2014, 2013 and 2012 were \$386,201, \$357,069, and \$323,347, respectively, which is equal to the required contribution for each year.

The School District's contributions to the MPSERS Defined Contribution Plan was \$4,678 and \$2,756 for the years ended June 30, 2014 and 2013, respectively.

Post-Employment Benefits

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

NOTE J - COMMITMENTS AND CONTINGENCIES

2014 School Improvement Bond Issue Capital Projects Fund

The School District began work on a 2014 capital project during the year ended June 30, 2014. The School District committed to a total project cost of approximately \$750,000. Of this amount, the School District issued bonds in the amount of \$750,000. As of June 30, 2014, \$27,178 has been expended to date, leaving a remaining capital acquisition commitment of approximately \$723,000.

Federal and State Grants

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Collectively Bargained Employment Agreements

The teachers of the School District are organized under the Littlefield Education Association. The Board of Education and the Littlefield Education Association have a contract for September 1, 2011 through August 31, 2014. A new contract was executed for September 1, 2014 through August 31, 2017.

The support personnel at the School District are organized under the Northern Michigan Education Association. The Board of Education and the Northern Michigan Education Association had a contract for September 1, 2011 through August 31, 2013. A new contract was executed for September 1, 2013 through August 31, 2016.

NOTE K - IMPACT OF RECENTLY ISSUED ACCOUNTING PRINCIPLES

In June 2012, the GASB issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions*—an amendment of GASB Statement 27. GASB 68 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. GASB 68 is effective for fiscal years beginning after June 15, 2014.

NOTES TO FINANCIAL STATEMENTS - Continued

GASB 68 requires employers to report net pension benefits as a liability in the Statement of Net Position. The Statement requires immediate recognition of the pension expense, including annual service cost and interest, and the effect of changes in benefit terms on the net pension liability. Cost-sharing employers are required 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 requires expanded note disclosures and required supplementary information covering the past 10 years for the net pension liability. An estimate of the School District's net pension liability at June 30, 2014 is \$4,004,000.

REQUIRED SUPPLEMENTARY INFORMATION

Alanson Public Schools

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual Total
	Revenues				
Local sources	\$ 1,361,320	\$ 1,447,338	\$ 1,436,934	\$ 86,018	\$ (10,404)
State sources	937,455	878,029	880,578	(59,426)	2,549
Federal sources	144,519	153,767	153,120	9,248	(647)
Interdistrict sources	282,198	297,116	303,752	14,918	6,636
Total revenues	2,725,492	2,776,250	2,774,384	50,758	(1,866)
Expenditures					
Instruction	1,806,166	1,863,191	1,857,429	(57,025)	5,762
Supporting services					
Pupil	51,600	75,216	75,216	(23,616)	-
Instructional staff	-	5,906	5,906	(5,906)	-
General administration	192,305	195,657	196,862	(3,352)	(1,205)
School administration	169,496	177,592	177,592	(8,096)	-
Business	65,625	67,755	67,755	(2,130)	-
Operations and maintenance	231,237	226,925	227,018	4,312	(93)
Transportation	93,556	97,204	97,534	(3,648)	(330)
Central	85,375	90,463	90,463	(5,088)	-
Athletics	80,954	76,682	75,842	4,272	840
Other	-	501	501	(501)	-
Total expenditures	2,776,314	2,877,092	2,872,118	(100,778)	4,974
REVENUES OVER (UNDER) EXPENDITURES	(50,822)	(100,842)	(97,734)	(50,020)	3,108
Fund balance, beginning of year	321,538	328,912	328,912	7,374	-
Fund balance, end of year	\$ 270,716	\$ 228,070	\$ 231,178	\$ (42,646)	\$ 3,108

**COMBINING FINANCIAL STATEMENTS OF
NON-MAJOR GOVERNMENTAL FUNDS**

Alanson Public Schools

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2014

	Special Revenue Fund	Debt Service Funds	Total Non-Major Governmental Funds
	Food Service Fund	2010 Building & Site Bond Fund	
ASSETS			
Cash and cash equivalents	\$ 21,177	\$ 12,521	\$ 33,698
Accounts receivable	354	-	354
Due from other governments	1,045	-	1,045
Total assets	\$ 22,576	\$ 12,521	\$ 35,097
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Due to other funds	\$ 97	\$ -	\$ 97
Total liabilities	97	-	97
FUND BALANCES			
Restricted			
Food service	22,479	-	22,479
Debt service	-	12,521	12,521
Total fund balances	22,479	12,521	35,000
Total liabilities and fund balances	\$ 22,576	\$ 12,521	\$ 35,097

Alanson Public Schools

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2014

	<u>Special Revenue Fund</u>	<u>Debt Service Funds</u>	<u>Total Non-Major Governmental Funds</u>
	<u>Food Service Fund</u>	<u>2010 Building & Site Bond Fund</u>	
Revenues			
Local sources			
Property taxes	\$ -	\$ 65,671	\$ 65,671
Charges for services	4,089	-	4,089
Interest income	9	19	28
Other local revenue	-	242	242
State sources	5,931	-	5,931
Federal sources	<u>121,188</u>	<u>-</u>	<u>121,188</u>
Total revenues	<u>131,217</u>	<u>65,932</u>	<u>197,149</u>
Expenditures			
Current			
Food service	132,176	-	132,176
Principal	-	30,000	30,000
Interest	<u>-</u>	<u>37,800</u>	<u>37,800</u>
Total expenditures	<u>132,176</u>	<u>67,800</u>	<u>199,976</u>
REVENUES OVER (UNDER) EXPENDITURES	(959)	(1,868)	(2,827)
Fund balance, beginning of year	<u>23,438</u>	<u>14,389</u>	<u>37,827</u>
Fund balance, end of year	<u><u>\$ 22,479</u></u>	<u><u>\$ 12,521</u></u>	<u><u>\$ 35,000</u></u>



Thomas E. Gartland, CPA
Brad P. Niergarth, CPA
James G. Shumate, CPA
Robert C. Thompson, CPA
Michael D. Shaw, CPA
Mary F. Krantz, CPA
Shelly K. Bedford, CPA
Heidi M. Wendel, CPA
Shelly A. Ashmore, CPA
James M. Taylor, CPA

**INDEPENDENT AUDITORS' 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***

Board of Education
Alanson 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 ***Alanson Public Schools*** (the "School District") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated October 1, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School 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 School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 School District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness:

Criteria: Adequate segregation of duties for the School District is necessary to minimize the likelihood that fraud or errors could occur and not be detected.

Condition: The School District has not achieved a complete segregation of duties among employees who have both access to assets and accounting responsibilities.

Cause: The small size of the business office staff creates an inherent lack of segregation of duties.

Effect: As a result of this condition, the School District lacks proper segregation of duties and is exposed to an increased risk of misstatement of its financial statements.

Management's Response: The School District has evaluated the manner in which they segregate duties and has implemented certain measures. However, the cost associated with adding additional staff to achieve a complete segregation is not justified by the expected benefits.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School 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*.

School District's Response to Deficiency

The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Dennis, Gartland & Niergarth

October 1, 2014