

**Ashley Community School District
Ashley, Michigan**

Financial Statements
With Supplemental Information
June 30, 2013



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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Change in Accounting Principle

As discussed in the notes to the financial statements, during the year the District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. As a result of the implementation of these Statements, the financial statements have been changed to reflect the new presentations required by GASB Statements No. 63 and No. 65, as applicable. Our opinion is not modified with respect to this matter.

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 October 3, 2013 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 below the word "Sincerely,".

Roslund, Prestage & Company, P.C.
October 3, 2013

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2013

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, 2013. 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, 2013

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 did not change significantly from the previous year.

The decrease 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 \$163,389. Capital assets with a book value of \$983 (net of depreciation) were disposed during the year at a loss of \$983.

The current liabilities changed significantly from the previous year because the district borrowed an additional \$100,000 for cash flow purposes due to the deficit spending.

The net decrease 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 additional borrowing of \$92,510 from the School Bond Loan Fund (an increase).

Total net position for governmental activities decreased by 14.3% 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, 2013

Table 1
Comparative Summary of Assets, Liabilities, and Net Position
At June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Current Assets	\$ 825,434	\$ 805,382	\$ 20,052
Noncurrent Assets	4,309,954	4,474,326	-164,372
Total Assets	<u>\$5,135,388</u>	<u>\$5,279,708</u>	<u>-\$ 144,320</u>
Current Liabilities	\$1,264,885	\$1,171,589	\$ 93,296
Noncurrent Liabilities	4,764,590	4,890,032	-125,442
Total Liabilities	<u>\$6,029,475</u>	<u>\$6,061,621</u>	<u>-\$ 32,146</u>
Investment in Capital Assets (Net of Related Debt)	\$244,954	\$199,326	\$ 45,628
Restricted	42,411	37,666	4,745
Unrestricted	<u>-1,181,422</u>	<u>-1,018,905</u>	<u>-162,517</u>
Total Net Position	<u>-\$894,087</u>	<u>-\$781,913</u>	<u>-\$112,174</u>

Total revenues reported on the Statement of Activities varied significantly from the previous year. Operating Grants and Contributions decreased by \$47,161 due primarily to a reduction in the Title I grant of \$66,297. The reduction State Aid Not Restricted to Specific Purpose by \$148,155 resulted mostly due to a loss of 38 students from the previous year.

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2013

Table 2
Comparative Summary of Program, General, and Total Revenues
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Charges for Services	\$28,520	\$38,577	-\$10,057
Operating Grants and Contributions	481,353	528,514	-47,161
Total Program Revenues	<u>\$509,873</u>	<u>\$567,091</u>	<u>-\$57,218</u>
Property Taxes	\$462,258	\$464,349	-\$2,091
State Aid Not Restricted to Specific Purposes	1,886,055	2,034,210	-148,155
Other General Revenues	66,972	116,870	-49,898
Total General Revenues	<u>\$2,415,285</u>	<u>\$2,615,429</u>	<u>-\$200,144</u>
Total Revenues	<u>\$2,925,158</u>	<u>\$3,182,520</u>	<u>-\$257,362</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.

Table 3
Comparative Summary of Program Expenses by Function and Total Expenses
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Instruction	\$1,594,014	\$1,891,002	-\$296,988
Support Services	948,925	1,010,891	-61,966
Community Services	50		50
Food Service	120,829	124,504	-3,675
Interest and Fees on Long-term Debt	202,055	212,190	-10,135
Other Expenses	8,070	7,834	236
Depreciation – Unallocated	163,389	167,668	-4,279
Total Expenses	<u>\$3,037,332</u>	<u>\$3,414,089</u>	<u>-\$376,757</u>

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2013

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>	<u>Difference</u>
Net Position – Beginning	-\$781,913	-\$550,344	
Increase (Decrease) in Net Position	<u>-112,174</u>	<u>-231,569</u>	119,395
Net Position – Ending	<u><u>-\$894,087</u></u>	<u><u>-\$781,913</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 significant reduction in students resulting in corresponding loss of 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 when they also lost a significant number of students.

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 \$163,389. 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. Another major difference includes the payment of principal on outstanding bonds (\$210,000).

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2013

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	At-Risk grant, Early Childhood grant, Medicaid revenues, State Special Education funding, county Special Education tax levy (from intermediate school district), Title IA grant, REAP grant, and MPERS (retirement) Cost Offset grant.
Support Services	State Special Education funding, Title IIA grant, and county special education tax levy from intermediate school district.
Food Service	Hot lunch sales, State Hot Lunch funds, and Federal Hot Lunch funds.

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 decrease in fund equity due to a large decrease in student enrollment in the preceding and current year.

The Hot Lunch Fund realized a significant decrease in fund equity due to a decline in participation by students. The decline in participation is due to the decreased student enrollment and the implementation of new nutrition standards which has made the food

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2013

less appealing to the students. The revenues decrease in proportion with the reduced student participation but many of the expenditures did not.

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 Sources	Net Change in Fund Balance From Prior Year	Percent Change in Fund Balance as a Percent of Revenues and Other Financing Sources
General	\$2,502,173	-\$60,451	2.42%
Food Service	99,122	-7,111	7.17%
Debt Service	323,863	-2,940	0.91%

General Fund

Approximately 86% 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. If the District was able to reduce salaries and benefits to 83% of the budget which is closer to the industry standard, the deficit spending would likely be eliminated. Staff reductions are much more difficult in small districts because the reduction in one teacher can have such a drastic impact on class size.

Food Service Fund

The Food Service Fund for the District has just recently begun to require a contribution from the General Fund because it is operating at a loss and all fund equity has been eliminated. This situation is likely to continue because of reduced student participation. Student participation is down not only because of reduced enrollment, but also because of the new nutritional standards required by the federal hot lunch program. These new standards have caused the food served in the school lunch/breakfast programs to be unappealing to the students resulting in reduced participation.

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

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2013

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.

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, 2012 the original budget was adopted on June 21, 2011. 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, 2012 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 reduced to reflect the unexpected loss in student enrollment.
- Federal Sources – The budget was amended to reflect the carryover of Title IA funds from the previous year and reflect an increase in Medicaid revenues.
- Other Sources – The budget was increased to reflect additional Universal Service Funds and gate receipts at athletic events.
- Added Needs – The original budget did not include any costs for the additional support provided to students with At Risk funding.
- Pupil – The original budget did not include any amounts budgeted for a counselor.
- General Administration – The original budget was reduced to reflect lower interest costs for the operating loan and the reduction of secretarial staff.
- Business Services – The original budget was reduced to reflect lower insurance rates than anticipated and the elimination of amounts budgeted for business services purchased from the Intermediate School District. The Intermediate School District did not charge for their services because the District is in deficit.

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2013

Operations and Maintenance – The original budget was reduced to reflect a reduction in custodial staff.

Pupil Transportation – Many line items in the original pupil transportation budget were reduced.

Athletics – The original budget was reduced to reflect a reduction in the amounts paid to coaches.

Variances between Final Budget and Actual Amounts

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

State Sources – An amount budgeted as state sources of \$21,934 for a REAP grant was actually a federal grant.

Federal Sources – A REAP grant (federal source) for \$21,934 was budgeted as a state source.

Outgoing Transfers and Other – The final budget did not include a transfer to the Hot Lunch fund to eliminate a deficit.

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 dramatically from the budgeted amount because of reduced participation in the hot lunch/breakfast program.

Federal Sources – federal revenues from lunch sales were down dramatically from the budgeted amount because of reduced participation in the hot lunch/breakfast program. Federal revenues are determined based upon meals served.

Food Service – The actual expenditures for food service were more than anticipated. These services are contracted and don't vary much with the number of meals served.

Ashley Community School District
Management Discussion and Analysis
For the Year Ended June 30, 2013

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:

Machinery and Equipment –Disposed of some old equipment during the year.

Vehicles – Disposed of old vehicles during the year.

Furniture – Disposed of old furniture during the year.

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.

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. Since funding is, to a large extent, determined based upon student enrollment, the revenues were reduced due to declining enrollment by \$212,226 and \$264,708 for the fiscal years ended June 30, 2012 and 2013 respectively. The cumulative effect of the loss of students is an annual shortfall of revenues of approximately \$475,000 but the District was able to reduce the deficit spending to \$60,451 for the year ended June 30, 2013.

Looking forward to fiscal year 2013/2014, the District has experienced an increase of approximately 7 students and received an increase in funding of \$110 per student. Administration believes that the District's budget will be balanced for the fiscal year ending June 30, 2014.

**DISTRICT-WIDE
FINANCIAL STATEMENTS**



Ashley Community School District
Statement of Net Position
June 30, 2013

Assets

Current assets	
Cash and cash equivalents	\$ 320,085
Accounts receivable	2,855
Due from other governmental units	502,494
Total current assets	825,434
Noncurrent assets	
Capital assets less accumulated depreciation	4,309,954
Total assets	5,135,388

Liabilities

Current liabilities	
Accounts payable	41,632
Due to other govt units	53,282
Salaries payable	122,571
Accrued interest	21,758
Accrued expenses	55,642
Short-term note payable	750,000
Current portion of bonds payable	220,000
Total current liabilities	1,264,885
Non-current liabilities	
Bonds payable	3,845,000
Compensated absences	15,593
School loan revolving fund payable	802,842
School bond loan fund payable	101,155
Total non-current liabilities	4,764,590
Total liabilities	6,029,475

Net position

Invested in capital assets, net of related debt	244,954
Restricted for:	
Debt service	27,615
Food service	14,766
Unrestricted	(1,181,422)
Total net position	\$ (894,087)

Ashley Community School District
Statement of Activities
For the Year Ended June 30, 2013

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instruction	\$ 1,594,014	\$ -	\$ 386,751	\$ (1,207,263)
Support services	948,925	-	24,000	(924,925)
Community services	50	-	-	(50)
Food service	120,829	28,520	70,602	(21,707)
Interest and fees on long-term debt	202,055	-	-	(202,055)
Other expenses	8,070	-	-	(8,070)
Depreciation - unallocated	163,389	-	-	(163,389)
Total school district	<u>\$ 3,037,332</u>	<u>\$ 28,520</u>	<u>\$ 481,353</u>	<u>(2,527,459)</u>
General revenues:				
Property taxes				462,258
State sources				1,886,055
Unrestricted interest and investment earnings				384
Restricted interest and investment earnings				71
Other revenues				66,517
Total general revenues				<u>2,415,285</u>
Change in net position				(112,174)
Net position - beginning of year				<u>(781,913)</u>
Net position - end of year				<u>\$ (894,087)</u>

FUND FINANCIAL STATEMENTS



Ashley Community School District
Balance Sheet
Governmental Funds
June 30, 2013

	Major Funds			Totals
	General	Food Service	Debt Service	
Assets				
Cash and cash equivalents	\$ 280,789	\$ 11,681	\$ 27,615	\$ 320,085
Accounts receivable	1,632	1,223	-	2,855
Due from other funds	14,766	-	-	14,766
Due from other governmental units	500,632	1,862	-	502,494
Total assets	<u>\$ 797,819</u>	<u>\$ 14,766</u>	<u>\$ 27,615</u>	<u>\$ 840,200</u>
Liabilities				
Accounts payable	\$ 41,632	\$ -	\$ -	\$ 41,632
Due to other funds	-	14,766	-	14,766
Due to other govt units	53,282	-	-	53,282
Salaries payable	122,571	-	-	122,571
Accrued expenses	55,642	-	-	55,642
Short-term note payable	750,000	-	-	750,000
Total liabilities	<u>1,023,127</u>	<u>14,766</u>	<u>-</u>	<u>1,037,893</u>
Fund balances				
Non-spendable	-	-	-	-
Restricted	-	-	27,615	27,615
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	(225,308)	-	-	(225,308)
Total fund balances	<u>(225,308)</u>	<u>-</u>	<u>27,615</u>	<u>(197,693)</u>
Total liabilities and fund balances	<u>\$ 797,819</u>	<u>\$ 14,766</u>	<u>\$ 27,615</u>	<u>\$ 840,200</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, 2013

Total fund balance - governmental funds \$ (197,693)

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>(2,297,448)</u>	
			4,309,954

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:	Bonds payable	(4,065,000)	
Deduct:	Compensated absences payable	(15,593)	
Deduct:	School loan revolving fund payable	(802,842)	
Deduct:	School bond loan fund payable	(101,155)	
Deduct:	Accrued interest on long-term liabilities	<u>(21,758)</u>	
			<u>(5,006,348)</u>

Total net position - governmental activities \$ (894,087)

Ashley Community School District
Statement of Revenues, Expenditures, and Changes In Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	Major Funds			Totals
	General	Food Service	Debt Service	
Revenues				
Local sources	\$ 159,357	\$ 28,520	\$ 323,863	\$ 511,740
State sources	2,055,587	5,017	-	2,060,604
Federal sources	165,923	65,585	-	231,508
Other sources	121,306	-	-	121,306
Total revenues	<u>2,502,173</u>	<u>99,122</u>	<u>323,863</u>	<u>2,925,158</u>
Expenditures				
Instruction				
Basic programs	1,228,928	-	-	1,228,928
Added needs	363,038	-	-	363,038
Total instruction	<u>1,591,966</u>	<u>-</u>	<u>-</u>	<u>1,591,966</u>
Support services				
Pupil	39,159	-	-	39,159
Instructional staff	55,740	-	-	55,740
General administration	202,248	-	-	202,248
School administration	150,505	-	-	150,505
Business services	35,181	-	-	35,181
Operation and maintenance	272,653	-	-	272,653
Pupil transportation	138,604	-	-	138,604
Athletics	54,835	-	-	54,835
Total support services	<u>948,925</u>	<u>-</u>	<u>-</u>	<u>948,925</u>
Community services	50	-	-	50
Food service	-	120,829	-	120,829
Debt service - principal	-	-	210,000	210,000
Debt service - interest and other	-	-	181,414	181,414
Other expenses	7,087	-	-	7,087
Total expenditures	<u>2,548,028</u>	<u>120,829</u>	<u>391,414</u>	<u>3,060,271</u>
Revenues over (under) expenditures	(45,855)	(21,707)	(67,551)	(135,113)
Other financing sources (uses)				
Transfer in	-	14,596	-	14,596
Transfer out	(14,596)	-	-	(14,596)
Proceeds from revolving fund	-	-	64,611	64,611
Revenues and other sources over (under) expenditures and other uses	(60,451)	(7,111)	(2,940)	(70,502)
Fund balance - beginning of year	<u>(164,857)</u>	<u>7,111</u>	<u>30,555</u>	<u>(127,191)</u>
Fund balance - end of year	<u><u>\$ (225,308)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 27,615</u></u>	<u><u>\$ (197,693)</u></u>

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, 2013

Net change in fund balances - total governmental funds	\$	(70,502)
Amounts reported for governmental activities in the statement of activities are different because:		
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.		
Deduct: Depreciation expense		(163,389)
Deduct: Loss on disposal of capital assets		(983)
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).		
Add: 2004 bond payment		210,000
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.		
Deduct: Increase in accrual for compensated absences		(2,048)
Deduct: Increase in accrued interest on school loan revolving fund		(23,675)
Deduct: Increase in accrued interest on school bond loan fund		(4,224)
Add: Decrease in accrual interest on long-term liabilities		7,258
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).		
Deduct: Proceeds from school loan revolving fund		(64,611)
		(64,611)
Change in net position of governmental activities	\$	(112,174)

Ashley Community School District
Statement of Net Position – Fiduciary Fund
For the Year Ended June 30, 2013

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 are restricted when constraints placed on them 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 taxable value for the District amounted to \$42,168,692, which includes \$8,053,198 attributable to non-homesteads. The District levied 18.0 mills for school general operations on the non-homestead taxable value, which totaled \$144,958. The District also levied an additional 7.0 mills for the 2004 debt on all property in the District for the purpose of debt service, which totaled \$314,187.

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:

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, 2013 is \$15,593.

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.

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

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the funds were adopted on a function level and have been presented as such in the Budgetary Comparison Schedules in this report.

During the year ended June 30, 2013, the District incurred expenditures in excess of the amounts budgeted as shown in the Budgetary Comparison Schedules in this report as unfavorable variances.

Also, see Note regarding the General Fund Deficit.

NOTE 3 – CASH AND CASH EQUIVALENTS

At June 30, 2013, the carrying amount of the District’s cash, deposits and investments was as follows:

Description	Amount
Petty Cash	\$ 400
Checking, Savings, Money Market Accounts	319,685
Total	\$ 320,085

At year-end, the carrying amount of the District’s deposits was \$319,685 and the bank balance was \$347,788. 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.

Ashley Community School District
Notes to the Financial Statements

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:

Fund	Due From	Due To
General Fund	\$ 14,766	\$ -
Food Service Fund	-	14,766

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	\$ 397,129
State of Michigan – Title I	71,247
State of Michigan – Title II	13,690
Midland ESA – GSRP	17,708
County of Saginaw	858
State of Michigan – State Aid (Food Service)	1,862
Total	\$ 502,494

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	283,198	-	(13,253)	269,945
Vehicles	521,193	-	(163,640)	357,553
Furniture	87,727	-	(1,517)	86,210
Total Capital Assets	6,785,812	-	(178,410)	6,607,402
Accumulated Depreciation				
Buildings & Additions	(1,596,409)	(131,208)	-	(1,727,617)
Equipment	(223,384)	(15,086)	12,713	(225,757)
Vehicles	(463,743)	(12,627)	163,640	(312,730)
Furniture	(27,950)	(4,468)	1,074	(31,344)
Total Accumulated Depreciation	(2,311,486)	(163,389)	177,427	(2,297,448)
Net Capital Assets	\$ 4,474,326	\$ (163,389)	\$ (983)	\$ 4,309,954

Depreciation for the year ended June 30, 2013 totaled \$163,389. 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	\$ 29,809
FICA	9,377
Health Insurance	13,691
Other	2,765
Totals	\$ 55,642

NOTE 10 - DUE TO OTHER GOVERNMENTAL UNITS

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

Description	Amount
MPSERS	\$ 32,270
Elba Township – Industrial Facilities Tax	21,012
Totals	\$ 53,282

NOTE 11 - SHORT-TERM NOTE PAYABLE

On August 20, 2012, 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 0.59% and the maturity date is August 20, 2013.

On August 20, 2013 (after the end of the current fiscal year) 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.

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.

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:

	Beginning Balance	Additions	Deletions	Ending Balance	Less: Current Portion	Total due after one year
Compensated Absences	\$ 13,545	\$ 2,048	\$ -	\$ 15,592	\$ -	\$ 15,592
2004 Bonds	4,275,000	-	(210,000)	4,065,000	220,000	3,845,000
School Bond Loan Fund	96,931	4,224	-	101,155	-	101,155
School Bond Revolving	714,556	88,286	-	802,842	-	802,842
Total	\$ 5,100,032	\$ 94,557	\$ (210,000)	\$ 4,984,589	\$ 220,000	\$ 4,764,589

Ashley Community School District
Notes to the Financial Statements

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2013, including interest of \$1,791,310 are as follows:

Fiscal Year Ending June 30,	Amount
2014	\$394,062
2015	391,362
2016	388,150
2017	389,296
2018	390,056
2019	389,930
2020	389,400
2021	393,060
2022	381,090
2023	233,550
2024	226,950
2025	220,350
2026	213,450
2027	206,550
2028	199,576
2029	192,600
2030	185,626
2031	178,500
2032	171,376
2033	164,250
2034	157,126

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 (MPERS) who became a member of MPERS after June 30, 2010 is a Pension Plus member. Pension Plus is a hybrid plan that contains a pension component with an employee contribution (graded, up to 6.4% of salary) and a flexible and transferable defined contribution (DC) tax-deferred investment account that earns an employer match of 50% (up to 1% of salary) on employee contributions. Retirement benefits for Pension Plus members are determined by final average compensation and years of service. Disability and survivor benefits are available to Pension Plus members.

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 \$389,167 for the year ending June 30, 2013, \$380,222 for the year ending June 30, 2012 and \$349,578 for the year ending June 30, 2011.

Included in the amounts paid above, the District received \$32,270 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPSERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2013.

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 – CHANGE IN ACCOUNTING PRINCIPLE

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new format to certain financial statements to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position, when applicable.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this statement recognizes certain items previously reported as assets and liabilities as outflows of resources and inflows of resources.

These statements impact the format and reporting of amounts in the statement of net position and the balance sheet at the government-wide level and the fund level, respectively.

NOTE 16 – 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 17 – 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, 2012, the general fund of the District had a deficit of \$225,308. 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, 2013

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 148,055	\$ 177,252	\$ 159,357	\$ (17,895)
State sources	2,402,234	2,071,266	2,055,587	(15,679)
Federal sources	131,328	148,816	165,923	17,107
Other sources	102,406	115,953	121,306	5,353
Total revenues	<u>2,784,023</u>	<u>2,513,287</u>	<u>2,502,173</u>	<u>(11,114)</u>
Expenditures				
Instruction				
Basic programs	1,211,865	1,213,939	1,228,928	(14,989)
Added needs	<u>324,997</u>	<u>368,481</u>	<u>363,038</u>	<u>5,443</u>
Total instruction	1,536,862	1,582,420	1,591,966	(9,546)
Support services				
Pupil	500	39,213	39,159	54
Instructional staff	50,853	54,616	55,740	(1,124)
General administration	230,672	198,118	202,248	(4,130)
School administration	157,747	155,735	150,505	5,230
Business services	52,130	33,881	35,181	(1,300)
Operation and maintenance	300,271	274,328	272,653	1,675
Pupil transportation	151,996	137,523	138,604	(1,081)
Athletics	<u>69,260</u>	<u>49,960</u>	<u>54,835</u>	<u>(4,875)</u>
Total support services	1,013,429	943,374	948,925	(5,551)
Community services				
Community services	-	50	50	-
Outgoing transfers and other	<u>7,500</u>	<u>7,500</u>	<u>21,683</u>	<u>(14,183)</u>
Total expenditures	<u>2,557,791</u>	<u>2,533,294</u>	<u>2,562,624</u>	<u>(29,280)</u>
Revenues over (under) expenditures	226,232	(20,007)	(60,451)	(40,444)
Fund balance - beginning of year	<u>(164,857)</u>	<u>(164,857)</u>	<u>(164,857)</u>	<u>-</u>
Fund balance - end of year	<u>\$ 61,375</u>	<u>\$ (184,864)</u>	<u>\$ (225,308)</u>	<u>\$ (40,444)</u>

Ashley Community School District
 Budgetary Comparison Schedule for the Food Service Fund
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Local sources	\$ 41,500	\$ 41,500	\$ 28,520	\$ (12,980)
State sources	6,151	6,151	5,017	(1,134)
Federal sources	70,000	70,000	65,585	(4,415)
Total revenues	<u>117,651</u>	<u>117,651</u>	<u>99,122</u>	<u>(18,529)</u>
Expenditures				
Food service	114,500	114,500	120,829	(6,329)
Total expenditures	<u>114,500</u>	<u>114,500</u>	<u>120,829</u>	<u>(6,329)</u>
Revenues over (under) expenditures	3,151	3,151	(21,707)	(24,858)
Other financing sources (uses)				
Transfer in	-	-	14,596	14,596
Revenues and other sources over (under) expenditures and other uses	3,151	3,151	(7,111)	(10,262)
Fund balance - beginning of year	<u>7,111</u>	<u>7,111</u>	<u>7,111</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 10,262</u></u>	<u><u>\$ 10,262</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (10,262)</u></u>

OTHER SUPPLEMENTARY INFORMATION



Ashley Community School District
 General Fund
 Statement of Revenues
 For the Year Ended June 30, 2013

Local sources

Property taxes	\$	148,660
Interest		384
Rental fees		375
Other local revenues		9,938
Total local sources		159,357

State sources

General state aid		1,832,523
Pre-k state aid		43,338
Categorical:		
Special education		87,340
At risk		39,998
MPSEs 147c		32,270
Best practice incentive		15,761
Other		4,357
Total state sources		2,055,587

Federal sources

Title I		115,762
Medicaid		8,009
Reap grant		21,934
Homeless education		50
Title II, Part A - Improving teacher quality		20,168
Total federal sources		165,923

Other financing sources

County special education tax		41,102
District library		24,000
Other funding sources		56,204
Total other financing sources		121,306

Total revenues		\$ 2,502,173
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Ashley Community School District
 General Fund
 Statement of Expenditures
 For the Year Ended June 30, 2013

Instruction

Basic programs	
Elementary	
Salaries	\$ 264,996
Employee benefits	139,689
Purchased services	16,666
Supplies, materials and other	4,903
Total elementary	<u>426,254</u>
Middle school	
Salaries	218,761
Employee benefits	108,539
Purchased services	5,911
Supplies, materials and other	668
Total middle school	<u>333,879</u>
Secondary	
Salaries	267,824
Employee benefits	140,338
Purchased services	5,903
Supplies, materials and other	6,783
Total secondary	<u>420,848</u>
Great Start Readiness Program	
Salaries	28,746
Employee benefits	13,728
Purchased services	306
Supplies, materials and other	560
Total Great Start Readiness Program	<u>43,340</u>
Summer school	
Salaries	3,237
Employee benefits	1,035
Supplies, materials and other	335
Total summer school	<u>4,607</u>
Total basic programs	<u>1,228,928</u>
Added needs	
Special education	
Salaries	25,175
Employee benefits	6,931
Purchased services	428
Total special education	<u>32,534</u>

Ashley Community School District
 General Fund
 Statement of Expenditures
 For the Year Ended June 30, 2013

Instruction (continued)

Added needs (continued)

Special education - Secondary

Salaries	\$ 58,278
Employee benefits	22,870
Purchased services	143
Supplies, materials and other	51
Total Special education - Secondary	81,342

Special education - Elementary

Salaries	54,750
Employee benefits	26,135
Purchased services	107
Total Special education - Elementary	80,992

Title I

Salaries	60,477
Employee benefits	19,749
Purchased services	249
Supplies, materials and other	2,098
Total at risk	82,573

REAP

Salaries	15,143
Employee benefits	6,791
Total REAP	21,934

At Risk

Salaries	27,115
Employee benefits	12,882
Total At Risk	39,997

Vocational education

Purchased services	23,666
Total added needs	363,038

Total instruction	1,591,966
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Supporting services

Pupil services

Salaries	25,508
Employee benefits	13,651
Total pupil services	39,159

Ashley Community School District
 General Fund
 Statement of Expenditures
 For the Year Ended June 30, 2013

Supporting services (continued)

Instructional staff	
Improvement of instruction	
Salaries	\$ 12,240
Employee benefits	6,838
Total improvement of instruction	<u>19,078</u>
Library	
Salaries	18,988
Employee benefits	6,219
Supplies, materials and other	648
Total library	<u>25,855</u>
Audio-visual/technology	
Purchased services	7,275
Supplies, materials and other	3,532
Total audio-visual	<u>10,807</u>
Total instructional staff	<u>55,740</u>
General administration	
Board of education	
Purchased services	13,890
Supplies, materials and other	7,245
Total board of education	<u>21,135</u>
Executive administration	
Salaries	129,254
Employee benefits	48,474
Purchased services	1,686
Supplies, materials and other	1,699
Total executive administration	<u>181,113</u>
Total general administration	202,248
School administration	
Salaries	99,376
Employee benefits	44,495
Purchased services	1,828
Supplies, materials and other	4,806
Total school administration	<u>150,505</u>

Ashley Community School District
 General Fund
 Statement of Expenditures
 For the Year Ended June 30, 2013

Supporting services (continued)

Business services	
Other business services	
Purchased services:	
Insurances	\$ 32,203
Interest and fees	233
Data processing	1,012
Taxes abated and written off / other transactions	1,733
Total business services	<u>35,181</u>
Operation and maintenance	
Salaries	99,185
Employee benefits	57,177
Purchased services	84,611
Supplies, materials and other	31,116
Capital outlay	564
Total operation and maintenance	<u>272,653</u>
Pupil transportation	
Salaries	59,975
Employee benefits	17,962
Purchased services	10,365
Supplies, materials and other	50,302
Total pupil transportation	<u>138,604</u>
Athletics	
Salaries	33,243
Employee benefits	4,744
Supplies, materials and other	16,848
Total athletics	<u>54,835</u>
Total support services	948,925
Community Services	
Other community services	
Supplies, materials and other	50
Total community services	<u>50</u>
Outgoing transfers and other transactions	
Copier leases	7,087
Transfer to Food Service Fund	14,596
Total outgoing transfers and other transactions	<u>21,683</u>
Total general fund expenditures and other transactions	<u><u>\$ 2,562,624</u></u>

Ashley Community School District
Food Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2013

Revenues

Local sources	
Student lunches	\$ 16,968
Adult lunches	578
Ala-carte	10,133
Miscellaneous	841
Total local sources	28,520
State sources	
School lunch program - lunch	3,717
School lunch program - breakfast	1,300
Total state sources	5,017
Federal sources	
National school lunch program	58,913
USDA donated & bonus commodities	6,672
Total federal sources	65,585
Total revenues	99,122

Expenditures

Purchased services	112,485
Supplies, materials and other	8,344
Total expenditures	120,829

Revenues over (under) expenditures (21,707)

Other financing sources (uses)

Transfer from general fund	14,596
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Revenues and other sources over (under) expenditures and other uses (7,111)

Fund balance - beginning of year 7,111

Fund balance - end of year \$ -

Ashley Community School District
Debt Service Fund
Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2013

Revenues

Local sources	
Property tax	\$ 313,598
Interest on investments	71
Total local sources	313,669
State sources	
Delinquent taxes	10,194
Total revenues	323,863

Expenditures

Outgoing transfers and other transactions	
Principal	210,000
Interest and other charges	181,414
Total expenditures	391,414

Revenues over (under) expenditures (67,551)

Other financing sources (uses)

Proceeds from school loan revolving fund	64,611
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Revenues and other sources over (under) expenditures and other uses (2,940)

Fund balance - beginning of year 30,555

Fund balance - end of year \$ 27,615

Ashley Community School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2013

Fiscal Year Ended June 30,	Interest Rate (%)	Annual Principal Due	Interest Due		Total
			November	May	
2004 Bonds - \$5,465,000					
2014	3.50%	\$ 220,000	\$ 87,031	\$ 87,031	\$ 394,062
2015	3.65%	225,000	83,181	83,181	391,362
2016	3.85%	230,000	79,075	79,075	388,150
2017	3.85%	240,000	74,648	74,648	389,296
2018	4.05%	250,000	70,028	70,028	390,056
2019	4.05%	260,000	64,965	64,965	389,930
2020	4.20%	270,000	59,700	59,700	389,400
2021	4.20%	285,000	54,030	54,030	393,060
2022	4.40%	285,000	48,045	48,045	381,090
2023	4.40%	150,000	41,775	41,775	233,550
2024	4.40%	150,000	38,475	38,475	226,950
2025	4.60%	150,000	35,175	35,175	220,350
2026	4.60%	150,000	31,725	31,725	213,450
2027	4.65%	150,000	28,275	28,275	206,550
2028	4.65%	150,000	24,788	24,788	199,576
2029	4.65%	150,000	21,300	21,300	192,600
2030	4.75%	150,000	17,813	17,813	185,626
2031	4.75%	150,000	14,250	14,250	178,500
2032	4.75%	150,000	10,688	10,688	171,376
2033	4.75%	150,000	7,125	7,125	164,250
2034	4.75%	150,000	3,563	3,563	157,126
		<u>\$ 4,065,000</u>	<u>\$ 895,655</u>	<u>\$ 895,655</u>	<u>\$ 5,856,310</u>

Ashley Community School District
Schedule of Long-Term Debt
For the Year Ended June 30, 2013

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
	<u>\$ 66,099</u>	<u>\$ 35,056</u>	

As of June 30, 2013, the interest rate was 3.53328%.

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
	<u>\$ 681,488</u>	<u>\$ 121,354</u>	

As of June 30, 2013, the interest rate was 3.53328%.



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, Michigan

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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 3, 2013.

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.

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.

A handwritten signature in black ink that reads "Roslund, Prestage & Company, P.C." in a cursive script.

Roslund, Prestage & Company, P.C.
October 3, 2013

Finding 2013-1

Finding

School Districts are required to issue financial statements that are prepared in accordance with Generally Accepted Accounting Principles (GAAP). Responsibility for the financial statement rests with the District's management. The preparation of the financial statements in accordance with GAAP requires internal controls over both 1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and 2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

The District relies on the independent auditors for assistance with the preparation of annual financial statements and related notes in accordance with GAAP.

Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and related footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Recommendation

We do not recommend any changes to this situation at this time and communicate this as required by professional standards.

Response

The District is aware of this deficiency and believes it is not cost beneficial in their situation to develop this expertise. They will continue to use the external auditors for this technical assistance and they expect this situation to be ongoing in future years.

Finding 2013-2

Finding

The Districts 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 2013-3

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

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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.