

FAIRVIEW AREA SCHOOLS
FAIRVIEW, MICHIGAN
FINANCIAL STATEMENTS
JUNE 30, 2014

FAIRVIEW AREA SCHOOLS

JUNE 30, 2014

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FAIRVIEW AREA SCHOOLS

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Fairview Area Schools
Fairview, Michigan 48621

We have audited the accompanying financial statements of the government activities, each major fund, and the aggregate remaining fund information of Fairview Area Schools as of and for the year ended June 30, 2014, 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 of material misstatement.

An audit includes 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 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 opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 reasonable 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 Fairview Area Schools as of June 30, 2014, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Education
Fairview Area Schools
Fairview, Michigan 48621

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and budgetary comparison information on pages 3 through 8 and page 25 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 Fairview Area Schools' basic financial statements. The comparative schedules of revenues and other financing sources, and expenditures, and the statement of changes in deposits held for others are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative schedules of revenues and other financing sources, and expenditures, and the statement of changes in deposits held for others are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of revenues and expenditures are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014, on our consideration of Fairview Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fairview Area Schools' internal control over financial reporting and compliance.

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants
October 13, 2014

Management's Discussion and Analysis

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

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$6,051,459 (*net position*). Of this amount, \$985,055 (*unrestricted net position*) may be used to meet the District's ongoing obligations, \$26,441 is reserved for debt service, and \$1,342,707 is reserved for capital projects use.
- The District's total net position increased by \$348,361.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,357,791, an increase of \$687,602 in comparison with the prior year. Approximately 20%, or \$521,586 is *available for spending* at the District's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$521,586 or 18% of total general fund expenditures.
- The District's total debt increased by \$345,000 during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

The District-wide financial statements can be found on pages 9-10 of this report.

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

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

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

The District maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, debt service fund, and capital projects fund, each of which are considered to be a major fund. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided for the general fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 14 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 15-24 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. Combining fund statements and schedules can be found on pages 26-27 of this report.

District-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. In the case of the Fairview Area Schools District, assets exceeded its liabilities by \$6,051,459 at the close of the most recent fiscal year.

The largest portion of the District's net position (61%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

District's Net Position

	Governmental Activities	
	2013-14	2012-13
Current and Other Assets	\$ 2,608,500	\$ 1,986,810
Capital Assets, Net	4,532,256	4,526,482
Total Assets	<u>7,140,756</u>	<u>6,513,292</u>
Current Liabilities	344,297	810,194
Long-term Liabilities	745,000	-
Total Liabilities	<u>1,089,297</u>	<u>810,194</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	3,697,256	4,036,482
Restricted	1,369,148	655,503
Unrestricted	<u>985,055</u>	<u>1,011,113</u>
Total Net Position	\$ <u>6,051,459</u>	\$ <u>5,703,098</u>

An additional portion of the District's net position (23%) represents resources that are subject to external restrictions on how they may be used.

The District's net position increased by \$348,361 during the current fiscal year. Included in the current fiscal year was an increase in the foundation allowance funding by the State of Michigan in the amount of \$60, the rate was \$7,026 per student. The District's blended enrollment declined to approximately 312 students.

District's Changes in Net Position

	Governmental Activities	
	2013-14	2012-13
Revenue:		
Program Revenue:		
Charges for Services	\$ 81,534	\$ 83,588
Operating Grants and Contributions	631,739	571,829
General Revenue:		
Property Taxes	2,728,010	2,728,800
State School Aid	157,974	218,932
Investment Earnings	3,393	2,865
Other	17,304	71,699
Total Revenue	3,619,954	3,677,713
Expenses:		
Instruction	1,834,793	1,844,264
Support Services	1,059,611	993,187
Food Services	143,970	146,926
Athletics	41,556	42,312
Interest on Long-Term Debt	21,452	38,390
Depreciation - Unallocated	170,211	199,603
Total Expenses	3,271,593	3,264,682
Increase in Net Position	348,361	413,031
Net Position, Beginning of Year	5,703,098	5,290,067
Net Position, End of Year	\$ 6,051,459	\$ 5,703,098

Governmental Activities. Governmental activities increased the District's net position \$348,361.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the District’s governmental funds reported combined ending fund balances of \$2,357,791, an increase of \$687,602 in comparison with the prior year. Approximately 22% of this total amount (\$521,586) constitutes *unassigned fund balance*, which is available for spending at the District’s discretion. The remainder of fund balance is *committed or restricted* and not available for current expenditure.

The general fund is the principal operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$521,586. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance and total fund balance represent approximately 18% and 32% respectively of total general fund expenditures.

The fund balance of the District’s general fund decreased by \$17,019 during the current fiscal year. This decrease is primarily attributable to a slight increase in revenue and a larger increase in expenses.

The food service fund has a total fund balance of \$37,976, which decreased by \$7,320.

The athletic fund has a total fund balance of \$37,203, which decreased by \$1,704.

General Fund Budgetary Highlights

Differences between the original and final amended budgets were relatively minor, a 7% increase in revenues and a 6% increase in expenses. As additional information became known during the fiscal year, budget amendments were made to recognize the additional revenue and/or planned expenditures related to various District programs.

Capital Asset and Debt Administration

Capital Assets. The District’s investment in capital assets for its governmental activities as of June 30, 2014, amounted to \$4,532,256 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles and equipment.

The district purchased equipment for 133,419 and made improvements to the buildings and grounds for \$42,566.

District's Capital Assets
(net of depreciation)

	<u>2013-14</u>	<u>2012-13</u>
Land Improvements	\$ 120,459	\$ 128,509
Buildings & Improvements	4,210,401	4,313,625
Vehicles	30,450	39,114
Equipment	<u>170,910</u>	<u>45,234</u>
Total	\$ <u>4,532,220</u>	\$ <u>4,526,482</u>

Additional information on the District’s capital assets can be found on note 5 on page 21 of this report.

Long-term debt. The District, as of June 30, 2014, had the following debt issues with outstanding balances:

District's Long-Term Debt

	<u>2013-14</u>	<u>2012-13</u>
1998 Bond Issue	\$ -	\$ 490,000
2014 Bond Issue	<u>835,000</u>	<u>-</u>
Total	\$ <u>835,000</u>	\$ <u>490,000</u>

Additional information on the District’s long-term debt can be found in note 7 on page 22 of this report.

Factors Bearing on the District’s Future

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

- The slow economy has continued to create a unfavorable conditions for people to move into the area or to remain in the area. This factor contributes to stagnant student counts. The budget is based on a blended student count of 307.
- An estimated increase of \$-0- in the foundation grant combined with the increasing costs of operation results in a deficit budget of approximately \$293,000. The costs of utilities, health insurance, and other contractual obligations continue to impact the budget, even though budget reductions have been implemented. Three primary factors weigh most heavily on our budget:
 1. Increases and additions to retirement programs will impact future costs..
 2. Unpredictable changes in state and federal allocations.
 3. Escalating health insurance costs.
- Declining enrollment continues to create program and fiscal stress for the District.

Requests for Information

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Fairview Area Schools
 Superintendent’s Office
 1879 E. Miller Rd.
 Fairview, MI 48621

FAIRVIEW AREA SCHOOLS
BASIC FINANCIAL STATEMENTS

FAIRVIEW AREA SCHOOLS
DISTRICT WIDE - STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>ASSETS</u>	<u>Governmental Activities</u>
Current Assets		
Cash and investments (Note 3)		\$ 2,492,794
Accounts receivable (Note 4)		1,717
Due from governmental units (Note 4)		110,904
Inventory		3,085
Total current assets		<u>2,608,500</u>
Noncurrent Assets		
Capital assets (Note 5)		8,965,806
Less: accumulated depreciation		<u>(4,433,550)</u>
Total noncurrent assets		<u>4,532,256</u>
Total assets		<u>\$ 7,140,756</u>
 <u>LIABILITIES AND NET POSITION</u> 		
Current Liabilities		
Accounts payable		\$ 4,559
Accrued salaries and withholdings		171,962
Accrued terminal leave		71,029
Accrued interest		3,588
Unearned revenue (Note 4)		3,159
Bonds payable, Due within one year (Note 7)		90,000
Total current liabilities		<u>344,297</u>
Noncurrent Liabilities		
Bonds payable (Note 7)		<u>745,000</u>
Total noncurrent liabilities		<u>745,000</u>
Total Liabilities		<u>1,089,297</u>
Net Position		
Invested in capital assets, net of related debt		3,697,256
Restricted for debt service		26,441
Restricted for capital projects		1,342,707
Unrestricted		985,055
Total Net Position		<u>6,051,459</u>
Total Liabilities and Net Position		<u>\$ 7,140,756</u>

See accompanying notes which are an integral part of the financial statements

FAIRVIEW AREA SCHOOLS
DISTRICT WIDE - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

		Program Revenues		Governmental Activities
Functions/programs	Expenses	Charges for Services	Operating Grants	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities				
Instruction	\$ 1,834,793	\$ -	\$ 511,440	\$ (1,323,353)
Support services	1,059,611	17,205	-	(1,042,406)
Food services	143,970	24,512	120,299	841
Athletics	41,556	39,817	-	(1,739)
Interest on long term debt	21,452			(21,452)
Depreciation - unallocated	170,211	-	-	(170,211)
 Total Governmental Activities	 \$ 3,271,593	\$ 81,534	\$ 631,739	(2,558,320)
 General Revenues				
Taxes				
Property taxes, levied for general operations				2,152,801
Property taxes, levied for debt service				393,536
Property taxes, levied for capital projects - sinking fund				181,673
State of Michigan aid, unrestricted				157,974
Interest and investment earnings				3,393
Other				17,304
 Total General Revenues				 2,906,681
 Change in Net Position				 348,361
 Net position - beginning of year				 5,703,098
 Net position - end of year				 \$ 6,051,459

See accompanying notes which are an integral part of the financial statements

FAIRVIEW AREA SCHOOLS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	<u>GENERAL</u>	1998 DEBT SERVICE	2008 CAPITAL PROJECTS	2014 CAPITAL PROJECTS	OTHER NONMAJOR GOVERNMENTAL FUNDS	<u>TOTALS</u>
ASSETS						
Cash and investments	\$ 1,053,190	\$ 26,421	\$ 651,391	\$ 691,316	\$ 70,476	\$ 2,492,794
Accounts receivable	1,212	-	-	-	505	1,717
Due from other governmental units	109,771	-	-	-	1,133	110,904
Due from other funds	-	-	-	-	-	-
Inventory	-	-	-	-	3,085	3,085
Total Assets	<u>\$ 1,164,173</u>	<u>\$ 26,421</u>	<u>\$ 651,391</u>	<u>\$ 691,316</u>	<u>\$ 75,199</u>	<u>\$ 2,608,500</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable	\$ 4,559	\$ -	\$ -	\$ -	\$ -	\$ 4,559
Accrued salaries and withholdings	171,962	-	-	-	-	171,962
Accrued terminal leave	71,029	-	-	-	-	71,029
Due to other funds	-	-	-	-	-	-
Unearned revenue	3,159	-	-	-	-	3,159
Total Liabilities	<u>250,709</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>250,709</u>
FUND BALANCES:						
Nonspendable - inventory	-	-	-	-	3,085	3,085
Restricted for food service	-	-	-	-	34,891	34,891
Restricted for athletics	-	-	-	-	37,203	37,203
Restricted for debt retirement	-	26,421	-	-	20	26,441
Restricted for capital projects	-	-	651,391	691,316	-	1,342,707
Committed - General Fund - Note 12	98,650	-	-	-	-	98,650
Assigned - General fund	293,228	-	-	-	-	293,228
Unassigned - General Fund	521,586	-	-	-	-	521,586
Total Fund Balances	<u>913,464</u>	<u>26,421</u>	<u>651,391</u>	<u>691,316</u>	<u>75,199</u>	<u>2,357,791</u>
Total Liabilities and Fund Balances	<u>\$ 1,164,173</u>	<u>\$ 26,421</u>	<u>\$ 651,391</u>	<u>\$ 691,316</u>	<u>\$ 75,199</u>	<u>\$ 2,608,500</u>
Total Governmental Fund Balances				\$ 2,357,791		
Elimination of due to and due from governmental funds						
Due to				-		
Due from				-		
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets used in governmental activities are not financial financial resources, and are not reported in the funds.						
The cost of capital assets is			\$ 8,965,806			
Accumulated depreciation is			<u>(4,433,550)</u>			
				4,532,256		
Long term liabilities are not due and payable in the current period and are not reported in the fund						
Bonds payable				(835,000)		
Accrued interest is not included as a liability in governmental funds				<u>(3,588)</u>		
Net Position of Governmental Activities				<u>\$ 6,051,459</u>		

See accompanying notes which are an integral part of the financial statements

FAIRVIEW AREA SCHOOLS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,
 OTHER FINANCING SOURCES (USES) AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL	1998 DEBT SERVICE	2008 CAPITAL PROJECTS	2014 CAPITAL PROJECTS	OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTALS
REVENUES:						
Local sources	\$ 2,181,634	\$ 393,873	\$ 183,359	\$ 508	\$ 64,427	\$ 2,823,801
State sources	356,808	-	-	-	6,487	363,295
Federal sources	312,606	-	-	-	113,812	426,418
Interdistrict sources	6,440	-	-	-	-	6,440
Total Revenues	<u>2,857,488</u>	<u>393,873</u>	<u>183,359</u>	<u>508</u>	<u>184,726</u>	<u>3,619,954</u>
EXPENDITURES:						
Current:						
Instruction	1,834,793	-	-	-	-	1,834,793
Support services	956,208	-	-	-	185,526	1,141,734
Debt service	-	511,737	-	-	-	511,737
Bond issuance costs	-	-	-	14,973	-	14,973
Capital outlay	4,200	-	42,566	129,219	-	175,985
Intergovernmental payments	87,510	457	163	-	-	88,130
Total Expenditures	<u>2,882,711</u>	<u>512,194</u>	<u>42,729</u>	<u>144,192</u>	<u>185,526</u>	<u>3,767,352</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(25,223)	(118,321)	140,630	(143,684)	(800)	(147,398)
OTHER FINANCING SOURCES (USES)						
Incoming transfers	8,204	-	-	-	-	8,204
Bond proceeds	-	-	-	835,000	-	835,000
Outgoing transfers	-	-	-	-	(8,204)	(8,204)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	(17,019)	(118,321)	140,630	691,316	(9,004)	687,602
FUND BALANCES - Beginning of year	<u>930,483</u>	<u>144,742</u>	<u>510,761</u>	<u>-</u>	<u>84,203</u>	<u>1,670,189</u>
FUND BALANCES - End of year	<u>\$ 913,464</u>	<u>\$ 26,421</u>	<u>\$ 651,391</u>	<u>\$ 691,316</u>	<u>\$ 75,199</u>	<u>\$ 2,357,791</u>

See accompanying notes which are an integral part of the financial statements

FAIRVIEW AREA SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances - Total Governmental Funds	\$	687,602
Amounts reported for governmental activities are different because:		
Government funds report capital outlays as expenditures; in the statement of activities these costs are allocated over their estimated useful lives as depreciation.		
Depreciation expense	\$	(170,211)
Capital Outlay		<u>175,985</u>
		5,774
Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental fund until paid		
		(15)
Bond proceeds are income the the governmental funds, but not in the statement of activities (where it increase long-term debt)		
		(835,000)
Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		
		<u>490,000</u>
Change in Net Position of Governmental Activities	\$	<u><u>348,361</u></u>

See accompanying notes which are an integral part of the financial statements

FAIRVIEW AREA SCHOOLS
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2014

	<u>2014</u>
<u>ASSETS</u>	
Cash	\$ <u>29,357</u>
Total Assets	\$ <u><u>29,357</u></u>
 <u>LIABILITIES</u>	
Deposits held for others	\$ <u>29,357</u>
Total Liabilities	\$ <u><u>29,357</u></u>

See accompanying notes which are an integral part of the financial statements

FAIRVIEW AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Fairview Area Schools ("the District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the District:

REPORTING ENTITY

The District is governed by an elected seven member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include 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 school district. Based on the application criteria, the District does not have 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 changes in net position) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally 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 the District's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-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 Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is 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 in 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.

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

Fund Based Statements - Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay are recorded only when the payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the District.

(Continued)

FAIRVIEW AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(continued)

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 Fund is used to record tax, interest and other revenue for the payment of principal, interest, and the payment of principal, interest, and other expenditures.

The Capital Projects Fund is used to record bond proceeds or other revenue and expenditures related to invoices specifically designated for constructing new facilities, renovating and improving existing facilities. The fund operates until the purpose for which it was created is accomplished.

Additionally, the District reports the following fund types:

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 are the Food Service Fund and the Athletic Fund..

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 government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

ASSETS, LIABILITIES AND NET POSITION OR EQUITY

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

Property tax and other trade receivable are shown net of an allowance for uncollectible amounts. The taxpayers of the District have their properties assessed as of December 31 and the related property taxes are levied and become a lien on December 1 for 100% of the taxes which are due February 28. The 2013 taxable value of the District was \$59,494,787 principal residence and \$118,934,759 non-principal residence. The District levied 18.0000 mills for operating purposes on non-homestead and 2.1600 mills for debt service and 1.0000 mills sinking fund purposes on all property for 2013.

The State of Michigan utilized 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.

(Continued)

FAIRVIEW AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET POSITION OR EQUITY (continued)

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.

Inventories and Prepaid items - Inventories are valued at cost, on a first-in, first-out basis. Inventory is maintained in the General Fund and the Special Revenue Fund (Food Service Fund). Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of more than \$1,500 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 market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend the asset life are not capitalized. The District does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	10 years
Furniture and other equipment	10-20 years

Compensated Absences - Fairview Area Schools has a provision in its employee policy whereby terminal leave vests with each employee and, consequently, the District has a financial obligation it must meet at such time the employee leaves the employ of the District. The amount of these accrued termination benefits as of June 30, 2014 is approximately \$71,029 and has been reported as a liability on the General Fund Balance Sheet.

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

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

Fund Equity - Governmental fund equity is classified as fund balance. Government fund report *nonspendable* fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually require to be maintained intact. *Restricted* fund balance is reported when externally imposed constraints are placed on the use of the resources by grantors, contributors, or laws or regulations of other governments. As applicable, *committed* fund balance is reported for amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the District's highest level of decision making authority, the School Board. The District reports *assigned* fund balance for amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted or committed. *Unassigned* fund balance is the residual classification for the General Fund.

When the District incurs an expenditure for purposes for which various fund balance classifications can be used, it is the District's policy to use restricted fund balance first, then committed fund balance, and finally unassigned fund balance.

(Continued)

FAIRVIEW AREA SCHOOLS
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET POSITION OR EQUITY (continued)

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

Deferred Outflow/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense or expenditure) until then. The District does not have deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (receipts) until that time. The District does not have any deferred inflows of resources.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. During the year the budgets were amended in a legally permissible manner. There were no significant amendments during the year.

Encumbrances are not liabilities and, therefore, are not recorded as expenditures until the receipt of materials or services. For budgetary purposes, appropriations lapse at fiscal year end and outstanding encumbrances are reappropriated in the next year.

Excess of Expenditures Over Appropriations in Budgeted Funds - The District did not incur expenditures in excess of the amended budget.

<u>Fund and Function</u>	<u>Appropriation</u>	<u>Expenditure</u>	<u>Variance</u>
NONE			

FAIRVIEW AREA SCHOOLS
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end the District's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>District Total</u>
Cash and investments	\$ <u>2,492,794</u>	\$ <u>29,357</u>	\$ <u>2,522,151</u>
Total	\$ <u>2,492,794</u>	\$ <u>29,357</u>	\$ <u>2,522,151</u>

The breakdown between deposits and investments for the District is as follows:

Deposits (checking, savings)	\$ 2,522,151
Investments (investment pool)	-
	<u>\$ 2,522,151</u>

As of June 30, 2014 the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Investment pool	\$ <u>-</u>	<u>31 days</u>

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; 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). As of June 30, 2014 the District did not have any investments in commercial paper or corporate bonds.

Concentration of credit risk

The District will minimize the 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 portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. At June 30, 2014 the District did not have any investments.

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. At June 30, 2014, \$-0- of the District's bank balance of \$2,562,970 was exposed to custodial risk because it was uninsured. The book balance of these accounts was \$2,522,151.

Custodial credit risk - investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District did not have any custodial credit risk on its investments at June 30, 2014. The District will minimize custodial credit risk, which is the loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and by pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the District will do business.

Foreign currency risk

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

FAIRVIEW AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE 4 - RECEIVABLES

Receivables as of year-end for the District's individual major funds and the nonmajor and fiduciary funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>1998 Debt Service</u>	<u>Capital Projects Funds</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:					
Accounts receivable	\$ 1,212	\$ -	\$ -	\$ 505	\$ 1,717
Intergovernmental	<u>109,771</u>	<u>-</u>	<u>-</u>	<u>1,133</u>	<u>110,904</u>
Total receivables	<u>\$ 110,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,638</u>	<u>\$ 112,621</u>

Governmental funds report unearned revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned revenue are as follows:

	<u>Unearned</u>
Grants and categorical aid payment not considered available	\$ 3,159
Payments received prior to meeting all eligibility requirements:	
Other	<u>-</u>
Totals	<u>\$ 3,159</u>
 Total unearned revenue	 <u>\$ 3,159</u>

(Continued)

FAIRVIEW AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the District's Governmental activities were as follows:

<u>Assets</u>	<u>Balance</u> July 1, 2013	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> June 30, 2014
Capital assets being depreciated:				
Land improvements	\$ 947,790	\$ -	\$ -	\$ 947,790
Buildings & improvements	6,398,067	42,566	-	6,440,633
Buses & vehicles	338,854	-	-	338,854
Furniture & equipment	<u>1,105,110</u>	<u>133,419</u>	-	<u>1,238,529</u>
Subtotal	<u>8,789,821</u>	<u>175,985</u>	-	<u>8,965,806</u>
<u>Accumulated Depreciation</u>				
Land improvements	819,281	8,014	-	827,295
Buildings & improvements	2,084,442	145,790	-	2,230,232
Buses & vehicles	299,740	8,664	-	308,404
Furniture & equipment	<u>1,059,876</u>	<u>7,743</u>	-	<u>1,067,619</u>
Subtotal	<u>4,263,339</u>	<u>170,211</u>	-	<u>4,433,550</u>
Net capital assets being depreciated	<u>4,526,482</u>	<u>5,774</u>	-	<u>4,532,256</u>
Governmental Activities				
Total Capital Assets net of Depreciation	<u>\$ 4,526,482</u>	<u>\$ 5,774</u>	<u>\$ -</u>	<u>\$ 4,532,256</u>

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 6 - RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>		<u>Amount</u>
None	\$ -	None	\$ -	-
	-		-	-
	<u>-</u>		<u>-</u>	<u>-</u>
Total	<u>\$ -</u>	Total	<u>\$ -</u>	<u>-</u>

The above interfund balances, if any, occurred as a result of routine activity between the funds and the balances are expected to be paid during the next fiscal year.

<u>Transfer In</u>		<u>Transfer Out</u>	
General Fund	<u>\$ 8,204</u>	Nonmajor Governmental Funds	<u>\$ 8,204</u>

(Continued)

FAIRVIEW AREA SCHOOLS
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2014

NOTE 7 - 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 are direct obligations and pledge full faith and credit of the school district.

Long-term debt activity can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:				
General Obligation Bonds:				
1998 Issue	\$ 490,000	\$ (490,000)	\$ -	\$ -
2014 Issue	-	835,000	835,000	90,000
Total Governmental Activities	<u>\$ 490,000</u>	<u>\$ 345,000</u>	<u>\$ 835,000</u>	<u>\$ 90,000</u>

Annual debt service requirements to maturity for the General Obligation Bonds are as follows:

Year Ended June 30	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 90,000	\$ 18,942	\$ 108,942
2016	95,000	15,542	110,542
2017	100,000	14,498	114,498
2018	105,000	13,197	118,197
2019	105,000	11,465	116,465
2020-2022	340,000	19,543	359,543
Total	<u>\$ 835,000</u>	<u>\$ 93,187</u>	<u>\$ 928,187</u>

General Obligation Bonds payable at June 30, 2014 is comprised of the following issue:

General obligation bonds:

2014 serial bonds due in annual installments ranging from \$90,000 to \$115,000 through May 1, 2022; interest rates of .90% - 3.05%	<u>\$ 835,000</u>
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NOTE 8 - 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 to employees; and natural disasters. The District maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the School District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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

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

(Continued)

FAIRVIEW AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE 8 - RISK MANAGEMENT (continued)

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

NOTE 9 - PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The District participates in the Michigan Public School Employees' Retirement System (MPSERS) a state-wide, cost sharing, multiple-employer defined benefit public employee retirement system administered by the State of Michigan, Department of Management and Budget, Office of Retirement Services ("ORS"). Effective December 1, 2012, members could elect to no longer contribute to the pension fund, and begin contributing to a defined contribution plan. MPSERS provides retirement, survivor and disability, death and post-employment health benefits to plan members and beneficiaries. Member Investment Plan ("MIP") participants receive enhanced benefits compared to Basic Plan participants. Benefits are safeguarded by Article IX, Section 24 of the Michigan Constitution. Public Act 300 of 1980, as amended, assigns authority to establish and amend benefit provisions to the State Legislature. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MPSERS, P.O. Box 30171, Lansing, MI 48909-7611, by calling (517) 322-5103 or on the State of Michigan website at www.Michigan.gov.

Funding Policy - Defined Benefit Plan - Plan members who participate in MIP are required to contribute 3% to 7% of their annual salary; plan members who participate in the Basic Plan contribute 3%; and the District is required to contribute at an actuarially determined rate using the individual entry age actuarial cost method. The rates were 20.96% and 24.32%, dependent on the entrance date, for the period of July 1, 2013 to September 30, 2013. Beginning October 1, 2013, the rates ranged between 24.79% and 26.96% based on individual retirement elections made by each employee. The contribution requirements of plan members and the District are established and may be amended by the State Legislature. The District's contributions to MPSERS for the years ended June 30, 2014, 2013, and 2012 were \$371,333, \$372,968 and \$377,016 respectively.

Funding Policy - Defined Contribution Plan - Plan members who participate in the plan may contribute up to the maximum amounts permitted by the Internal Revenue Service to their 457 account. The District is required to contribute up to 4% to a tax deferred 401(k) account. The District's contributions to the defined contribution plan was \$2,990 and \$1,520 for the years ended June 30, 2014 and 2013.

Post Employment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental, and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

FAIRVIEW AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

NOTE 10 - CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

The District is a reimbursing employer to the State of Michigan Unemployment Agency and as such is responsible to pay the Agency for all benefits paid and charged to the District. As of June 30, all known liabilities for claims paid by the Agency are recorded as accounts payable.

NOTE 11 - CAPITAL PROJECTS FUND

The Capital Projects Fund records capital project activities funded with Sinking Fund millage. For this fund, the Fairview Area Schools has complied with the applicable provisions of Section 1212(1) of the Revised School Code and the State of Michigan Department of Treasury Letter No. 01-95.

NOTE 12 - COMMITTED FUND BALANCE

The School Board has committed fund balance in the General Fund as follows:

Item	Amount
Terminal leave	\$ 25,920
Bus replacement	25,000
Technology	25,000
Capital improvements	11,730
Furniture/equipment	11,000
Total	\$ <u>98,650</u>

REQUIRED SUPPLEMENTAL INFORMATION

FAIRVIEW AREA SCHOOLS
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2014

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Over (Under)
	<u>2014 Original</u>	<u>2014 Final</u>		
REVENUES				
Local sources	\$ 2,080,440	\$ 2,161,371	\$ 2,181,634	\$ 20,263
State sources	312,622	349,705	356,808	7,103
Federal sources	291,338	337,576	312,606	(24,970)
Interdistrict sources	10,404	30,904	6,440	(24,464)
Total Revenues	<u>2,694,804</u>	<u>2,879,556</u>	<u>2,857,488</u>	<u>(22,068)</u>
EXPENDITURES				
Current:				
Instruction:				
Basic programs	1,235,202	1,261,108	1,222,682	(38,426)
Added needs	575,997	632,357	612,111	(20,246)
Support services:				
Pupil services	79,664	44,465	44,121	(344)
Instructional staff	31,463	57,800	38,902	(18,898)
General administration	218,160	239,553	227,581	(11,972)
School administration	85,994	91,390	86,453	(4,937)
Business	149,851	147,561	122,507	(25,054)
Operation & maintenance	273,132	288,965	266,921	(22,044)
Transportation	143,427	153,168	140,377	(12,791)
Technology	25,625	28,636	27,613	(1,023)
Pupil activities	-	750	378	(372)
Support services - Other	2,775	6,008	5,555	(453)
Intergovernmental	79,318	110,510	87,510	(23,000)
Total Expenditures	<u>2,900,608</u>	<u>3,062,271</u>	<u>2,882,711</u>	<u>(179,560)</u>
Excess of Revenues over (under) Expenditures	(205,804)	(182,715)	(25,223)	157,492
Budgetary fund balance - July 1, 2013	<u>930,483</u>	<u>930,483</u>	<u>930,483</u>	<u>-</u>
Budgetary fund balance - June 30, 2014	<u>\$ 724,679</u>	<u>\$ 747,768</u>	<u>\$ 905,260</u>	<u>\$ 157,492</u>

OTHER SUPPLEMENTAL INFORMATION

FAIRVIEW AREA SCHOOLS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2014

	Nonmajor Special Revenue Funds		2014 Debt	Nonmajor Governmental Funds Total
	Food Service	Athletics		
<u>ASSETS</u>				
Cash and investments	\$ 33,758	\$ 36,698	\$ 20	\$ 70,476
Accounts receivable	-	505	-	505
Due from other governmental units	1,133	-	-	1,133
Due from other funds	-	-	-	-
Inventory	3,085	-	-	3,085
Total Assets	\$ 37,976	\$ 37,203	\$ 20	\$ 75,199
 <u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued salaries	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	-	-	-	-
Fund Balances:				
Nonspendable - inventory	3,085	-	-	3,085
Restricted for food service	34,891	-	-	34,891
Restricted for athletics	-	37,203	-	37,203
Restricted for debt retirement	-	-	20	20
Total Fund Balance	37,976	37,203	20	75,199
Total Liabilities and Fund Balances	\$ 37,976	\$ 37,203	\$ 20	\$ 75,199

FAIRVIEW AREA SCHOOLS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 OTHER FINANCING USES AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	Nonmajor Special Revenue Funds		2014 Debt	Nonmajor Governmental Funds
	Food Service	Athletics		Total
REVENUES				
Local sources	\$ 24,555	\$ 39,852	\$ 20	\$ 64,427
State sources	6,487	-	-	6,487
Federal sources	113,812	-	-	113,812
 Total Revenues	 <u>144,854</u>	 <u>39,852</u>	 <u>20</u>	 <u>184,726</u>
EXPENDITURES:				
Current operations:				
Food service	143,970	-	-	143,970
Athletics	-	41,556	-	41,556
Debt service	-	-	-	-
Capital outlay	-	-	-	-
 Total Expenditures	 <u>143,970</u>	 <u>41,556</u>	 <u>-</u>	 <u>185,526</u>
Excess (Deficiency) of Revenues over Expenditures	884	(1,704)	20	(800)
Other Financing Uses				
Outgoing transfers	<u>(8,204)</u>	<u>-</u>	<u>-</u>	<u>(8,204)</u>
Excess (Deficiency) of Revenues over Expenditures and Other Financing (Uses)	(7,320)	(1,704)	20	(9,004)
Fund Balance - Beginning of Year	<u>45,296</u>	<u>38,907</u>	<u>-</u>	<u>84,203</u>
Fund Balance - End of Year	<u>\$ 37,976</u>	<u>\$ 37,203</u>	<u>\$ 20</u>	<u>\$ 75,199</u>

FAIRVIEW AREA SCHOOLS
GENERAL FUND
COMPARATIVE DETAIL OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
REVENUES		
Local Sources:		
Current property taxes	\$ 2,152,801	\$ 2,061,685
Earnings on investments	1,393	1,402
Miscellaneous	27,440	87,606
Total Local Sources	2,181,634	2,150,693
State Sources:		
Grants - Unrestricted:		
State Aid	157,974	218,932
Grants - Restricted:		
At risk	131,305	80,851
Special education	64,493	60,112
Other	3,036	3,300
Received through ISD:		
Other	-	-
Total State Sources	356,808	363,195
Federal Sources:		
Grants - Restricted:		
Received direct:		
REAP	9,633	11,684
Received through State:		
Title I	173,177	156,347
Title I - ARRA	-	-
Title II	11,883	22,833
Other grants	-	-
Received through ISD:		
Special Ed - Flow through	83,522	75,743
Other grants	-	-
Other federal revenue - from County	34,391	36,397
Total Federal Sources	312,606	303,004
Interdistrict:		
Special Education	6,185	-
Other	255	6,923
Total Interdistrict	6,440	6,923
TOTAL REVENUES	2,857,488	2,823,815
OTHER FINANCING SOURCES		
Incoming transfers	8,204	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 2,865,692	\$ 2,823,815

FAIRVIEW AREA SCHOOLS
GENERAL FUND
COMPARATIVE DETAILS OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014

INSTRUCTION:	<u>2014</u>	<u>2013</u>
Basic Programs:		
Elementary:		
Salaries	\$ 272,160	\$ 313,581
Employee benefits	173,830	197,106
Purchased services	1,807	1,792
Supplies & materials	15,228	9,899
Other expenses	-	-
Capital outlay	-	-
	<u>463,025</u>	<u>522,378</u>
Middle School:		
Salaries	153,238	154,838
Employee benefits	77,951	75,195
Purchased services	-	2,924
Supplies & materials	3,307	4,122
Capital outlay	-	-
	<u>234,496</u>	<u>237,079</u>
High School:		
Salaries	294,543	300,085
Employee benefits	159,985	163,941
Purchased services	64,554	33,378
Supplies & materials	6,079	9,841
Other expenses	-	6,045
Capital outlay	-	-
	<u>525,161</u>	<u>513,290</u>
TOTAL BASIC PROGRAMS	<u>1,222,682</u>	<u>1,272,747</u>
Added Needs:		
Special Education:		
Salaries	179,029	178,239
Employee benefits	111,515	105,604
Purchased services	352	2,947
Supplies & materials	706	2,160
	<u>291,602</u>	<u>288,950</u>
Compensatory Education:		
Salaries	181,701	151,889
Employee benefits	84,054	68,879
Purchased services	16,920	9,327
Supplies & materials	10,158	16,730
Capital outlay	-	-
	<u>292,833</u>	<u>246,825</u>
Career Technical Education		
Purchased services	<u>27,676</u>	<u>27,676</u>
TOTAL ADDED NEEDS	<u>612,111</u>	<u>563,451</u>
TOTAL INSTRUCTION	<u>1,834,793</u>	<u>1,836,198</u>

FAIRVIEW AREA SCHOOLS
GENERAL FUND
COMPARATIVE DETAIL OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
SUPPORT SERVICES:		
Support Services - Pupil:		
Guidance:		
Salaries	\$ 31,849	\$ 59,324
Employee benefits	11,916	21,052
Purchased services	56	-
Supplies & materials	-	-
Capital outlay	-	-
	43,821	80,376
Other Pupil Services:		
Purchased services	300	255
Supplies & materials	-	-
	300	255
TOTAL SUPPORT SERVICES - PUPIL	44,121	80,631
Support Services - Instructional Staff:		
Improvement of Instruction:		
Salaries	2,372	815
Employee benefits	878	215
Purchased services	26,537	20,234
Supplies & materials	3,000	-
Other expenses	-	-
	32,787	21,264
Library:		
Salaries	-	-
Employee benefits	-	-
Purchased services	482	1,224
Supplies & materials	4,252	2,679
	4,734	3,903
Other Instructional Staff:		
Salaries	-	-
Purchased services	1,381	1,771
Supplies & materials	-	-
Capital outlay	-	-
	1,381	1,771
TOTAL SUPPORT SERVICES - INSTRUCTIONAL STAFF	38,902	26,938
General Administration:		
Board of Education:		
Salaries	1,720	-
Employee benefits	4,000	4,000
Purchased services	38,088	23,831
Supplies & materials	10,597	4,432
Other expenses	1,353	1,241
Capital outlay	-	-
	55,758	33,504

FAIRVIEW AREA SCHOOLS
GENERAL FUND
COMPARATIVE DETAIL OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
Executive Administration:		
Salaries	\$ 100,833	\$ 99,570
Employee benefits	62,063	57,276
Purchased services	6,607	6,320
Supplies & materials	1,150	1,198
Other expenses	1,170	1,170
Capital outlay	-	-
	171,823	165,534
TOTAL SUPPORT SERVICES - GENERAL ADMINISTRATION	227,581	199,038
School Administration:		
Office of the Principal:		
Salaries	55,523	54,324
Employee benefits	27,004	25,770
Purchased services	2,007	1,976
Supplies & materials	1,575	1,254
Other expenses	344	-
Capital outlay	-	-
	86,453	83,324
TOTAL SUPPORT SERVICES - SCHOOL ADMINISTRATION	86,453	83,324
Support Services - Business:		
Other Business Services:		
Salaries	27,200	29,227
Employee benefits	21,592	19,606
Purchased services	51,203	35,956
Supplies & materials	12,353	32,807
Other expenses	10,159	-
Capital outlay	-	3,895
	122,507	121,491
TOTAL SUPPORT SERVICES - BUSINESS	122,507	121,491
Operation & Maintenance:		
Salaries	77,905	77,694
Employee benefits	47,030	43,017
Purchased services	47,157	39,909
Supplies & materials	90,629	88,281
Capital outlay	4,200	-
	266,921	248,901
TOTAL SUPPORT SERVICES - OPERATION & MAINTENANCE	266,921	248,901

FAIRVIEW AREA SCHOOLS
GENERAL FUND
COMPARATIVE DETAIL OF EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
Pupil Transportation:		
Salaries	\$ 59,523	\$ 61,059
Employee benefits	26,160	23,814
Purchased services	22,132	28,243
Supplies & materials	32,562	33,191
Other expenses	-	-
Capital outlay	-	-
TOTAL SUPPORT SERVICES - PUPIL TRANSPORTATION	140,377	146,307
Planning and Evaluation:		
Purchased services	-	-
TOTAL SUPPORT SERVICES - PLANNING AND EVALUATION	-	-
Technology:		
Purchased services	27,613	25,489
Supplies & materials	-	-
Capital outlay	-	-
TOTAL SUPPORT SERVICES - TECHNOLOGY	27,613	25,489
Employee benefits - unclassified	5,555	7,017
Pupil Activities:		
Supplies & materials	378	-
TOTAL SUPPORT SERVICES	960,408	939,136
INTERGOVERNMENTAL		
Tuition	87,510	60,212
Other	-	4,933
TOTAL INTERGOVERNMENTAL	87,510	65,145
TOTAL EXPENDITURES	\$ 2,882,711	\$ 2,840,479

FAIRVIEW AREA SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

	<u>FOOD SERVICE</u>	<u>ATHLETIC</u>	<u>TOTALS</u>	
			<u>2014</u>	<u>2013</u>
<u>ASSETS</u>				
Cash	\$ 33,758	\$ 36,698	\$ 70,456	\$ 74,891
Accounts receivable	-	505	505	-
Due from other governmental units	1,133	-	1,133	2,138
Due from other funds	-	-	-	1,666
Inventory	3,085	-	3,085	6,560
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	\$ <u>37,976</u>	\$ <u>37,203</u>	\$ <u>75,179</u>	\$ <u>85,255</u>
 <u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ 1,052
Accrued salaries	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<hr/>	<hr/>	<hr/>	<hr/>
 <u>FUND BALANCE</u>				
Nonspendable - inventory	3,085	-	3,085	6,560
Restricted for food service	34,891	-	34,891	38,736
Restricted for athletics	-	37,203	37,203	38,907
	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balance	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balance	\$ <u>37,976</u>	\$ <u>37,203</u>	\$ <u>75,179</u>	\$ <u>85,255</u>

FAIRVIEW AREA SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
OTHER FINANCING (USES) AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

	<u>FOOD SERVICE</u>	<u>ATHLETIC</u>	<u>TOTALS</u>	
			<u>2014</u>	<u>2013</u>
<u>REVENUES</u>				
Revenue from Local Sources:				
Food service activities	\$ 24,555	\$ -	\$ 24,555	\$ 24,705
Athletic activities	-	39,852	39,852	36,159
State aid	6,487	-	6,487	7,131
Federal aid	<u>113,812</u>	<u>-</u>	<u>113,812</u>	<u>117,431</u>
 TOTAL REVENUES	 <u>144,854</u>	 <u>39,852</u>	 <u>184,706</u>	 <u>185,426</u>
<u>EXPENDITURES:</u>				
Food service activities	76,370	-	76,370	84,778
Athletic activities	-	41,556	41,556	42,312
Salaries	48,450	-	48,450	45,515
Employee benefits	19,150	-	19,150	16,603
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL EXPENDITURES	 <u>143,970</u>	 <u>41,556</u>	 <u>185,526</u>	 <u>189,208</u>
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 884	 (1,704)	 (820)	 (3,782)
 OTHER FINANCING (USES)				
Outgoing transfers	<u>(8,204)</u>	<u>-</u>	<u>(8,204)</u>	<u>-</u>
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	 (7,320)	 (1,704)	 (9,024)	 (3,782)
 FUND BALANCE - BEGINNING OF YEAR	 <u>45,296</u>	 <u>38,907</u>	 <u>84,203</u>	 <u>88,015</u>
 FUND BALANCE - END OF YEAR	 <u>\$ 37,976</u>	 <u>\$ 37,203</u>	 <u>\$ 75,179</u>	 <u>\$ 84,233</u>

FAIRVIEW AREA SCHOOLS
TRUST AND AGENCY FUNDS
STATEMENT OF CHANGES IN DEPOSITS HELD FOR OTHERS
FOR THE YEAR ENDED JUNE 30, 2014

	BALANCES JULY 1, 2013	REVENUES	EXPENDITURES	BALANCES JUNE 30 2014
Class of 2014	\$ 1,676	\$ 7,964	\$ 9,640	\$ -
Class of 2015	1,922	4,610	3,048	3,484
Class of 2016	671	820	94	1,397
Class of 2017	-	2,716	122	2,594
				-
Yearbook Fund	2,277	2,750	-	5,027
Book Fair - Library	41	-	-	41
Music Fund	824	801	1,257	368
Middle School	26	2,278	2,294	10
Spirit Committee	246	-	-	246
Cash Box:				-
Elementary	2,387	5,387	5,164	2,610
Special Education -				-
Tootsie Roll Fund	2,110	878	159	2,829
Cash Box - Other	472	101	148	425
High School	1,302	2,678	2,060	1,920
MI U.P. Trip	2,013	9,628	9,608	2,033
Elem. Girl's Basketball	75	-	-	75
School Newspaper	1,817	265	2,082	-
Baseball	141	-	-	141
Varsity Soccer	403	-	-	403
Drama Club	741	266	92	915
Student Council	916	414	504	826
MS Student Council	-	38	-	38
Track	121	60	161	20
MS Track	29	-	-	29
Cross Country	51	779	264	566
Varsity Cheerleading	-	1,085	1,072	13
Jr High Cheerleading	98	-	41	57
Volleyball	609	1,156	998	767
Jr High Boys Basketball	352	-	-	352
Varsity Boys Basketball	502	1,385	809	1,078
Varsity Girls Basketball	938	1,501	2,045	394
JV Girls Basketball	80	-	-	80
Jr High Girls Basketball	34	-	-	34
Softball	69	326	-	395
Equestrian	-	190	-	190
HS Peer Tutoring	134	-	134	-
Totals	\$ <u>23,077</u>	\$ <u>48,076</u>	\$ <u>41,796</u>	\$ <u>29,357</u>

FAIRVIEW AREA SCHOOLS
SCHEDULE OF OUTSTANDING BONDED INDEBTEDNESS
JUNE 30, 2014

DATE OF ISSUE - MARCH 4, 2014

Original amount of issue - \$ 835,000

Purpose of issue - acquiring, installing and equipping technology for school facilities; partially remodeling school facilities for technology upgrades; and purchasing school buses, equipment and furnishings

Interest Rate	Fiscal Year	Semi-Annual Interest Payments		Annual Maturity May 1	Total Fiscal Year Requirements
		November 1	May 1		
0.900%	2014-15	\$ 10,766	\$ 8,176	\$ 90,000	\$ 108,942
1.100%	2015-16	7,771	7,771	95,000	110,542
1.300%	2016-17	7,249	7,249	100,000	114,498
1.650%	2017-18	6,598	6,599	105,000	118,197
2.000%	2018-19	5,732	5,733	105,000	116,465
2.450%	2019-20	4,683	4,683	110,000	119,366
2.750%	2020-21	3,335	3,335	115,000	121,670
3.050%	2021-22	1,754	1,753	115,000	118,507
		<u>\$ 47,888</u>	<u>\$ 45,299</u>	<u>\$ 835,000</u>	<u>\$ 928,187</u>

APPENDICE



ROBERTSON & CARPENTER CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Other office: Rose City, Michigan

Robert J. Carpenter, CPA
Rodney C. Robertson, CPA

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

Board of Education
Fairview Area Schools
Fairview, Michigan 48621

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Fairview Area Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Fairview Area Schools' basic financial statements and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairview Area Schools' financial statements are free of 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*.

Board of Education
Fairview Area Schools
Fairview, Michigan 48621

Purpose of this Report

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

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants
October 13, 2014



ROBERTSON & CARPENTER CPAs, P.C.

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Robert J. Carpenter, CPA
Rodney C. Robertson, CPA

October 13, 2014

To the Board of Education
Fairview Area Schools
Fairview, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairview Area Schools for the year ended June 30, 2014, and have issued our report thereon dated October 13, 2014. Professional standards require that we provide you with the following information related to our audit.

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

As stated in our engagement letter dated September 22, 2014, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

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

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 22, 2014.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Fairview Area Schools are described in Note 1 to the financial statements. The District did not implement any new accounting policies during the year ended June 30, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

Management's estimate of the net book value of fixed assets is based on estimated depreciation lives. We evaluated the key factors and assumptions used to develop the depreciation lives in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 13, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

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

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

Very truly yours,

Robertson & Carpenter CPAs, PC
Certified Public Accountants