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MACKINAW CITY PUBLIC SCHOOLS
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2013

**MACKINAW CITY PUBLIC SCHOOLS
TABLE OF CONTENTS**

INDEPENDENT AUDITOR’S REPORT	1-3
MANAGEMENT’S DISCUSSION AND ANALYSIS	4-7
BASIC FINANCIAL STATEMENTS	
District-Wide Financial Statements	
Statement of Net Position	8
Statement of Activities	9
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	10
Reconciliation of Fund Balances on the Balance Sheet of Governmental Funds to the Statement Of Net Position	11
Statement of Revenues, Expenditures and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Fiduciary Fund – Statement of Fiduciary Fund Net Assets	14
Notes to Financial Statements	15-23
REQUIRED SUPPLEMENTARY INFORMATION	
Major Fund	
Budgetary Comparison Schedule – General Fund	24
Schedule of Revenues, Expenditures, and Other Sources (Uses) Budget and Actual	25-26
OTHER SUPPLEMENTARY INFORMATION	
Non-major Governmental Funds	
Balance Sheet Non-major Governmental Fund – Food Service	27
Statement of Revenues, Expenditures and Changes in Fund Balances – Non-major Governmental Fund – Food Service	28
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	29-30
REPORT TO MANAGEMENT / BOARD OF EDUCATION	31-35



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 149, 2947 MANTZ STREET
LEWISTON, MICHIGAN 49756
TELEPHONE: (989) 786-4032
FAX: (989) 786-4032

INDEPENDENT AUDITOR'S REPORT

October 30, 2013

Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan 49701

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mackinaw City Public Schools as of and for the year ended June 30, 2013, which collectively comprise the School'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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 Mackinaw City Public Schools as of June 30, 2013 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – Fund Balance Deficit in General Fund

As more fully discussed in Note 13 to the financial statements, the school district has a deficit in the general fund. 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 on pages 4 through 7 and 25 through 27 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mackinaw City Public Schools' basic financial statements. Other supplementary information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Page 2
October 30, 2013
Board of Education
Mackinaw City Public Schools

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 30, 2013, on my consideration of Mackinaw City Public Schools' internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Mackinaw City Public Schools' internal control over financial reporting and compliance.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MACKINAW CITY PUBLIC SCHOOLS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management Discussion and Analysis, a requirement of GASB 34, is intended to be the Mackinaw City Public Schools District ("the District") Management's discussion and analysis of the financial results for the year ended June 30, 2013. The intent of this discussion and analysis is to provide a look at the district's performance and current position. Readers should also review the notes to the financial statements and financial statements to enhance their understanding of the district's financial performance.

FINANCIAL HIGHLIGHTS

The overall financial condition of the district remains strong. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available.

The assets of the Mackinaw City Public Schools District exceeded its liabilities at the close of the most recent fiscal year by \$1,019,462 (net position).

The district's total net position decreased by \$319,673 in the 2012/13 school year.

At the end of the current fiscal year, the fund deficit for the District's General Fund is \$(345,160).

USING THE ANNUAL REPORT

Generally accepted accounting principles (GAAP) according to GASB 34 require the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole (government-wide statements), and then proceed to provide an increasingly detailed look at specific financial statements (fund financial statements). Also included are various notes to the financial statements. The audit also contains supplemental information in addition to the basic financial statements.

Reporting the District as a Whole – The Statement of Net Position and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the district as a whole and about its activities in a manner to help address this question. These statements include all assets and liabilities of the District using the accrual basis of accounting similar to the accounting used by the private sector. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

The two statements report the District's net position and any changes in them. The change in net position provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. The reader will need to consider other non-financial factors such as property tax base, political conditions on a State level, student enrollment growth, quality of local service, and facility improvements prior to arriving at any conclusion regarding the overall health of the District.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the district as a whole. The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". The two types of funds: governmental funds and fiduciary funds use different accounting approaches as further discussed in the notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Governmental Funds

Most of the District's activities are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the District's Net Position as of June 30, 2013 and 2012.

TABLE 1 Governmental Activities

<u>Assets</u>	<u>06/30/2013</u>	<u>06/30/2012</u>
Current Assets	\$ 122,461	\$ 365,104
Noncurrent Assets	<u>1,275,672</u>	<u>1,298,789</u>
Total Assets	<u>1,398,133</u>	<u>1,663,893</u>
<u>Liabilities</u>		
Current Liabilities	350,141	295,965
Noncurrent Liabilities	<u>28,530</u>	<u>28,793</u>
Total Liabilities	<u>378,671</u>	<u>324,758</u>
<u>Net Position</u>		
Invested in Capital Assets	1,275,672	1,298,789
Restricted	117,480	93,053
Unrestricted	<u>(373,690)</u>	<u>(52,707)</u>
Total Net Position	<u>\$ 1,019,462</u>	<u>\$ 1,339,135</u>

The results of this year's operations for the District as a whole are represented in a statement of activities (Table 2), which shows the changes in net position for the fiscal year 2013 and 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TABLE 2 Governmental Activities

	<u>06/30/2013</u>	<u>06/30/2012</u>
Program Revenues		
Charges for services	\$ 14,144	\$ 19,799
Operating grants and contributions	79,693	106,346
General Revenues		
Property taxes	2,034,707	2,121,929
State School Aid	85,979	86,031
Other and Interest	<u>23,169</u>	<u>26,210</u>
Total Revenues	<u>2,237,692</u>	<u>2,360,315</u>
Functions/Program Expenses		
Instruction	1,775,026	1,822,919
Supporting services and athletics	758,087	763,121
Food services	24,252	22,037
Interest on debt	<u>-</u>	<u>3,500</u>
Total Expenses	<u>2,557,365</u>	<u>2,611,577</u>
Change in Net Position	<u>\$ (319,673)</u>	<u>\$ (251,262)</u>

As reported in the statement of activities the cost of all governmental activities for the year was \$2,557,365 while \$2,034,707 in revenue was generated directly from local taxpayers, another \$14,144 was generated through "charges for actual services" to local districts, or individuals that benefited directly from our services. State, federal, other regional grants and programs brought \$79,693 to the district. The district received \$85,979 in state education funding and just over \$23,169 in other miscellaneous sources, inclusive of investment earnings. Net position for the year ending June 30, 2013 decreased by approximately \$319,673.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The District's budgets are prepared in accordance to Michigan Law. The most significant budgeted fund is the General Fund. During the fiscal year of 2012/13 the District amended the budget. Due to the timing of grant awards and pupil counts, the general fund budget will change significantly from the beginning to the end of the year. The district's actual expenditures were \$154,941 more than budgeted expenditures.

General Fund

The General Fund revenues were less than expenditures in the past year of operations by \$321,246. In anticipation of the state education budget crises and potential tax tribunal adjustments, the district must watch its expenditures closely and make cuts where necessary.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's assets have accumulated \$2,471,776 of depreciation. Our capitalized assets include our buildings, land, equipment, and transportation fleet. This year saw a \$23,117 decrease in Net Capital Assets. A categorized listing of the assets is below.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TABLE 3 Mackinaw City Public Schools District Capital Assets

	Balance <u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	Balance <u>June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Capital assets being depreciated:				
Land improvements	488,210	-	-	488,210
Building and building improvements	2,344,439	52,572	-	2,397,011
Buses and other vehicles	220,099	-	-	220,099
Furniture and equipment	<u>580,208</u>	<u>28,920</u>	-	<u>609,128</u>
Subtotal	<u>3,632,956</u>	<u>81,492</u>	-	<u>3,714,448</u>
Accumulated depreciation:				
Land improvements	485,208	333	-	485,541
Building and building improvements	1,283,464	43,569	-	1,327,033
Buses and other vehicles	130,914	22,295	-	153,209
Furniture and equipment	<u>467,581</u>	<u>38,412</u>	-	<u>505,993</u>
Subtotal	<u>2,367,167</u>	<u>104,609</u>	-	<u>2,471,776</u>
Net capital assets being depreciated	<u>1,265,789</u>	<u>(23,117)</u>	-	<u>1,242,672</u>
Net governmental capital assets	<u>\$ 1,298,789</u>	<u>\$ (23,117)</u>	<u>\$ -</u>	<u>\$ 1,275,672</u>

Long Term Debt

The District has no bonded debt.

The District employees have accumulated sick days, which if paid in their entirety at June 30, 2013 would cost the district \$28,530.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The economy of the State of Michigan has dramatically slowed. The exact implications this will have on the District are unknown. Our budgets were prepared with this in mind and a balanced budget has been adopted. With the deficit fund balance incurred in 2012/13 fiscal year we will have to amend our budget accordingly.

We previously were dependent on student counts for our foundation allowance, but our property tax revenue now exceeds the foundation so our revenue is primarily from the non-homestead property tax levy. The voters of the District approved a millage which eliminates the Headlee rollback for the fiscal year 2012/13 and 2013/14 years. However, substantial claims for tax assessment changes have been filed with the Michigan Tax Tribunal which could negatively impact our revenues. In addition there is discussion at the state level which could eliminate the personal property tax on business which would have a substantial negative impact on our revenue.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Mackinaw City Public Schools 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 information should be addressed to:

Superintendent, Mackinaw City Public Schools, 609 West Central; Mackinaw City, MI 49701 or call 231-436-8211.

**MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities
ASSETS	
Cash demand, time deposits, and investments	\$ 106,880
Receivables	
Accounts & Taxes	15,581
Other governments	-
Capital assets	
Land	33,000
Other capital assets, net of depreciation	1,242,672
TOTAL ASSETS	1,398,133
 LIABILITIES	
Account payable	81,221
Accrued liabilities	268,920
Compensated absences	28,530
TOTAL LIABILITIES	378,671
 NET POSITION	
Invested in capital assets	1,275,672
Restricted for:	
Capital Projects	111,581
Food Service	5,899
Unrestricted	(373,690)
TOTAL NET POSITION	\$ 1,019,462

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
JUNE 30, 2013

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary Government				
Governmental Activities				
Instruction	\$ 1,775,026	\$ -	\$ 40,780	\$ (1,734,246)
Support Services	675,318	-	23,146	(652,172)
Athletics	82,769	10,697	-	(72,072)
Food Service	<u>24,252</u>	<u>3,447</u>	<u>15,767</u>	<u>(5,038)</u>
Total Governmental Activities	<u>\$ 2,557,365</u>	<u>\$ 14,144</u>	<u>\$ 79,693</u>	<u>(2,463,528)</u>
General revenues:				
Taxes:				
Property taxes levied for general purposes				1,883,463
Property taxes levied for sinking fund				108,425
Property taxes levied for special education through ESD				42,819
State Aid not restricted to specific purposes				85,979
Interest and investment earnings				627
Other				<u>22,542</u>
Total general revenues, contributions and transfers				<u>2,143,855</u>
Change in net position				(319,673)
Net position, beginning of year				<u>1,339,135</u>
Net position, end of year				<u>\$ 1,019,462</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	GENERAL FUND	CAPITAL PROJECT SINKING FUND	OTHER FUNDS	TOTAL
ASSETS				
Cash and Investments	\$ (10,446)	\$ 111,581	\$ 5,745	\$ 106,880
Receivables				
Accounts & Taxes	15,581	-	-	15,581
Due From Other Funds	-	-	154	154
Due From Other Governmental Units	-	-	-	-
	<u>5,135</u>	<u>111,581</u>	<u>5,899</u>	<u>122,615</u>
TOTAL ASSETS	\$ 5,135	\$ 111,581	\$ 5,899	\$ 122,615
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 75,568	\$ -	\$ -	\$ 75,568
Accrued Liabilities	268,920	-	-	268,920
Due to Other Funds	154	-	-	154
Due to Other Governmental Units	5,653	-	-	5,653
	<u>350,295</u>	<u>-</u>	<u>-</u>	<u>350,295</u>
TOTAL LIABILITIES	350,295	-	-	350,295
FUND BALANCES				
Restricted				
Food Service	-	-	5,899	5,899
Sinking Fund	-	111,581	-	111,581
Unassigned				
General Fund	(345,160)	-	-	(345,160)
	<u>(345,160)</u>	<u>111,581</u>	<u>5,899</u>	<u>(227,680)</u>
TOTAL FUND BALANCES	(345,160)	111,581	5,899	(227,680)
TOTAL LIABILITIES AND AND FUND BALANCES	\$ 5,135	\$ 111,581	\$ 5,899	\$ 122,615

See Notes to Financial Statements

MACKINAW CITY PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Position of
Governmental Activities on the Statement of Net Position
JUNE 30, 2013

Fund Balances - Total Governmental Funds	\$ (227,680)
Amounts reported for <i>governmental activities</i> 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.	
Capital Assets - at Cost	3,747,448
Accumulated Depreciation	(2,471,776)
Compensated Absences Payable	<u>(28,530)</u>
Net Position of Governmental Activities	<u>\$ 1,019,462</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	GENERAL FUND	CAPITAL PROJECT SINKING FUND	OTHER FUNDS	TOTAL
REVENUES				
Local Sources	\$ 1,936,979	\$ 108,425	\$ 3,447	\$ 2,048,851
State Sources	85,979	-	2,416	88,395
Federal Sources	55,926	-	13,351	69,277
Interest Income	300	326	1	627
Other Revenue	<u>30,542</u>	<u>-</u>	<u>-</u>	<u>30,542</u>
TOTAL REVENUES	<u>2,109,726</u>	<u>108,751</u>	<u>19,215</u>	<u>2,237,692</u>
EXPENDITURES				
Current				
Instruction	1,699,270	-	-	1,699,270
Supporting Services	640,061	6,667	-	646,728
Athletic Events	82,769	-	-	82,769
Food Services	-	-	24,252	24,252
Capital Outlay	-	81,492	-	81,492
Debt Service:				
Principal	-	-	-	-
Interest and Other Charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>2,422,100</u>	<u>88,159</u>	<u>24,252</u>	<u>2,534,511</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(312,374)</u>	<u>20,592</u>	<u>(5,037)</u>	<u>(296,819)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	8,872	8,872
Transfers (Out)	<u>(8,872)</u>	<u>-</u>	<u>-</u>	<u>(8,872)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(8,872)</u>	<u>-</u>	<u>8,872</u>	<u>-</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(321,246)	20,592	3,835	(296,819)
FUND BALANCES, BEGINNING OF YEAR	<u>(23,914)</u>	<u>90,989</u>	<u>2,064</u>	<u>69,139</u>
FUND BALANCES, END OF YEAR	<u>\$ (345,160)</u>	<u>\$ 111,581</u>	<u>\$ 5,899</u>	<u>\$ (227,680)</u>

See Notes to Financial Statements

MACKINAW CITY PUBLIC 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, 2013

Net Change in Fund Balances - Total Governmental Funds	\$	(296,819)
<p>Amounts reported for <i>governmental activities</i> in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Add - Capital Outlay		81,492
Deduct - Depreciation Expense		(104,609)
Add - Decrease in Compensated Absences		<u>263</u>
Change in Net Position of Governmental Activities	\$	<u>(319,673)</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY FUND NET ASSETS
AGENCY FUNDS
JUNE 30, 2013**

ASSETS

Cash	\$ <u>30,348</u>
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TOTAL ASSETS	\$ <u>30,348</u>
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LIABILITIES

Due to Student Groups	\$ 22,080
Scholarship Funds	<u>8,268</u>

TOTAL LIABILITIES	\$ <u>30,348</u>
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See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mackinaw City Public Schools 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 significant accounting policies used by the School District.

REPORTING ENTITY

The school 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 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 School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School 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 nonfiduciary activities of the primary government. 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 School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 given 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 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. 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 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.

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

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements – Governmental 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 claims and judgments, are recorded only when 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 cash is received by the District.

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

The School District reports the following major governmental funds:

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

Capital Project – Sinking Fund – The Fund is used to record tax, interest, and other revenue for the payment of capital project type expenditures.

Additionally, the District reports the following governmental types:

Special Revenue Funds - Special Revenue Funds are governmental funds used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The District's Special Revenue Funds include the Food Service Fund. Any operating deficit generated by these activities is the responsibility of the General Fund.

Fiduciary Funds – The School District maintains an Agency 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.

ASSETS, LIABILITIES, AND NET POSITION OR EQUITY

Cash and Investments – Cash and investments include cash on hand, demand deposits, and savings accounts.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.”

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All trade and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 of the previous year and then levied as of July 1. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county delinquent tax rolls. The County operates a delinquent tax revolving fund and normally pays to the District all current taxes annually prior to June 30.

Capital Assets – Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. 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 asset life are not capitalized. The School District does not have infrastructure-type assets.

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

Buildings, building additions, and land improvements	10-50 years
Buses and other vehicles	7-15 years
Furniture and other equipment	2-15 years

Long-Term Obligations – In the district-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of Net Position.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the general and special revenue funds. All annual appropriations lapse at the 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 School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year.

Excess Expenditures Over Appropriations in Budgeted Funds - The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas which exceeded budgeted amounts:

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

<u>Fund / Function</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Elementary	\$ 651,527	\$ 684,282	\$ (32,755)
High School	\$ 641,725	\$ 696,567	\$ (54,842)
Readiness	\$ 32,361	\$ 36,931	\$ (4,570)
Special Education	\$ 92,157	\$ 98,705	\$ (6,548)
Title I	\$ 19,602	\$ 38,836	\$ (19,234)
Health Services	\$ 102	\$ 362	\$ (260)
Student Activity	\$ 15,146	\$ 15,421	\$ (275)
Executive Administration	\$ 262,533	\$ 277,007	\$ (14,474)
Office of Principal	\$ 32,716	\$ 33,055	\$ (339)
Business Services	\$ 8,604	\$ 16,905	\$ (8,301)
Plant Operation and Maintenance	\$ 195,188	\$ 195,635	\$ (447)
Athletics	\$ 64,929	\$ 82,769	\$ (17,840)
Special Revenue:			
Food Service Fund	\$ 21,050	\$ 24,252	\$ (3,202)

The District spent \$154,941 more in total than budgeted in the general fund.

NOTE 3 - CASH AND INVESTMENTS

The captions on the combined balance sheet related to cash and investments are as follows:

	<u>Imprest Cash</u>	<u>Cash/checking and Savings</u>	<u>Total</u>
Government Activities	\$ 185	\$ 106,695	\$ 106,880
Agency Funds	-	30,348	30,348
	<u>\$ 185</u>	<u>\$ 137,043</u>	<u>\$ 137,228</u>

Deposits - At year-end, the carrying amount of the District's deposits was \$137,043 and the bank balance was \$186,449 classified as to risk as follows. Outstanding checks net of deposits in transit were \$49,406.

Insured	\$ 137,043
Uninsured – Uncollateralized	-0-
	<u>\$ 137,043</u>

Investments – Act 217, PA 1982, authorized the School District to deposit and invest in the following:

- a. Bonds, bills, and other direct obligations of the United States or its agencies.
- b. Certificates of deposit and other savings instruments issued by a federally insured bank, savings and loan or credit union maintaining an office in Michigan.
- c. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

- d. Mutual Funds comprised of investments that are legal for direct investment by local units of government in Michigan.
- e. U.S. Government or federal agency obligation repurchase agreements.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest Rate Risk

The School District has not adopted a policy that indicates how 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 limiting the weighted average maturity of its investment portfolio to less than a given period of time. The District has no investments.

Concentration of Credit Risk

The District has not adopted a policy that indicates how 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. The District has no investments.

Custodial Credit Risk

The District has not adopted a policy that indicates how the District will minimize custodial credit risk, which 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 of collateral securities that are in possession of an outside party. The District has no investments.

The Board of Education is authorized to designate depositories for District funds, and the funds are invested in accordance with State of Michigan statutory authority.

NOTE 4 – RECEIVABLES

Receivables as of year-end for the School District's individual major funds and the other nonmajor governmental funds are as follows:

	<u>General</u>	<u>Other Funds</u>
Receivables		
Taxes	\$ 15,581	\$ -0-
Net Receivables	<u>\$ 15,581</u>	<u>\$ -0-</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is 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, there was no deferred revenue.

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Transfers In/Out	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Total</u>
General Fund	\$ -0-	\$ (8,872)	\$ (8,872)
Special Revenue Fund:			
Food Service	<u>8,872</u>	<u>0</u>	<u>8,872</u>
Total	<u>\$ 8,872</u>	<u>\$ (8,872)</u>	<u>\$ 0</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance			Balance
	<u>June 30, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 33,000	\$ -	\$ -	\$ 33,000
Capital assets being depreciated:				
Land improvements	488,210	-	-	488,210
Building and building improvements	2,344,439	52,572	-	2,397,011
Buses and other vehicles	220,099	-	-	220,099
Furniture and equipment	<u>580,208</u>	<u>28,920</u>	<u>-</u>	<u>609,128</u>
Subtotal	<u>3,632,956</u>	<u>81,492</u>	<u>-</u>	<u>3,714,448</u>
Accumulated depreciation:				
Land improvements	485,208	333	-	485,541
Building and building improvements	1,283,464	43,569	-	1,327,033
Buses and other vehicles	130,914	22,295	-	153,209
Furniture and equipment	<u>467,581</u>	<u>38,412</u>	<u>-</u>	<u>505,993</u>
Subtotal	<u>2,367,167</u>	<u>104,609</u>	<u>-</u>	<u>2,471,776</u>
Net capital assets being depreciated	<u>1,265,789</u>	<u>(23,117)</u>	<u>-</u>	<u>1,242,672</u>
Net governmental capital assets	<u>\$ 1,298,789</u>	<u>\$ (23,117)</u>	<u>\$ -</u>	<u>\$ 1,275,672</u>

Depreciation expense was charged to activities of the School District as follows:

Governmental activities:	
Instruction	\$ 73,101
Support services	<u>31,508</u>
Total	<u>\$ 104,609</u>

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 7 - LONG-TERM DEBT

	<u>Compensated Absences</u>	<u>Total</u>
Payable at July 1, 2012	\$ 28,793	\$ 28,793
Additions	-0-	-0-
Reductions	<u>(263)</u>	<u>(263)</u>
Payable at June 30, 2013	<u>\$ 28,530</u>	<u>\$ 28,530</u>

It is the District's policy to compensate teachers who leave employment after twelve years of service for unused sick leave at a rate of 40% of the substitute teacher's daily pay rate. The rate for support staff varies with year around employees and school year only employees and requires fifteen years of service. At June 30, 2013 the total of this compensation would be \$28,530.

NOTE 8 - RISK MANAGEMENT

The School District participates in the MASB-SEG Property and Casualty Pool and Workers Compensation Pool.

The MASB-SEG Property/Casualty Pool, Inc. was created on May 23, 1985 and organized under Public Act 138 of 1982 as amended, as a governmental group property and casualty self-insurance pool. Approximately 375 educational institutions within the State of Michigan participate in the Pool.

The Pool limits the maximum net loss that may arise from large risks or in concentrated areas of exposure by reinsuring certain levels of risks with other insurers or reinsurers. The Pool purchases excess liability coverage from one or more insurers or reinsurers to provide 100 percent coverage at each insured level.

NOTE 9 - DEFINED BENEFIT PENSION PLAN

All District full-time employees participate in the Michigan Public School Employees' Retirement System, ("System"), a cost-sharing multiple-employer public employee retirement system. The Michigan Public School Employees' Retirement System 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 the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

All full-time employees of the District are required by law to participate in the System. All benefits vest after 10 years of service. Basic plan members may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees.

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 9 - DEFINED BENEFIT PENSION PLAN (CONTINUED)

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at various rates depending on school fiscal year compensation. Basic plan members make no contributions. The District was required to contribute 24.46% of participant's salary to the System for the fiscal year ended 6/30/11, and the State of Michigan is responsible for any further contributions necessary to keep the fund actuarially sound. The School District's contributions to the MPSERS plan for the years ended June 30, 2013, 2012, and 2011 were \$350,121, \$301,906, and \$242,429.

Post-Employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage. In prior years the State pre-funded these benefits using the entry age actuarial cost method. Retirees having this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverage. These contributions are deducted from the retiree's monthly pension. No additional contributions are required from the District on these post-employment benefits. The 24.46% noted above includes these costs.

NOTE 10 – SINKING FUND EXPENDITURES

During the year ended June 30, 2013 the District spent \$81,492 in sinking fund revenues on projects that qualify under MCL 380.1212 as follows:

Building repair/replacement	\$ 81,492
	<u>\$ 81,492</u>

NOTE 11 – TAX REVENUE / STATE AID FUNDING

Most school districts in Michigan fund the majority of their general fund operations with a combination of local tax revenue and State Aid which is called the foundation allowance. This foundation allowance is, with some minor adjustments, calculated by multiplying the foundation allowance per pupil times the number of pupils. Local tax revenue is subtracted from this total and State Aid makes up the balance.

In Mackinaw City Public Schools situation the local tax revenue generated is far in excess of the foundation allowance. The foundation allowance for 2012/13 school year was approximately \$1,445,538 while the locally generated tax revenue was approximately \$1,867,133. Mackinaw City Public Schools' foundation allowance is generated entirely from local property taxes with no State Aid component. Therefore, when property tax revenue is reduced total revenue is reduced. In most districts the reduction would be offset by an increase in State Aid.

During the 2007/08 fiscal year a taxpayer in the district received a consent judgment, issued by the Michigan Tax Tribunal which required the District to repay in excess of \$121,000. The liability was recorded on the books at June 30, 2008. The District's attorney negotiated a settlement with the taxpayer in the amount of \$41,577 during the fiscal year ended June 30, 2010 so the difference provided relief to the general fund. No payment has been made so the liability is still \$41,577 at June 30, 2013.

In addition to the above settled case a number of other claims have been filed with the Michigan Tax Tribunal which have the potential for reducing revenues already received as well as future revenue. Any additional reduction in revenue is unknown at this time. Additional claims may also be filed in the future which could have a substantial negative impact on tax revenue.

**MACKINAW CITY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 12 – GASB NO. 54

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated, and unreserved/undesignated were replaced with new classifications – nonspendable, restricted, committed, assigned, and unassigned. The School District implemented Statement No. 54 during the year.

- § In the fund financial statements, governmental funds report the following components of fund balance:
- § Nonspendable: Amounts that are not in a spendable form or are legally or contractually required to be maintained. Examples include inventory.
- § Restricted: Amounts that can only be spent for the specific purposes stipulated by external resource providers, law, regulation, or contract agreement.
- §
- § Committed: Amounts that may be committed for a specific source by formal action of the Board of Education. Creation, amendment, or modification to this balance must also be approved by formal action of the Board by the end of the fiscal year. The actual amount committed may be computed subsequent to year end using prescribed methodologies. Committed fund balance does not lapse at year end.
- § Assigned: The Board of Education delegates authority to assign fund balance for a specific purpose allowed under applicable accounting standards to the superintendent. Assigned fund balance does not lapse at year end.
- § Unassigned: Includes all amounts that are not contained in other classifications and are available for any purpose.

NOTE 13 – DEFICIT FUND BALANCE

At June 30, 2013 the district ended the fiscal year with a deficit fund balance of \$345,160. The District's revenues were under budget by \$160,258 while expenditures exceeded the budget by \$154,941. The fiscal year 2012/13 full year deficit was \$321,246. State statutes do not allow for a deficit. A deficit elimination plan must be filed with and approved by the Michigan Department of Education, as required under state statute.

REQUIRED SUPPLEMENTARY INFORMATION

**MACKINAW CITY PUBLIC SCHOOLS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, OTHER SOURCES (USES)
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
REVENUES				
Local Sources	\$ 2,014,584	\$ 2,050,984	\$ 1,967,821	\$ (83,163)
State Sources	145,000	145,000	85,979	(59,021)
Federal Sources	<u>74,000</u>	<u>74,000</u>	<u>55,926</u>	<u>(18,074)</u>
TOTAL REVENUES	<u>2,233,584</u>	<u>2,269,984</u>	<u>2,109,726</u>	<u>(160,258)</u>
EXPENDITURES				
Current:				
Instruction:				
Basic programs	1,475,119	1,475,678	1,561,729	(86,051)
Added Needs	110,759	111,759	137,541	(25,782)
Support Services:				
Student Services	39,711	42,498	42,953	(455)
General Administration	305,990	327,723	349,831	(22,108)
Maintenance	198,383	195,188	195,635	(447)
Transportation	54,322	54,226	51,642	2,584
Other Services	-	1,030	-	1,030
Athletics	45,000	64,929	82,769	(17,840)
Capital Outlay	<u>4,300</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>2,233,584</u>	<u>2,273,031</u>	<u>2,422,100</u>	<u>(149,069)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(3,047)</u>	<u>(312,374)</u>	<u>(309,327)</u>
OTHER FINANCING (USES)				
Transfers In	-	-	-	-
Transfers (Out)	<u>-</u>	<u>(3,000)</u>	<u>(8,872)</u>	<u>(5,872)</u>
TOTAL OTHER FINANCING (USES)	<u>-</u>	<u>(3,000)</u>	<u>(8,872)</u>	<u>(5,872)</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>-</u>	<u>(6,047)</u>	<u>(321,246)</u>	<u>(315,199)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>-</u>	<u>(23,914)</u>	<u>(23,914)</u>	<u>-</u>
FUND BALANCES, END OF YEAR	<u>\$ -</u>	<u>\$ (29,961)</u>	<u>\$ (345,160)</u>	<u>\$ (315,199)</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND OTHER SOURCES (USES)
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>BUDGETED AMOUNT</u>			VARIANCE WITH FINAL BUDGET
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
LOCAL SOURCES				
Taxes and Penalties	\$ 1,929,584	\$ 1,959,584	\$ 1,883,463	\$ (76,121)
Interest Income	-	-	300	300
Athletics	-	6,400	10,697	4,297
Miscellaneous Income	35,000	35,000	22,542	(12,458)
Incoming Transfers ISD	<u>50,000</u>	<u>50,000</u>	<u>42,819</u>	<u>(7,181)</u>
TOTAL LOCAL SOURCES	<u>2,014,584</u>	<u>2,050,984</u>	<u>1,959,821</u>	<u>(91,163)</u>
STATE SOURCES				
Categorical State Aid	<u>145,000</u>	<u>145,000</u>	<u>93,979</u>	<u>(51,021)</u>
TOTAL STATE SOURCES	<u>145,000</u>	<u>145,000</u>	<u>93,979</u>	<u>(51,021)</u>
FEDERAL SOURCES				
Title I	55,000	55,000	29,329	(25,671)
Title II A	-	-	11,451	11,451
REAP Grant	<u>19,000</u>	<u>19,000</u>	<u>15,146</u>	<u>(3,854)</u>
TOTAL FEDERAL SOURCES	<u>74,000</u>	<u>74,000</u>	<u>55,926</u>	<u>(18,074)</u>
TOTAL REVENUE	<u>\$ 2,233,584</u>	<u>\$ 2,269,984</u>	<u>\$ 2,109,726</u>	<u>\$ (160,258)</u>
EXPENDITURES				
INSTRUCTION				
Basic Programs:				
Elementary	\$ 652,320	\$ 651,527	\$ 684,282	\$ (32,755)
Junior High	125,565	150,065	143,949	6,116
Readiness	32,361	32,361	36,931	(4,570)
Secondary	<u>664,873</u>	<u>641,725</u>	<u>696,567</u>	<u>(54,842)</u>
Total Basic Programs	<u>1,475,119</u>	<u>1,475,678</u>	<u>1,561,729</u>	<u>(86,051)</u>
Added Needs:				
Special Education	92,157	92,157	98,705	(6,548)
Title I	<u>18,602</u>	<u>19,602</u>	<u>38,836</u>	<u>(19,234)</u>
Total Added Needs	<u>110,759</u>	<u>111,759</u>	<u>137,541</u>	<u>(25,782)</u>
TOTAL INSTRUCTION	<u>1,585,878</u>	<u>1,587,437</u>	<u>1,699,270</u>	<u>(111,833)</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND OTHER SOURCES (USES)
BUDGET AND ACTUAL (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>BUDGETED AMOUNT</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
SUPPORTING SERVICES				
Student Services:				
Guidance/Counseling	\$ 19,606	\$ 27,200	\$ 27,128	\$ 72
Substitute Teachers		-	-	-
Health Services	405	102	362	(260)
Student Activity	19,700	15,146	15,421	(275)
Library	-	50	42	8
Total Student Services	<u>39,711</u>	<u>42,498</u>	<u>42,953</u>	<u>(455)</u>
General Administration:				
Board of Education	10,860	23,870	22,864	1,006
Executive Administration	249,530	262,533	277,007	(14,474)
Office of Principal	32,500	32,716	33,055	(339)
Business Operations	13,100	8,604	16,905	(8,301)
Total General Administration	<u>305,990</u>	<u>327,723</u>	<u>349,831</u>	<u>(22,108)</u>
Plant Operation and Maintenance	198,383	195,188	195,635	(447)
Pupil Transportation	54,322	54,226	51,642	2,584
Other Services	-	1,030	-	1,030
Athletics	45,000	64,929	82,769	(17,840)
Capital Outlay	4,300	-	-	-
TOTAL SUPPORTING SERVICES	<u>647,706</u>	<u>685,594</u>	<u>722,830</u>	<u>(37,236)</u>
OUTGOING TRANSFERS				
Food Service Fund	-	3,000	8,872	(5,872)
TOTAL OUTGOING TRANSFERS	<u>-</u>	<u>3,000</u>	<u>8,872</u>	<u>(5,872)</u>
TOTAL EXPENDITURES AND TRANSFERS OUT	<u>\$ 2,233,584</u>	<u>\$ 2,276,031</u>	<u>\$ 2,430,972</u>	<u>\$ (154,941)</u>

See Notes to Financial Statements

OTHER SUPPLEMENTARY INFORMATION

**MACKINAW CITY PUBLIC SCHOOLS
BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUND - FOOD SERVICE
JUNE 30, 2013**

	SPECIAL REVENUE FUND FOOD SERVICE	TOTAL
ASSETS		
Cash	\$ 5,745	\$ 5,745
Receivables:		
Due From Other Funds	154	154
Due From Other Governmental Units	-	-
 TOTAL ASSETS	<u>\$ 5,899</u>	<u>\$ 5,899</u>
 LIABILITIES AND FUND EQUITY		
LIABILITIES		
Accounts Payable	\$ -	\$ -
Due to Other Funds	-	-
 TOTAL LIABILITIES	-	-
 FUND BALANCE		
Restricted		
Food Service	5,899	5,899
Debt Retirement	-	-
 TOTAL FUND BALANCES	5,899	5,899
 TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,899</u>	<u>\$ 5,899</u>

See Notes to Financial Statements

**MACKINAW CITY PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUND - FOOD SERVICE
FOR THE YEAR ENDED JUNE 30, 2013**

	SPECIAL REVENUE FUND FOOD SERVICE	TOTAL
REVENUES		
Local Sources	\$ 3,447	\$ 3,447
Interest	1	1
State Sources	2,416	2,416
Federal Sources	<u>13,351</u>	<u>13,351</u>
 TOTAL REVENUES	 <u>19,215</u>	 <u>19,215</u>
EXPENDITURES		
Current		
Athletics	-	-
Food Service	24,252	24,252
Capital Outlay	-	-
Debt Service:		
Principal	-	-
Interest & Other Charges	<u>-</u>	<u>-</u>
 TOTAL EXPENDITURES	 <u>24,252</u>	 <u>24,252</u>
REVENUES OVER (UNDER) EXPENDITURES	 <u>(5,037)</u>	 <u>(5,037)</u>
OTHER FINANCING SOURCES (USES)		
Transfers In	8,872	8,872
Transfers (Out)	<u>-</u>	<u>-</u>
 TOTAL OTHER FINANCING SOURCES (USES)	 <u>8,872</u>	 <u>8,872</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	 3,835	 3,835
FUND BALANCES, BEGINNING OF YEAR	 <u>2,064</u>	 <u>2,064</u>
FUND BALANCES, END OF YEAR	 <u>\$ 5,899</u>	 <u>\$ 5,899</u>

See Notes to Financial Statements



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

P.O. BOX 149, 2947 MANTZ STREET
LEWISTON, MICHIGAN 49756
TELEPHONE: (989) 786-4032
FAX: (989) 786-4032

**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***

October 30, 2013

Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan 49701

To the Board of Education:

I 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 Mackinaw City Public Schools as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise Mackinaw City Public Schools' basic financial statements and have issued my report thereon dated October 30, 2013.

Internal Control Over Financial Reporting

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

MEMBER: AMERICAN INSTITUTE OF CPAS & MICHIGAN ASSOCIATION OF CPAS

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a deficiency in internal control that I consider to be a significant deficiency in internal control.

Establishment and maintenance of internal control over the financial reporting process requires management to prepare annual financial statements in accordance with GASB Statement Number 34. The School's auditor prepares these statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mackinaw City Public Schools' financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Mackinaw City Public Schools' Response to the Significant Deficiency

Mackinaw City Public Schools' response to the significant deficiency identified in my audit was: It is not economically feasible to prepare their own financial statements at this time. Mackinaw City Public Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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



THOMAS R. ZICK CPA, P.C.
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P.O. BOX 149, 2947 MANTZ STREET
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REPORT TO MANAGEMENT / BOARD OF EDUCATION

October 30, 2013

Board of Education
Mackinaw City Public Schools
Mackinaw City, Michigan 49701

I have audited the financial statements of Mackinaw City Public Schools for the year ended June 30, 2013, and have issued my reports thereon dated October 30, 2013. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. Generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

In planning and performing my audit, I considered Mackinaw City Public Schools' internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide assurance on the internal control over financial reporting. I also considered internal control over compliance with requirements that could have a direct and material effect on the financial statements.

As part of obtaining reasonable assurance about whether Mackinaw City Public Schools' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination of Mackinaw City Public Schools' compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mackinaw City Public Schools are described in Note 1 to the financial statements. I noted no transactions entered into by Mackinaw City Public Schools during the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Some accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience and 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. My conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Mackinaw City Public Schools' financial reporting process (that is, cause future financial statements to be materially misstated). All of the adjustments, I proposed, have been recorded by Mackinaw City Public Schools.

Disagreements with Management

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

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 Mackinaw City Public Schools' financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all of the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

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

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Comments and Recommendations

The following is a summary of my observations with suggestions for improvements I believe should be brought to your attention.

BUDGETS

The School District is required under Public Act 621 of 1978 to adopt (pass) a budget (General Appropriations Act) for the General Fund and Individual Special Revenue Funds. The District complied in all areas except the following expenditure areas which exceeded budgeted amounts:

<u>Fund / Function</u>	<u>Final Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Elementary	\$ 651,527	\$ 684,282	\$ (32,755)
High School	\$ 641,725	\$ 696,567	\$ (54,842)
Readiness	\$ 32,361	\$ 36,931	\$ (4,570)
Special Education	\$ 92,157	\$ 98,705	\$ (6,548)
Title I	\$ 19,602	\$ 38,836	\$ (19,234)
Health Services	\$ 102	\$ 362	\$ (260)
Student Activity	\$ 15,146	\$ 15,421	\$ (275)
Executive Administration	\$ 262,533	\$ 277,007	\$ (14,474)
Office of Principal	\$ 32,716	\$ 33,055	\$ (339)
Business Services	\$ 8,604	\$ 16,905	\$ (8,301)
Plant Operation and Maintenance	\$ 195,188	\$ 195,635	\$ (447)
Athletics	\$ 64,929	\$ 82,769	\$ (17,840)
Special Revenue:			
Food Service Fund	\$ 21,050	\$ 24,252	\$ (3,202)

The District spent \$154,941 more in total than budgeted in the general fund.

State statute requires districts to include their adopted budgets including any amended budgets on the website. For 2012/13 you properly included the original budget but not any amended budgets including the final amended budget.

CASH FLOW / FUND DEFICIT

At June 30, 2013 the general fund bank account was negative. In order to avoid a major cash shortage sometime during 2014 the district must make substantial and immediate cuts to expenditures. During 2012/13 revenues were substantially under budget and expenditures were substantially over budget.

In order to more accurately monitor these critical areas I suggest that management and the board review monthly detail reports comparing budgeted revenues and expenses with actual revenue and expenses. Your system has an excellent report to do just that.

FUND BALANCE

The following schedule shows the general fund annual deficit and ending fund balance for the past nine years:

Fiscal Year Ending	Annual Surplus (deficit)	Ending Fund Balance
6/30/05	\$ (235,519)	\$ 481,084
6/30/06	\$ (318,880)	\$ 162,204
6/30/07	\$ (103,699)	\$ 58,505
6/30/08	\$ (53,851)	\$ 4,654
6/30/09	\$ 106,299	\$ 110,953
6/30/10	\$ 196,886	\$ 318,916
6/30/11	\$ (100,542)	\$ 218,374
6/30/12	\$ (242,288)	\$ (23,914)
6/30/13	\$ (321,246)	\$ (345,160)

As can be seen from the above chart the District ended the 6/30/13 fiscal year with a \$345,160 fund balance deficit. A deficit elimination plan will have to be filed with and approved by the Michigan Department of Education as soon as possible.

The board and management need to closely evaluate the 2013/14 budget and amend it immediately to comply with state law. With the adoption of your budget for 2013/14 you are still budgeting for a deficit and must amend the current budget to correct this. Even though you may collect some of the outstanding personal property tax, it has been recorded as a receivable so will not be revenue in the 2013/14 fiscal year.

In prior years there were substantial tax tribunal adjustments and the general fund liabilities still reflect the unpaid balance of the 2007/08 tax tribunal adjustment which has been negotiated down by the District's attorney to \$41, 577.

PROPERTY TAX REVENUE

Now that the district no longer receives foundation allowance State aid, monitoring the tax collection process is extremely important. Any lost revenue from tax tribunal adjustments will come directly from your revenue. Homestead denials will directly increase your revenue, so a monthly reconciliation of the taxable value should be done. This will require monthly monitoring of the taxable values and reconciliations of prior year State aid adjustments, if any. It is essential that monthly taxable value reports be obtained from the Department of Education website and any changes should be verified with County officials. I would suggest pulling that report at the same time as you pull the State Aid Status Report.

PAYROLL ACCRUALS

The 6/30/12 payroll accruals for summer pay and related fringe benefits were reversed in the general ledger twice. This made the balance sheet and those payroll related expense accounts incorrect the entire year.

ATHLETIC SALARIES AND FRINGE BENEFITS

Athletic salaries and fringe benefits are posted to liability accounts instead of expenditure accounts. Now that the athletic activity is a part of general fund these items need to be posted as expenditures in order for the general fund ledger to be accurate.

FEDERAL EXPENDITURES

Title I expenditures were not posted to the ledger during the year. Instead they were posted through a journal entry at year end. The budget for Title I was spent entirely on a middle school program which was approved in the application budget but not spent on several other programs as approved in the budget. No budget amendments were requested.

WRITTEN PROCEDURES

As a precondition to receive federal funds, recipients must have effective administrative and financial internal controls. School districts are required to have written procedures to document these administrative and financial controls. The District has not yet complied with this requirement.

This report is intended solely for the information and use of the Mackinaw City Public Schools' management, Board of Education, the Michigan Departments of Treasury and Education, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT