

**MACKINAW CITY PUBLIC SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**JUNE 30, 2014**



**Baird, Cotter & Bishop, P.C.**  
SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS  
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MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2014

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August 12, 2014

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Mackinaw City Public Schools  
Mackinaw City, Michigan

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mackinaw City Public Schools, Mackinaw City, Michigan as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

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

## **Emphasis of Matter – Deficit Fund Balance**

As discussed in Note 2.B to the financial statements, Mackinaw City Public Schools has a deficit fund balance in the General Fund. Our opinion is not modified with respect to that 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 iii through viii and 29 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2014, on our consideration of Mackinaw City Public 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 Mackinaw City Public Schools' internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

This section of Mackinaw City Public Schools' (the "District") annual report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2014. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

**A. Government-Wide Financial Statements**

The *Government-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, deferred inflows and outflows of resources and liabilities, with the difference 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 the 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 for some items that will only result in cash flows in future periods.

Both of the government-wide statements distinguish functions of the District that are principally supported by state aid and property taxes (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). The governmental activities of the District include instruction, supporting services, facilities acquisition and food service activities.

**B. 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. Mackinaw City Public Schools, like other state and local governments, uses fund accounting to ensure 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 as governmental activities in the government-wide financial statements. However, unlike the government-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 assessing a government's near-term financing requirements.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

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

***Fiduciary Funds*** The District is a trustee, or fiduciary, for assets that belong to other organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

**Notes to Financial Statements**

The notes provide additional information that is necessary to acquire a full understanding of the data provided in both the government-wide and the fund financial statements.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

**C. Summary of Net Position**

The following schedule summarizes the net position at June 30,

<b>Assets</b>	<u>2014</u>	<u>2013</u>
Current Assets	\$ 105,519	\$ 122,461
Non Current Assets		
Capital Assets	3,747,448	3,747,448
Less Accumulated Depreciation	<u>(2,582,096)</u>	<u>(2,471,776)</u>
Total Non Current Assets	<u>1,165,352</u>	<u>1,275,672</u>
Total Assets	<u>\$ 1,270,871</u>	<u>\$ 1,398,133</u>

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>	<u>2013</u>
<b>Liabilities</b>		
Current Liabilities	\$ 403,178	\$ 350,141
Non Current Liabilities	28,935	28,530
Total Liabilities	<u>432,113</u>	<u>378,671</u>
<b>Net Position</b>		
Net Investment in Capital Assets	1,165,352	1,275,672
Restricted for Specific Purposes	217,840	117,480
Unrestricted - (Deficit)	<u>(544,434)</u>	<u>(373,690)</u>
Total Net Position	<u>838,758</u>	<u>1,019,462</u>
Total Liabilities and Net Position	<u>\$ 1,270,871</u>	<u>\$ 1,398,133</u>

**D. Analysis of Financial Position**

During the fiscal year ended June 30, 2014, the District's net position decreased by \$180,704. A few of the more significant factors affecting net position during the year are discussed below:

**1. Depreciation Expense**

School districts are required to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2014, \$110,320 was recorded for depreciation expense.

**2. Capital Outlay Acquisitions**

For the year ended June 30, 2014, none of the District's expenditures were capitalized and recorded as assets of the District.

The net effect the current year's depreciation is a decrease in capital assets in the amount of \$110,320 for the year ended June 30, 2014.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**E. Results of Operations**

For the years ended June 30, the results of operations, on a district-wide basis, were:

	2014	2013
<b>General Revenues</b>		
Property Taxes	\$ 2,158,114	\$ 1,991,888
Investment Earnings	5	627
State Sources	88,476	85,979
Other	5,276	22,542
Total General Revenues	2,251,871	2,101,036
<b>Program Revenues</b>		
Charges for Services	30,257	14,144
Operating Grants	113,537	122,512
Total Program Revenues	143,794	136,656
Total Revenues	2,395,665	2,237,692
<b>Expenses</b>		
Instruction	1,758,450	1,699,255
Supporting Services	668,410	729,249
Facilities Acquisition	4,821	0
Food Service Activities	34,368	24,252
Unallocated Depreciation	110,320	104,609
Total Expenses	2,576,369	2,557,365
Change in Net Position	\$ (180,704)	\$ (319,673)

**F. Financial Analysis of the District's Funds**

The financial performance of the District as a whole is also reflected in its governmental funds. The following table shows the change in total fund balances of each of the District's governmental funds:

	2014	2013	Increase (Decrease)
<b>Major Funds</b>			
General Fund	\$ (515,499)	\$ (345,160)	\$ (170,339)
Sinking Fund	216,083	111,581	104,502
<b>Nonmajor Funds</b>			
Food Service	1,757	5,899	(4,142)
Total Governmental Funds	\$ (297,659)	\$ (227,680)	\$ (69,979)

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**General Fund** – In 2013-2014, the General Fund’s fund balance decreased by an amount that was slightly less than what was budgeted for. Expenditures continue to exceed revenues, but the District has a plan in place to eliminate the deficit.

**Sinking Fund** – In 2013-2014, the Sinking Fund’s fund balance increased because the District expended minimal resources from the sinking fund during the fiscal year. Property taxes collected and minimal interest amounted to \$109,323.

**Food Service Fund** – In 2013-2014, the Food Service Fund’s fund balance decreased slightly, but in line with the prior performance of the fund. The General Fund transferred \$5,600 to the Food Service Fund to help pay for necessary expenditures.

**G. General Fund Budgetary Highlights**

The Uniform Accounting and Budgeting Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2013-2014 fiscal year, the District amended the General Fund throughout the year, with the Board adopting the changes as summarized below. The following schedule shows a comparison of the original General Fund budget, the final amended General Fund budget, and actual totals from operations:

	<u>ORIGINAL</u> <u>BUDGET</u>	<u>FINAL</u> <u>BUDGET</u>	<u>ACTUAL</u>
Total Revenues	<u>\$ 2,183,584</u>	<u>\$ 2,233,222</u>	<u>\$ 2,261,716</u>
<u>EXPENDITURES</u>			
Instruction	\$ 1,569,675	\$ 1,771,071	\$ 1,758,087
Supporting Services	<u>564,193</u>	<u>657,958</u>	<u>668,368</u>
Total Expenditures	<u>\$ 2,133,868</u>	<u>\$ 2,429,029</u>	<u>\$ 2,426,455</u>

The changes from original budget and final budget resulted from funding amounts from various sources and expenditures related to instruction and supporting services becoming clearer as the year progressed. The variances between the final budgeted revenues and actual results was a result of a writing off an old liability related to a tax tribunal case. There was a minimal variance between final budgeted expenditures and actual expenditures.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

## **H. Capital Asset and Debt Administration**

### **1. Capital Assets**

At the end of the 2013-2014 fiscal year, the District had invested \$1,165,352 net of depreciation, in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. This represents a net decrease of \$110,320 from the prior fiscal year. Depreciation expense for the year amounted to \$110,320 bringing the accumulation to \$2,582,096 as of June 30, 2014.

### **2. Long-Term Debt**

The lone component of the District's long-term debt is compensated absences. The amount accrued for compensated absences increased for \$405 during the year to \$28,935.

## **I. Factors Bearing on the District's Future**

At the time that these financial statements were prepared and audited, the District was aware of the following items that could significantly affect its financial health in the future:

- Currently the District has an approved district elimination plan that has it emerging from deficit with a 10% (\$230,000) fund equity no later than 2018. Based on budget reductions, the District is optimistic it could emerge from the deficit as early as 2017.
- Being an "Out of Formula" school district, the District is positively and negatively impacted by our local non-homestead taxes, as taxable values rise or fall.
- The District is encouraged by some of the business expansion proposals that have been discussed within the community. Any expansion would directly benefit the District financially through increased property tax revenues.
- Conversely, it is important that the District continues to monitor local tax tribunal cases. The District must continue to be pro-active and aggressively defend any request for a reduction that lacks merit, as any reduction directly impacts the District financially.

## **J. Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Superintendent at 609 West Central Avenue, Mackinaw City, MI 49701.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2014

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 3,085
Due from External Parties (Fiduciary Fund)	345
Due from Other Governmental Units	102,089
Total Current Assets	<u>105,519</u>

NON CURRENT ASSETS

Capital Assets	3,747,448
Less Accumulated Depreciation	<u>(2,582,096)</u>
Total Non Current Assets	<u>1,165,352</u>
Total Assets	<u>1,270,871</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	40,825
Technical Bank Overdraft	21,828
Salaries and Benefits Payable	340,525
Total Current Liabilities	<u>403,178</u>

NON CURRENT LIABILITIES

Compensated Absences	28,935
Total Liabilities	<u>432,113</u>

NET POSITION

Net Investment in Capital Assets	1,165,352
Restricted for Capital Projects	216,083
Restricted for Food Service	1,757
Unrestricted - (Deficit)	<u>(544,434)</u>
TOTAL NET POSITION	<u>\$ 838,758</u>

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR SERVICES	OPERATING GRANTS & CONTRIBUTIONS	ACTIVITIES
				NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>				
Instruction	\$ 1,758,450	\$ 0	\$ 85,702	\$ (1,672,748)
Supporting Services	668,410	26,758	6,708	(634,944)
Facilities Acquisition	4,821	0	0	(4,821)
Food Service	34,368	3,499	21,127	(9,742)
Unallocated Depreciation	110,320	0	0	(110,320)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 2,576,369</u>	<u>\$ 30,257</u>	<u>\$ 113,537</u>	<u>(2,432,575)</u>
<u>GENERAL REVENUES</u>				
Property Taxes - General Purposes				2,048,796
Property Taxes - Capital Projects				109,318
Investment Earnings				5
State Sources				88,476
Other				5,276
Total General Revenues				<u>2,251,871</u>
Change in Net Position				(180,704)
<u>NET POSITION</u> - Beginning of Year				<u>1,019,462</u>
<u>NET POSITION</u> - End of Year				<u>\$ 838,758</u>

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2014

	GENERAL FUND	SINKING FUND	NON-MAJOR FOOD SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 0	\$ 2,096	\$ 989	\$ 3,085
Due from Other Funds	345	213,987	6,423	220,755
Due from Other Governmental Units	100,793	0	1,296	102,089
<b>TOTAL ASSETS</b>	<b>\$ 101,138</b>	<b>\$ 216,083</b>	<b>\$ 8,708</b>	<b>\$ 325,929</b>
<u>LIABILITIES AND FUND BALANCES</u>				
<u>LIABILITIES</u>				
Accounts Payable	\$ 33,874	\$ 0	\$ 6,951	\$ 40,825
Technical Bank Overdraft	21,828	0	0	21,828
Salaries and Benefits Payable	340,525	0	0	340,525
Due to Other Funds	220,410	0	0	220,410
<b>Total Liabilities</b>	<b>616,637</b>	<b>0</b>	<b>6,951</b>	<b>623,588</b>
<u>FUND BALANCES</u>				
Restricted for Capital Projects	0	216,083	0	216,083
Restricted for Food Service	0	0	1,757	1,757
Unassigned (Deficit)	(515,499)	0	0	(515,499)
<b>Total Fund Balances</b>	<b>(515,499)</b>	<b>216,083</b>	<b>1,757</b>	<b>(297,659)</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 101,138</b>	<b>\$ 216,083</b>	<b>\$ 8,708</b>	<b>\$ 325,929</b>

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION

JUNE 30, 2014

Total Governmental Fund Balances - (Deficit) \$ (297,659)

Amounts reported for governmental activities in the  
Statement of Net Position are different because:

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

The cost of the capital assets is	\$ 3,747,448	
Accumulated depreciation is	<u>(2,582,096)</u>	1,165,352

Long-term liabilities are not due and payable in the current period and are not  
reported in the funds.

Compensated Absences	<u>(28,935)</u>
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NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 838,758</u></u>
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The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

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

YEAR ENDED JUNE 30, 2014

	GENERAL FUND	SINKING FUND	NON-MAJOR FOOD SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
<u>REVENUES</u>				
Local Sources	\$ 2,126,039	\$ 109,323	\$ 3,499	\$ 2,238,861
State Sources	122,163	0	1,450	123,613
Federal Sources	13,514	0	19,677	33,191
Total Revenues	<u>2,261,716</u>	<u>109,323</u>	<u>24,626</u>	<u>2,395,665</u>
<u>EXPENDITURES</u>				
Instruction				
Basic Programs	1,658,775	0	0	1,658,775
Added Needs	99,312	0	0	99,312
Supporting Services				
Pupil	44,366	0	0	44,366
Instructional Staff	13,807	0	0	13,807
General Administration	247,608	0	0	247,608
School Administration	20,010	0	0	20,010
Business	39,049	0	0	39,049
Operation and Maintenance	165,819	0	0	165,819
Pupil Transportation Services	49,672	0	0	49,672
Central	2,310	0	0	2,310
Athletic Activities	85,727	0	0	85,727
Facilities Acquisition, Construction and Improvements				
Building Improvement Services	0	4,821	0	4,821
Food Service	0	0	34,368	34,368
Total Expenditures	<u>2,426,455</u>	<u>4,821</u>	<u>34,368</u>	<u>2,465,644</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(164,739)</u>	<u>104,502</u>	<u>(9,742)</u>	<u>(69,979)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers In	0	0	5,600	5,600
Transfers Out	(5,600)	0	0	(5,600)
Total Other Financing Sources (Uses)	<u>(5,600)</u>	<u>0</u>	<u>5,600</u>	<u>0</u>
Net Change in Fund Balance	(170,339)	104,502	(4,142)	(69,979)
<u>FUND BALANCE</u> - Beginning of Year - (Deficit)	<u>(345,160)</u>	<u>111,581</u>	<u>5,899</u>	<u>(227,680)</u>
<u>FUND BALANCE</u> - End of Year - (Deficit)	<u>\$ (515,499)</u>	<u>\$ 216,083</u>	<u>\$ 1,757</u>	<u>\$ (297,659)</u>

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances Total Governmental Funds \$ (69,979)

Amounts reported for governmental activities are different because:

Governmental funds report capital outlay as expenditures. In the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	(110,320)
Capital Outlay	0

Employee's compensated absences are reported on the accrual method in the Statement of Activities, but only recorded as an expenditure when financial resources are used in the

Compensated Absences - Beginning of Year	28,530
Compensated Absences - End of Year	<u>(28,935)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (180,704)

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

JUNE 30, 2014

	<u>AGENCY FUND</u>
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$        17,312</u>
<u>LIABILITIES</u>	
Scholarship Funds	5,271
Due to General Fund	345
Due to Groups and Organizations	<u>11,696</u>
Total Liabilities	<u>17,312</u>
<u>NET POSITION</u>	<u><u>\$          0</u></u>

The notes to the financial statements are an integral part of this statement.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Mackinaw City Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Reporting Entity**

The School District (the "District") is located in Emmet and Cheboygan Counties with its administrative offices located in Mackinaw City, Michigan. The District operates under an elected 7-member board of education which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

**B. Description of Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report the information on all of the nonfiduciary activities of the primary government and its component units. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable. The School District does not have any business-type activities or component units.

**C. Basis of Presentation – Government-Wide Financial Statements**

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from the governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the government's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

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All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 *Capital Projects Fund* accounts for the acquisition of capital assets or construction of major capital projects.

Other Non-Major Funds:

The *Special Revenue (School Service) Fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes. The District accounts for its food service activities in a special revenue fund.

Additionally, the District reports the following fund type:

*Fiduciary funds* are accounted for using the accrual method of accounting. Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The District reports the following fiduciary fund:

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

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**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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 or segment.

In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts – net investment in capital assets, net of related debt; restricted net position; and unrestricted net position.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues).

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue resource (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

**F. Budgetary Information**

***1. Budgetary Basis of Accounting***

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. While all appropriations and encumbrances lapse at year-end, value outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are re-appropriated and become part of the subsequent year's budget pursuant to state regulations.

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

- a) In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- b) A public hearing is conducted during June to obtain taxpayer comments.
- c) Prior to June 30, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.

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- d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- e) For purposes of meeting emergency needs of the school district, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- g) Budgeted amounts are as originally adopted on June 19, 2013, or as amended by the School Board of Education throughout the year.

**2. Excess of Expenditures Over Appropriations**

Excess of expenditures over appropriations occurred in the following funds:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Instruction		
Basic Programs		
High School	\$ 774,673	\$ 785,161
Pre-School	38,617	38,869
Supporting Services		
Instructional Staff		
Supervision and Direction of Instructional Staff	13,700	13,765
General Administration		
Board of Education	31,270	32,735
Support Service School Administration		
Other School Administration	0	419
Business		
Fiscal Services	15,350	24,212
Other Business Services	13,640	14,837
Support Services - Central		
Non-Instructional Technology Services	1,925	2,310
Support Services - Other		
Athletics	73,180	85,727

The Food Service Fund expenditures of \$34,368 exceeded total appropriations of \$17,550.

These overages were funded with greater than anticipated revenues.

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**G. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

***1. Cash and Investments***

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States.

The District's deposits and investments are held separately by several of the School District's funds.

***2. Inventory and Prepaid Items***

Inventories are valued at cost. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures. At the end of the fiscal year, the District did not report any prepaid items.

***3. Capital Assets***

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the 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 value at the date of donation.

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

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

<u>ASSETS</u>	<u>YEARS</u>
Buildings, Building Improvements, and Land Improvement	10-50 years
Buses and Other Vehicles	7-15 years
Furniture and Other Equipment	2-15 years

**4. *Compensated Absences***

It is the District's policy to permit employees to accumulate certain earned but unused benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

**5. *Long-Term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. As of the end of the fiscal year, the only long-term obligations that District had were compensated absences, as discussed above.

**6. *Deferred Outflows/Inflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. 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 (revenue) until that time. The District does not have any items that qualify for reporting in this category.

**7. *Net Position Flow Assumption***

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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**8. *Fund Balance Flow Assumption***

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**9. *Fund Balance Policies***

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**10. *Use of Estimates***

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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**H. Revenues and Expenditures/Expenses**

**1. State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The local portion of the foundation is funded primarily by non-homestead property taxes. Since the District's property tax collections exceed the state's formula, the foundation grant approach does not apply to the District. Instead, the District uses its locally collected property taxes to fund the District.

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 governmental 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.

**2. Program Revenues**

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, state foundation aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenue but instead as *general revenues*.

**3. Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1, and due July 1. The levy becomes delinquent as of February 14 for all taxpayers. After these dates, unpaid taxes are subject to penalties and interest.

For the year ended June 30, 2014, the District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-PRE	17.7634
General Fund - Commercial PPT	6.0000
Sinking Fund - PRE, Non-PRE, Commercial Personal Property	0.7500

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**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Violations of Legal or Contractual Provisions**

Note 1.F.2, on the Excess of Expenditures Over Appropriations, describes a budgetary violation that occurred for the year ended June 30, 2014.

**B. Deficit Fund Equity**

As of June 30, 2014, the District’s General Fund had a deficit fund balance of \$515,499. State law does not allow any District to operate its General Fund at a deficit. A deficit elimination plan has been filed with and approved by the Michigan Department of Education.

**NOTE 3 – DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The District’s deposits are all on deposit with PNC Bank and Citizens National Bank.

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. As of June 30, 2014, none of the government’s bank balance of \$25,641 was exposed to custodial credit risk because it was all insured and collateralized. Although the District’s investment policy does not specifically address custodial credit risk, the District typically limits its exposure by controlling who holds the deposits and investments.

*Foreign Currency Risk.* The District is not authorized to invest in investments which have this type of risk, therefore, it is not addressed in the investment policy.

**B. Receivables**

Receivables as of June 30, 2014 for the District consist solely of \$102,089 that is due from the State of Michigan for school state aid. In the General Fund, \$100,793 is due from the State of Michigan, while in the Food Service Fund, \$1,296 is due from the State of Michigan.

**C. Accrued Liabilities**

Accrued liabilities reported by governmental funds at June 30, 2014, were as follows:

	<u>GENERAL FUND</u>
Salaries	\$ 204,027
Employee Benefits	136,498
Total accrued liabilities	<u>\$ 340,525</u>

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**D. Long-Term Debt**

The lone component of the District's long-term debt is compensated absences. As of June 30, 2014, the District's employees had accrued \$28,935 of unpaid sick time. This is an increase of \$405 in comparison with the amount as of June 30, 2013. The employees that accrue sick time are paid with General Fund monies; therefore, the General Fund will be responsible to pay these benefits as employees meet the requirements to require payment. As of June 30, 2014, none of balance of \$28,935 is expected to be paid within one year.

**E. Interfund Receivables, Payables, and Transfers**

Interfund Receivables and Payables as shown in the individual fund financial statements at June 30, 2014, were:

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 345	\$ 220,410
School Service Fund - Food Service Fund	6,423	0
Sinking Fund	213,987	0
Fiduciary Fund - Agency Fund	0	345
	<u>\$ 220,755</u>	<u>\$ 220,755</u>

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 0	\$ 5,600
School Service Fund - Food Service Fund	5,600	0
	<u>\$ 5,600</u>	<u>\$ 5,600</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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**F. Capital Assets**

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Assets not being depreciated				
Land	\$ 33,000	\$ 0	\$ 0	\$ 33,000
Assets being depreciated				
Land Improvements	488,210	0	0	488,210
Buildings and Building	2,397,011	0	0	2,397,011
Buses and Other Vehicles	220,099	0	0	220,099
Furniture and Equipment	609,128	0	0	609,128
Subtotal	3,714,448	0	0	3,714,448
Accumulated Depreciation				
Land Improvements	485,541	333	0	485,874
Buildings and Building	1,327,033	48,423	0	1,375,456
Buses and Other Vehicles	153,209	22,296	0	175,505
Furniture and Equipment	505,993	39,268	0	545,261
Subtotal	2,471,776	110,320	0	2,582,096
Net capital assets being depreciated	1,242,672	(110,320)	0	1,132,352
Net capital assets	\$ 1,275,672	\$ (110,320)	\$ 0	\$ 1,165,352

Depreciation for the fiscal year ended June 30, 2014, amounted to \$110,320. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**G. Defined Benefit Plan and Post-Retirement Benefits**

**Plan Description** - The District participates in the statewide Michigan Public School Employees' Retirement System (System) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 1363 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan School Employees' Retirement Act.

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The System's financial statements are included as a pension and other employee benefit trust fund in the State of Michigan Comprehensive Annual Financial Report. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800)381-5111. It is also available at <http://www.michigan.gov/orsschools>.

The System is administered by the Office of Retirement Services within the Michigan Department of Technology, Management & Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

**Benefit Provisions – Pension**

***Introduction***

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, established eligibility and benefit provisions for the defined benefit (DB) pension plan. Retirement benefits for DB plan members are determined by final average compensation and years of service. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members. A DB member or Pension Plus hybrid plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their services through repayment of the refund upon satisfaction of certain requirements.

***Pension Reform 2010***

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

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***Pension Reform 2012***

On September 4, 2012, the Governor signed Public Act 300 of 2012 into law. The legislation grants all active members who first became a member before July 1, 2010 and who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence of September 3, 2012, a voluntary election regarding their pension. Any changes to a member's pension are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012, subsequently amended to February 1, 2013. Under the reform, members voluntarily chose to increase, maintain, or stop their contributions to the pension fund.

Option 1 – members voluntarily elected to increase their contributions to the pension fund as noted below, and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they terminate public school employment.

- Basic Plan members: 4% contribution
- MIP-Fixed, MIP-Graded, and MIP-Plus members: a flat 7% contribution

Option 2 – members voluntarily elected to increase their contribution to the pension fund as stated in Option 1 and retain the 1.5% pension factor in their pension formula. The increased contribution would begin as of their transition date and continue until they reach 30 years of service. If and when they reach 30 years of service, their contribution rates will return to the previous level in place as of the day before their transition date (0% for Basic Plan members, 3.9% for MIP-Fixed, up to 4.3% for MIP-Graded, or up to 6.4% for MIP-Plus). The pension formula for any service thereafter would include a 1.25% pension factor.

Option 3 – members voluntarily elected not to increase their contribution to the pension fund and maintain their current level of contribution to pension fund. The pension formula for their years of service as of the day before their transition date will include a 1.5% pension factor. The pension formula for any service thereafter will include a 1.25% pension factor.

Option 4 – members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future services as of their transition date. As a DC participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their *total* years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

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Members who did not make an election before the deadline defaulted to Option 3 as described above. Deferred or nonvested public school employees on September 3, 2012, who return to public school employment on or after September 4, 2012, will be considered as if they had elected Option 3 above. Returning members who made the retirement plan election will retain whichever option they chose.

Employees who first work on or after September 4, 2012, choose between two retirement plans: the Pension Plus hybrid plan described above and a Defined Contribution (DC) plan that provides 50% employer match (up to 3% of salary) on employee contributions. New employees are automatically enrolled as members in the Pension Plus plan as of their date of hire. They have 75 days from the last day of their first pay period to elect to opt out of the Pension Plus hybrid plan and become a qualified participant in the DC plan; if no election is made they will remain in the Pension Plus hybrid plan. If they elect to opt out of the Pension Plus hybrid plan, their participation in the DC plan will be retroactive to their date of hire.

## **Funding Policy**

### ***Member Contributions***

Mandatory member contributions were phased out between 1974 and 1977, with the plan remaining noncontributory until January 1, 1987, when the Member Investment Plan (MIP) was enacted. MIP members enrolled prior to January 1, 1990, contribute at a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, effective date of the MIP, until January 1, 1990, when it was reduced to 3.9%. Members first hired between January 1, 1990 and June 30, 2008, and returning members who did not work between January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Members first hired July 1, 2008, or later, including Pension Plus plan members, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 6.4% of all wages over \$15,000.

Basic plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987, or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate of interest is posted to member accounts on July 1<sup>st</sup> on all MIP monies on deposit for 12 months. If a member leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

Under Public Act 300 of 2012, eligible members voluntarily chose between increasing, maintaining, or stopping their contributions to the pension fund as of the transition date. Members who elected to increase their level of contribution contribute 4% (Basic Plan) or 7% (MIP); by doing so they maintain a 1.5% pension factor in their pension formula. Members who elected to maintain their level of contribution will receive a 1.25% pension factor in their pension formula for their years of service as of their transition date. Their contribution rates are described above. Members who elected to stop their contributions become participants in the Defined Contribution plan as of their transition date.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

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JUNE 30, 2014

***Employer Contributions***

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. For the period October 1 through September 30, the School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees' Retirement System ("MPERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the table below of the employees' wages. In addition, the District is required to match 50% up to 1% of the employees' contribution in the Pension Plus plan. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS were equal to the required contribution for those years.

The School District's contributions to MPERS are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Contributions to MPERS</u>
2014	\$ 398,405
2013	350,121
2012	301,906

Included in the amounts paid above, the District received \$69,651 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2014.

PA 464 Retirees Returning to Work, effective December 27, 2012 also requires applicable employer contributions to the defined benefit and defined contribution plans. These amounts, if any, are included in the amounts paid above.

The following table displays the various retirement plans and rates based on what plans certain employees chose to enroll in or what plans certain employees hired after certain dates are required to enroll in.

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JUNE 30, 2014

Contribution Rates		Fiscal Year 2014					
		Effective February 1, 2013 - September 30, 2013					
		Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/3/2012	Pension Plus to DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MP DB to DC with PHF
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>				<b>DB Contributions</b>			
Pension Normal Cost	2.43%	2.24%	2.24%	0.00%	0.00%	0.00%	2.43%
Pension UAL	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%	11.42%
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
<b>Pension Contributions - Total Rate</b>	<b>15.21%</b>	<b>15.02%</b>	<b>15.02%</b>	<b>12.78%</b>	<b>12.78%</b>	<b>12.78%</b>	<b>15.21%</b>
Health Normal Cost	0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL	8.18%	8.18%	8.18%	8.18%	8.18%	8.18%	8.18%
<b>Health Contributions - Total Rate</b>	<b>9.11%</b>	<b>9.11%</b>	<b>8.18%</b>	<b>8.18%</b>	<b>9.11%</b>	<b>8.18%</b>	<b>8.18%</b>
<b>Total</b>	<b>24.32%</b>	<b>24.13%</b>	<b>23.20%</b>	<b>20.96%</b>	<b>21.89%</b>	<b>20.96%</b>	<b>23.39%</b>
		<b>DC Contributions</b>					
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
<b>Total</b>	<b>0.00%</b>	<b>1.00%</b>	<b>3.00%</b>	<b>5.00%</b>	<b>4.00%</b>	<b>6.00%</b>	<b>2.00%</b>

Contribution Rates		Fiscal Year 2014					
		Effective October 1, 2013					
		Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/3/2012	Pension Plus to DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MP DB to DC with PHF
<b>Public School Employee Pension Rates (FYE Sept. 30th)</b>				<b>DB Contributions</b>			
Pension Normal Cost	2.90%	2.67%	2.67%	0.00%	0.00%	0.00%	2.90%
Pension UAL	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%
Pension Early Retirement Incentive	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
<b>Pension Contributions - Total Rate</b>	<b>18.34%</b>	<b>18.11%</b>	<b>18.11%</b>	<b>15.44%</b>	<b>15.44%</b>	<b>15.44%</b>	<b>18.34%</b>
Health Normal Cost	0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%
<b>Health Contributions - Total Rate</b>	<b>6.45%</b>	<b>6.45%</b>	<b>5.52%</b>	<b>5.52%</b>	<b>6.45%</b>	<b>5.52%</b>	<b>5.52%</b>
<b>Total</b>	<b>24.79%</b>	<b>24.56%</b>	<b>23.63%</b>	<b>20.96%</b>	<b>21.89%</b>	<b>20.96%</b>	<b>23.86%</b>
		<b>DC Contributions</b>					
DC Employer Contributions	0.00%	1.00%	1.00%	3.00%	4.00%	4.00%	0.00%
Personal Healthcare Fund	0.00%	0.00%	2.00%	2.00%	0.00%	2.00%	2.00%
<b>Total</b>	<b>0.00%</b>	<b>1.00%</b>	<b>3.00%</b>	<b>5.00%</b>	<b>4.00%</b>	<b>6.00%</b>	<b>2.00%</b>

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**Benefit Provisions – Other Postemployment**

***Introduction***

Benefit provisions of the postemployment healthcare plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions. Retirees have the option of health coverage, which, through 2012, is currently funded on a cash disbursement basis. Beginning fiscal year 2013, it will be funded on a prefunded basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A subsidized portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. For members who first worked before July 1, 2008, (Basic, MIP-Fixed, and MIP-Graded plan members), the subsidy is the maximum allowed by statute. To limit future liabilities of Other Postemployment Benefits, members who first worked on or after July 1, 2008, (MIP-Plus, plan members), have a graded premium subsidy based on career length where they accrue credit towards their insurance premiums in retirement, not to exceed the maximum allowable by statute. Public Act 300 of 2012 sets the maximum subsidy at 80% beginning January 1, 2013; 90% for those Medicare eligible and enrolled in the insurances as of that date.

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees. Dependents are eligible for health care coverage if they meet the dependency requirements set forth in Public Act 300 of 1980, as amended.

***Retiree Healthcare Reform of 2012***

Public Act 300 of 2012 granted all active members of the Michigan Public School Employees Retirement System, who earned service credit in the 12 months ending September 3, 2012, or were on an approved professional services or military leave of absence on September 3, 2012, a voluntary election regarding their retirement healthcare. Any changes to a member's healthcare benefit are effective as of the member's *transition date*, which is defined as the first day of the pay period that begins on or after December 1, 2012.

Under Public Act 300 of 2012, members were given the choice between continuing the 3% contribution to retiree healthcare and keeping the premium subsidy benefit described above, or choosing not to pay the 3% contribution and instead opting out of the subsidy benefit and becoming a participant in the Personal Healthcare Fund (PHF), a portable, tax-deferred fund that can be used to pay healthcare expenses in retirement. Participants in the PHF are automatically enrolled in a 2% employee contribution into their 457 account as of their transition date, earning them a 2% employer match into a 401(k) account. Members who selected this option stop paying the 3% contribution to retiree healthcare as of the day before their transition date, and their prior contributions will be deposited into their 401(k) accounts.

MACKINAW CITY PUBLIC SCHOOLS

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JUNE 30, 2014

Members who did not make an election before the deadline retain the subsidy benefit and continue making the 3% contribution toward retiree healthcare. Deferred or nonvested members on September 3, 2012 who are rehired on September 4, 2012, will contribute 3% contribution to retiree healthcare and will retain the subsidy benefit. Returning members who made the retirement healthcare election will retain whichever option they choose.

Those who elected to retain the premium subsidy continue to annually contribute 3% of compensation into the healthcare funding account. A member or former member age 60 or older, who made the 3% healthcare contributions but who does not meet eligibility requirements may request a refund of their contributions. Similarly, if a retiree dies before the total value of the insurance subsidy paid equals the total value of the contributions the member made, and there are no eligible dependents, the beneficiary may request a refund of unused funds. Refunds of member contributions to the healthcare funding account are issued as a supplemental benefit paid out over a 60 month period.

1. Retirees with at least 21 years of service, who terminate employment after October 31, 1980, with vested deferred benefits, are eligible for subsidized employer paid health benefit coverage.
2. A delayed subsidy applies to retirees who became a member of the retirement system before July 1, 2008 and who purchased service credit on or after July 1, 2008. Such individuals are eligible for premium subsidy benefits at age 60 or when they would have been eligible to retire without having made a service purchase, whichever comes first. They may enroll in the insurances earlier, but are responsible for the full premium until the premium subsidy begins.

Under Public Act 300 of 2012, the state no longer offers an insurance premium subsidy in retirement for public school employees who first work on or after September 4, 2012. Instead, all new employees will be placed into the Personal Healthcare Fund where they will have support saving for retirement healthcare costs in the following ways:

- They will be automatically enrolled in a 2% employee contribution into a 457 account as of their date of hire, earning them a 2% employer match into a 401(k) account.
- They will receive a credit into a Health Reimbursement Account (HRA) at termination if they have at least 10 years of service at termination. The credit will be \$2,000 for participants who are at least 60 years of age at termination or \$1,000 for participants who are less than 60 years of age at termination.

Participants in the Personal Healthcare Fund, who become disabled for any reason, are not eligible for any employer funded health insurance premium subsidy. If a PHF participant suffers a non-duty related death, his or her health benefit dependents are not eligible to participate in any employer funded health insurance premium subsidy. If a PHF participant suffers a duty death, the state will pay the maximum health premium allowed by statute for the surviving spouse and health benefit dependents. The spouses' insurance subsidy may continue until his or her death, the dependents' subsidy may continue until their eligibility ends (through marriage, age, or other event). Upon eligibility for a duty death benefit, the 2% employer matching contributions and related earnings in the PHF 401(k) are forfeited and the state will pay for the subsidy payments. The beneficiaries receive the member's personal contributions and related earnings in the PHF 457 account.

MACKINAW CITY PUBLIC SCHOOLS

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JUNE 30, 2014

**Other Information**

On June 28, 2010, the Michigan Court of Claims issued an injunction in response to a challenge to the authority of the State to require employees who began working before July 1, 2010, to contribute 3% of reportable wages to the retiree healthcare trust as MPSERS. As a result, the State has adjusted the contribution rate due on employees' wages paid between November 1, 2010 and September 30, 2011 to 20.66% for members who first worked prior to July 1, 2010 and 19.16% for Pension Plus member. In March 2011, the Court of Claims granted the plaintiffs' motions for summary disposition finding that the mandatory 3% contribution violated both the U.S. and Michigan constitutions. The State appealed the ruling to the Michigan Court of Appeals. The Court of Appeals accepted the appeal and ordered an expedited review. The Court of Appeals also granted the State's motion for a stay of proceedings and ordered that the 3% deduction continue to be collected and placed into an escrow account until further order of the Court.

On August 16, 2012 the State of Michigan Court of Appeals affirmed the trial court's orders granting summary dispositions in favor of the plaintiffs in each of the cases before it, terminating the stay ordered by this Court on March 18, 2011. The State of Michigan has appealed the decision to the Michigan Supreme Court. The Office of Retirement Services is instructing Michigan public school employers to continue withholding the 3% contribution. Should the plaintiffs prevail, the escrowed funds will be returned to the employees.

**H. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2014 or any of the prior three years.

**I. Sinking Fund Tax Levy**

In 2008, the taxpayers approved a sinking fund tax levy. The District is authorized to levy 0.75 mills for ten years beginning with the 2008 tax roll. The transactions for the sinking fund are accounted for in a capital projects fund. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

MACKINAW CITY PUBLIC SCHOOLS

MACKINAW CITY, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

**J. Other Information**

**1. Commitments and Contingencies**

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district. As an out of formula district, the District could also potentially be impacted by cases brought before the tax tribunal. A reduction in taxable value would cause the District to refund revenues previously collected, with no offset from the State of Michigan. Although various cases are continually brought to the tax tribunal, the outcome and potential effect on these cases is unknown at this time.

**NOTE 4 – UPCOMING ACCOUNTING PRONOUNCEMENTS**

The District is currently evaluating the impact these standards will have on the financial statements when adopted.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position a net pension liability. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. In a letter dated February 28, 2014, the Office of Retirement Services estimated that estimated liability for Mackinaw City Public Schools was \$3,396,000. This estimate was based on contributions made by the District in fiscal year. Once included in the statement of net position, the District's total net position will decrease by that amount.

MACKINAW CITY PUBLIC SCHOOLS  
MACKINAW CITY, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED JUNE 30, 2014

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
<u>REVENUES</u>			
Local Sources	\$ 2,050,584	\$ 2,099,391	\$ 2,126,039
State Sources	115,000	120,831	122,163
Federal Sources	18,000	13,000	13,514
Total Revenues	<u>2,183,584</u>	<u>2,233,222</u>	<u>2,261,716</u>
<u>EXPENDITURES</u>			
Instruction			
Basic Programs			
Elementary	646,115	696,031	674,739
Middle/Junior High School	154,557	149,576	147,163
High School	649,943	774,673	785,161
Pre-School	29,760	38,617	38,869
Summer School	0	12,843	12,843
Added Needs			
Special Education	89,300	99,331	99,312
Supporting Services			
Pupil			
Guidance Services	21,877	30,382	29,277
Other Pupil Support Services	14,000	15,165	15,089
Instructional Staff			
Educational Media Services	0	332	42
Supervision and Direction of Instructional Staff	14,005	13,700	13,765
General Administration			
Board of Education	19,110	31,270	32,735
Executive Administration	248,430	219,706	214,873
Support Service School Administration			
Office of the Principal	31,500	20,211	19,591
Other School Administration	0	0	419
Business			
Fiscal Services	0	15,350	24,212
Other Business Services	5,350	13,640	14,837
Operation and Maintenance			
Operating Buildings Services	148,521	172,748	165,819
Pupil Transportation Services			
Pupil Transportation Services	54,400	50,349	49,672
Support Services - Central			
Non-Instructional Technology Services	0	1,925	2,310
Support Services - Other			
Athletic Activities	7,000	73,180	85,727
Total Expenditures	<u>2,133,868</u>	<u>2,429,029</u>	<u>2,426,455</u>
Excess (Deficiency) of Revenues			
Over Expenditures	49,716	(195,807)	(164,739)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers Out	0	(8,500)	(5,600)
Net Change in Fund Balance	49,716	(204,307)	(170,339)
<u>FUND BALANCE</u> - Beginning of Year - (Deficit)	<u>(345,160)</u>	<u>(345,160)</u>	<u>(345,160)</u>
<u>FUND BALANCE</u> - End of Year - (Deficit)	<u>\$ (295,444)</u>	<u>\$ (549,467)</u>	<u>\$ (515,499)</u>



**Baird, Cotter & Bishop, P.C.**

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August 12, 2014

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

To the Board of Education  
Mackinaw City Public Schools  
Mackinaw City, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mackinaw City Public Schools, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Mackinaw City Public Schools' basic financial statements and have issued our report thereon dated August 12, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we 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 purchase of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mackinaw City Public Schools' internal control. Accordingly, we 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

## 2014-001

### Significant Deficiency:

Criteria: Management is responsible for establishing and maintaining internal controls in order to safeguard the assets of the District. A key element of internal control is the segregation of incompatible duties.

Condition: The District has several accounting functions that are performed by the same individual.

Cause: This condition is primarily the result of staffing constraints typical of smaller districts and the current financial position of the District.

Effect: As a result of this condition, the District is exposed to an increased risk that misstatements (whether caused by error or fraud) may occur and not be prevented or detected by management on a timely basis.

Recommendation: There are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of incompatible duties. Recognizing this fact, we encourage the District to mitigate this risk by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

View of Responsible Officials: With the financial status of the District, the District is unable to hire additional employees at this time to improve the segregation of duties within the accounting function. We realize that segregation of duties is important in order to increase internal control. Management oversight has been an alternative means of monitoring internal control along with continuing to try and reassign some duties within the accounting department to other staff members. We still are exploring ways to spread some of the day-to-day accounting responsibilities. The District and Superintendent will continue to monitor the situation and explore cost effective ways to improve this internal control limitation.

## COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Mackinaw City Public Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed a instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below.

## 2014-002

### Material Noncompliance:

Criteria: Compliance with the Uniform Budgeting and Accounting Act. MCL (Michigan Compile Laws) 141.436 states, except as otherwise permitted in MCL 388-1702 the local school board shall not adopt a general appropriations act (Budget) or an amendment to that act which causes estimated total expenditures to exceed total estimated revenues, in addition to prior year fund balance.

Condition: The District's budget reflects estimated appropriations in excess of estimated revenues. This resulted in a larger deficit fund balance in the general fund than was reported in the previous year.

Cause: Various reasons caused this situation and the District as of June 30, 2014, is considered a deficit district by the Michigan Department of Education.

Effect: At June 30, 2014, the District has a cumulative deficit in the general fund.

Recommendation: The District has communicated this issue with the Michigan Department of Education and is in the process of implementing a deficit reduction plan. Our recommendation is that the District follow the deficit elimination plan and work diligently to reduce expenditures in order to eliminate the deficit.

View of Responsible Officials: The District is working with Michigan Department of Education on the implementation of the deficit reduction plan.

### MACKINAW CITY PUBLIC SCHOOLS' RESPONSE TO FINDINGS

Mackinaw City Public Schools' response to the findings identified in our audit is described above. Mackinaw City Public Schools' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### PURPOSE OF THIS REPORT

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

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*



