

FINANCIAL REPORT
POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
POSEN, MICHIGAN
June 30, 2014

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
FINANCIAL STATEMENTS
Year Ended June 30, 2014

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November 12, 2014, except for Note 2 as to which the date is December 3, 2014

Independent Auditors' Report

Superintendent and Board of Education
Posen Consolidated School District No. 9
Posen, 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 Posen Consolidated School District No. 9, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Posen Consolidated School District No. 9, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Posen Consolidated School District No. 9's basic financial statements. The accompanying other supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014, on our consideration of Posen Consolidated School District No. 9's internal control over financial reporting and on our tests of its compliance with certain provision 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Posen Consolidated School District No. 9's internal control over financial reporting and compliance.

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

POSEN CONSOLIDATED SCHOOL DISTRICT No. 9

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Management's Discussion and Analysis

Overview of the Basic Financial Statements

Posen Consolidated School District No. 9's (the District's) basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements report information on all of the District's nonfiduciary funds. The government-wide 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 displays all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net costs of the various functions within the School (instruction, support services, etc.), which are supported by the School's general revenues (property taxes, unrestricted state aid, etc.).

Fund Financial Statements

The fund financial statements report on the governmental funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented; separate from the governmental funds, due to the fact that these assets do not represent assets of the District. These assets are not presented as part of the government-wide financial statements.

Posen Consolidated School District No. 9 maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances. General Fund, 2005 Refunding Debt Service Funds, and 2012 Tech and Bus Bonds Capital Projects are considered major funds. Data from the other four governmental funds are combined into a single, nonmajor governmental funds column. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements in the Other Supplemental Information section of the report.

MISSION STATEMENT

The mission of Posen Consolidated School is to promote skills for adapting to an ever changing environment, while encouraging responsible citizens and lifelong learners.

Notes to the Financial Statements

The notes provide additional information which is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The table below summarizes the District's net position as of June 30, 2014, with comparative data from June 30, 2013:

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Statement of Net Position
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current and other assets	\$ 1,309,863	\$ 1,867,883
Capital assets, net of accumulated depreciation	<u>3,613,559</u>	<u>3,487,779</u>
Total assets	<u>4,923,422</u>	<u>5,355,662</u>
Deferred Outflows of Resources		
Deferred charges	<u>33,502</u>	<u>38,288</u>
Liabilities		
Current liabilities	1,138,412	1,264,859
Noncurrent liabilities	<u>2,078,365</u>	<u>2,471,820</u>
Total liabilities	<u>3,216,777</u>	<u>3,736,679</u>
Net Position		
Net investment in capital assets	1,146,740	674,228
Restricted	558,610	993,573
Unrestricted	<u>34,797</u>	<u>(10,530)</u>
Total net position	<u>\$ 1,740,147</u>	<u>\$ 1,657,271</u>

Investment in capital assets, net of debt, \$1,146,740 is the District's investment in capital assets, less depreciation, less the long-term debt outstanding used to finance the acquisition of those assets. The second portion of net position, restricted net position, represents resources that are subject to external restrictions on how they may be used. This would include restrictions for debt service payments of \$434,483 and restrictions for capital outlay in the amount of \$124,127.

The remaining portion of net position, unrestricted net position, may be used at the District's discretion to meet ongoing obligations.

The results for the District as a whole are reported in the Statement of Activities for the year ended June 30, 2014, with comparative data for June 30, 2013 as summarized below:

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Statement of Activities
Year Ended June 30, 2014 and 2013

	2014	2013
Revenue		
Program revenue:		
Charges for services	\$ 50,822	\$ 56,554
Grants and contributions	398,755	392,167
Capital grants and contributions	11,726	12,707
General revenue:		
Property taxes	1,241,516	1,228,489
State aid, unrestricted	938,163	978,886
Interest and investment earnings	2,245	3,545
Other	36,894	11,836
Total revenues	2,680,121	2,684,184
Function/Program Expenses		
Instruction	1,322,714	1,363,981
Support services	767,000	825,654
Food services	134,512	131,881
Interest/fees on long-term debt	119,649	137,402
Depreciation (unallocated)	253,370	200,360
Total expenses	2,597,245	2,659,278
Change in net position	82,876	24,906
Net position - beginning of year	1,657,271	1,632,365
Net position - end of year	\$ 1,740,147	\$ 1,657,271

As reported above, the District recorded \$2,597,245 of program expenses. These expenses were funded minimally by charges for services. The majority of the District's revenues were from property taxes (46%), unrestricted state aid (34%), and grants and contributions (14%).

Fund Financial Analysis

As of year-end, the governmental funds reported a combined fund balance of \$617,919 which is \$455,477 lower than the beginning of the year. The decrease results primarily from capital outlay expenditures of over \$ 370,000, debt payments in excess of related property taxes and about \$12,000 in excess General Fund expenditures.

General Fund Budgetary Highlights

Final budgeted revenues were changed little from their originally approved amounts.

Final budgeted expenditures were less than original budgeted expenditures due to basic programs expenditures decreasing more than originally anticipated.

Final expenditures were less than final budgeted amounts by \$8,439.

Capital Assets

At June 30, 2014, the District had \$8.2 million invested in capital assets. The following table summarizes the capital asset activity for the year:

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9 CAPITAL ASSETS

Year Ended June 30, 2014

	<u>July 1, 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2014</u>
Land and improvements	\$ 698,485	\$ -	\$ -	\$ 698,485
Buildings and improvements	6,234,467	179,092	-	6,413,559
Furniture and equipment	760,054	46,819	(57,378)	749,495
Vehicles	276,587	153,239	-	429,826
	<u>7,969,593</u>	<u>379,150</u>	<u>(57,378)</u>	<u>8,291,365</u>
Total capital assets	7,969,593	379,150	(57,378)	8,291,365
	<u>(4,481,814)</u>	<u>(253,370)</u>	<u>57,378</u>	<u>(4,677,806)</u>
Less accumulated depreciation	(4,481,814)	(253,370)	57,378	(4,677,806)
	<u>\$ 3,487,779</u>	<u>\$ 125,780</u>	<u>\$ -</u>	<u>\$ 3,613,559</u>
Net capital assets	\$ 3,487,779	\$ 125,780	\$ -	\$ 3,613,559

Debt Outstanding

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9's DEBT ACTIVITY Year Ended June 30, 2014

	July 1, 2013	Additions	Reductions	June 30, 2014
General obligation debt	\$ 2,845,000	\$ -	\$ (345,000)	\$ 2,500,000
Bond premium	15,692	-	(1,962)	13,730
Refunding deferral	(57,873)	-	7,235	(50,638)
Lawnmower	10,732	-	(7,005)	3,727
	<u>\$ 2,813,551</u>	<u>\$ -</u>	<u>\$ (346,732)</u>	<u>\$ 2,466,819</u>
Other liabilities:				
Retirement severance	7,200	-	(3,600)	3,600
Other severance	63,150	-	(63,150)	-
Total governmental activities long-term liabilities	<u>\$ 2,883,901</u>	<u>\$ -</u>	<u>\$ (413,482)</u>	<u>\$ 2,470,419</u>

Economic Factors

Posen Consolidated School District No. 9 ended the 2013/2014 school year with a student count of 242. The District's operating revenue is based on student enrollment as well as the amount of funding per student. The pupil funding for the year was \$7,026 per pupil.

Staff continue to pay 10 % of their medical insurance, and did not receive pay increases during this fiscal year.

Looking into next year additional cuts will need to be made as federal revenues have been declining and retirement expenditures continue to increase.

In August of 2012 voters passed a Tech and Bus Bond Capital Projects Fund in the amount not to exceed .500 mills for five year 2012-2016. Also, a Sinking Fund was approved by voters for a period of ten years 2012-2021 to levy an amount not to exceed .500 mills on all property for the purpose of construction and repairs to the building.

Financial Contact

The District's financial statements are designed to present users with a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed towards the Business Office, Posen Consolidated School District No. 9.

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9

Statement of Net Position

June 30, 2014

	<u>Governmental Activities</u>
Assets	
Current Assets	
Cash	\$ 619,197
Investments	434,690
Due from other governmental units	<u>255,976</u>
Total current assets	<u>1,309,863</u>
Noncurrent Assets	
Capital assets:	
Nondepreciable	2,485
Depreciable, net	<u>3,611,074</u>
Total noncurrent assets	<u>3,613,559</u>
Total assets	<u>4,923,422</u>
Deferred Outflows of Resources	
Deferred charges on bond refunding	<u>33,502</u>
Liabilities	
Current Liabilities	
Accounts payable	672
Due to other governmental units	2,235
Accrued interest payable	36,137
State aid notes payable	505,340
Accrued expenses	85,387
Salaries payable	116,587
Bonds and notes payable, net	388,454
Severances	<u>3,600</u>
Total current liabilities	1,138,412
Noncurrent Liabilities, Net of Current Portion	
Bonds and notes payable, net	<u>2,078,365</u>
Total liabilities	<u>3,216,777</u>
Net Position	
Net investment in capital assets	1,146,740
Restricted for debt service	434,483
Restricted for capital outlay	124,127
Unrestricted	<u>34,797</u>
Total net position	<u><u>\$ 1,740,147</u></u>

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Statement of Activities
Year Ended June 30, 2014

	Program Revenues			Net Revenue (Expense) and Changes in Net Position	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Functions/Programs					
Governmental activities:					
Instruction	\$ 1,322,714	\$ -	\$ 232,841	\$ 6,815	\$ (1,083,058)
Support services	767,000	17,702	73,314	4,911	(671,073)
Food services	134,512	33,120	92,600	-	(8,792)
Interest/fees on long-term debt	119,649	-	-	-	(119,649)
Depreciation (unallocated)	253,370	-	-	-	(253,370)
	<u>\$ 2,597,245</u>	<u>\$ 50,822</u>	<u>\$ 398,755</u>	<u>\$ 11,726</u>	<u>(2,135,942)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					838,957
Property taxes, levied for debt services					402,559
State aid, unrestricted					938,163
Interest and investment earnings					2,245
Other					36,894
					<u>2,218,818</u>
Change in net position					82,876
Net position - beginning of year					<u>1,657,271</u>
Net position - end of year					<u>\$ 1,740,147</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Balance Sheet
June 30, 2014

	General	2005 Refunding Debt Service	2012 Tech and Bus Bonds Capital Projects	Other Nonmajor Governmental Funds	Total
<u>Assets</u>					
Cash	\$ 53,309	\$ 360,555	\$ 34,790	\$ 170,543	\$ 619,197
Investments	434,690	-	-	-	434,690
Due from other funds	-	-	4,000	6,286	10,286
Due from other governmental units	254,989	-	-	987	255,976
Total assets	<u>\$ 742,988</u>	<u>\$ 360,555</u>	<u>\$ 38,790</u>	<u>\$ 177,816</u>	<u>\$ 1,320,149</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 672	\$ -	\$ -	\$ -	\$ 672
Due to other funds	10,286	-	-	-	10,286
Due to other governmental units	-	-	-	2,235	2,235
Interest payable	5,832	-	-	-	5,832
State aid notes payable	505,340	-	-	-	505,340
Accrued expenditures	85,387	-	-	-	85,387
Salaries payable	116,587	-	-	-	116,587
Total liabilities	<u>724,104</u>	<u>-</u>	<u>-</u>	<u>2,235</u>	<u>726,339</u>
Fund Balances:					
Restricted for debt service	-	360,555	-	73,928	434,483
Restricted for capital outlay	-	-	38,790	85,337	124,127
Assigned for food service	-	-	-	16,316	16,316
Unassigned	18,884	-	-	-	18,884
Total fund balances	<u>18,884</u>	<u>360,555</u>	<u>38,790</u>	<u>175,581</u>	<u>593,810</u>
Total liabilities and fund balances	<u>\$ 742,988</u>	<u>\$ 360,555</u>	<u>\$ 38,790</u>	<u>\$ 177,816</u>	<u>\$ 1,320,149</u>

The accompanying notes are an integral part of the financial statements. 5

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2014

Fund Balance Reported in Governmental Funds \$ 593,810

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 governmental funds balance sheet.

Cost of capital assets	8,291,365
Accumulated depreciation	(4,677,806)

Interest is accrued on outstanding long-term bonds in governmental activities, whereas in governmental funds, an interest expenditure is reported when due.	(30,305)
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Bond issuance costs are recorded in governmental activities as a deferred charge, whereas in governmental funds, the costs are reported as expenditures when paid.	33,502
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Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds balance sheet.

Bonds and notes payable, net	(2,466,819)
Severances	(3,600)
	(2,470,419)

Total net position - governmental activities	\$ 1,740,147
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The accompanying notes are an integral part of the financial statements.

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2014

	General	2005 Refunding Debt Service	2012 Tech and Bus Bonds Capital Projects	Other Nonmajor Governmental Funds	Total
Revenues					
Local sources	\$ 936,727	\$ 117,404	\$ 503	\$ 319,848	\$ 1,374,482
State sources	1,097,444	-	-	5,616	1,103,060
Federal sources	76,844	-	-	86,984	163,828
Interdistrict and other sources	38,751	-	-	-	38,751
	<u>2,149,766</u>	<u>117,404</u>	<u>503</u>	<u>412,448</u>	<u>2,680,121</u>
Total revenues					
Expenditures					
Current:					
Instruction	1,389,464	-	-	-	1,389,464
Support services	747,765	-	10,263	8,972	767,000
Food Service	-	-	-	134,512	134,512
Capital outlay	11,225	-	358,617	9,308	379,150
Debt service:					
Principal	7,005	220,000	-	125,000	352,005
Interest/fees	6,030	91,653	-	11,417	109,100
Debt issuance	-	-	4,367	-	4,367
	<u>2,161,489</u>	<u>311,653</u>	<u>373,247</u>	<u>289,209</u>	<u>3,135,598</u>
Total expenditures					
Excess (deficiency) of revenues over expenditures	<u>(11,723)</u>	<u>(194,249)</u>	<u>(372,744)</u>	<u>123,239</u>	<u>(455,477)</u>
Net change in fund balances	(11,723)	(194,249)	(372,744)	123,239	(455,477)
Fund balances - beginning of year	<u>30,607</u>	<u>554,804</u>	<u>411,534</u>	<u>76,451</u>	<u>1,073,396</u>
Fund balances - end of year	<u>\$ 18,884</u>	<u>\$ 360,555</u>	<u>\$ 38,790</u>	<u>\$ 199,690</u>	<u>\$ 617,919</u>

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Governmental Funds
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 \$ (455,477)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital Outlay	379,150
Depreciation expense	(253,370)

Repayment of long-term debt is an expenditure in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position:

Bonds/ notes	352,005
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due:

Change in accrued interest on long term debt	3,877
Amortization of deferred charges	(4,786)
Amortization of refunding deferral	(7,235)
Amortization of bond premiums	1,962

In the statement of activities, severances are measured when notification is received from eligible employees. In the governmental funds, expenditures for these items are measured by the amount actually paid.

	66,750
Change in net position - governmental activities	\$ 82,876

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Fiduciary Fund
Statement of Fiduciary Net Position
June 30, 2014

	<u>Student Activities Agency Fund</u>
Assets	
Cash	\$ <u>37,709</u>
Liabilities	
Due to student groups	\$ <u>37,709</u>

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Posen Consolidated School District No. 9 (the "School District") operates under a Board-Superintendent form of government and provides education services to its residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by the School District:

Reporting Entity

Criteria for determining if other entities are potential component units which should be reported within the School District's basic financial statements are identified and described in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards, Sections 2100 and 2600. The application of these criteria provides for identification of any entities for which the School District is financially accountable and other organizations that the nature and significance of their relationship with the School District are such that exclusion would cause the School District's basic financial statements to be misleading or incomplete. The School District has no component units.

Basic Financial Statements – Overview

The School District's basic financial statements include both government-wide (reporting the School District as a whole) and fund financial statements (reporting the School District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's activities are considered governmental activities.

Basic Financial Statements – Government-Wide Statements

The government-wide financial statements report information on all of the nonfiduciary activities of the primary government. These statements are reported using the economic resources measurement focus and the full accrual basis of accounting. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The government-wide focus is more on operational efficiency, the sustainability of the School District as an entity and the change in the School District's net position resulting from the current year's activities.

In the government-wide Statement of Net Position, the governmental activities column is presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The School District's net position are reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The School District first utilizes restricted resources to finance qualifying activities.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Government-Wide Statements - Continued

The government-wide Statement of Activities, due to the full accrual, economic resource basis, records revenue when it is earned and expenses when a liability is incurred, regardless of the timing of related cash flows. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, unrestricted state aid and other items not properly included among program revenues are reported as general revenue. Any net costs, by function, are allocated to the general revenue.

Basic Financial Statements – Fund Financial Statements

The financial transactions of the School District are reported in individual funds in the fund financial statements. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The emphasis in the fund financial statements is on the major funds in the governmental activities category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds. The School District's major funds, as described below, are the General, 2005 Refunding Debt Service, and the 2012 Tech and Bus Bonds Capital Projects Funds. Non-major funds by category are summarized into a single column.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they become both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred. The exceptions to this general rule are principal and interest on general obligation long-term debt, compensated absences, claims and judgments, and retirement allowances, which are recognized when due.

The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basic Financial Statements – Fund Financial Statements – Continued

Governmental Funds – Continued

General Fund – The General Fund is used to record the general operations of the School District pertaining to education and those operations not provided for in other funds. The General Fund is a major fund of the School District.

Special Revenue Fund – Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital project. The School District maintains the Food Service Fund.

Debt Service Funds – The Debt Service Funds are used to record tax and interest revenue and the payment of interest, principal and other expenditures on long-term bonded debt. The Debt Service Funds maintained by the School District are the 2005 Refunding, Durant Non-Plaintiff and 2012 Debt Service Fund.

Capital Project Funds – The Capital Project Funds are used to record property tax revenues, bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for major remodeling and repairs. These funds are kept open until the purpose for which they were created has been accomplished. The Capital Project Funds maintained by the School District are the 2012 Tech and Bus Bonds Capital Projects and the Sinking Fund.

The 2012 Tech and Bus Bonds Capital Projects Fund include capital project activities funded with bonds issued after May 1, 1994. For this capital projects, the School District has complied with the applicable provisions of §1351a of the Revised School Code.

The Sinking Fund was approved by voters for a period of 10 years, 2012 to 2021 to levy an amount not to exceed .5 mills on all property for the purpose of construction and repair of school buildings as well as other purposes authorized by law. 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.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the School District in a trustee or agency capacity for others and therefore are not available to support School District programs. Since these funds cannot be used to address activities or obligations of the School District, these funds are not incorporated into the government-wide statements. Fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following agency fund is presented in the Statement of Fiduciary Net Position:

Student Activities Agency Fund – The School District presently maintains a Student Activities Agency Fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held by the School District for the students.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND FUND BALANCE

Cash and Investments

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

Capital Assets

Capital assets, which include land, buildings, equipment and vehicles, are reported in the Statement of Net Position in the government-wide financial statements. Capital assets are defined by the School District as assets that are purchased or acquired with an original cost of \$3,000 or more and an estimated useful life in excess of one year. Such assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date donated. Additions, improvements and other capital outlay that significantly extend the useful life of an asset, or increase its capacity or efficiency, are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Land and improvements	10-20 years
Buildings and improvements	20-50 years
Furniture and other equipment	5-25 years

Early Retirement Incentives

The District provides an alternate retirement severance, restricted to employees with a minimum of fifteen years of continuous service in the District. The payments are calculated using formulae and conditions specified in the contracts. After twenty nine years of service there is no alternate retirement severance. Therefore, a liability is recognized in the government-wide financial statements when an eligible employee submits written notification of intent. The stipend shall be paid beginning in July of the retirement year and each July thereafter until paid in full, unless said employee shall die. There is no death benefit. The Districts payments to retirees in the years ended June 30, 2014 and 2013 were \$ 3,600 and \$3,600 respectively. This amount is reported in the fund financial statements and represents a reconciling item between the government-wide and fund presentations.

Compensated Absences

Accumulated unpaid sick and vacation pay is not accrued by the School District. Employees are limited to the number of sick and vacation days they may accumulate. Sick and vacation days do not vest to the employee and are not payable upon termination, except when used to determine retirement allowance.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

ASSETS, LIABILITIES, AND FUND BALANCE - CONTINUED

Fund Balances

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the School Board – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance. This classification reflects the amounts constrained by the School District’s “intent” to be used for specific purposes, but are neither restricted nor committed. The school Board has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the School District’s policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

Use of Estimates

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 2: RESTATEMENT

As a result of an internal review from the Michigan Public School Employees' Retirement System (MPERS) the Schools retirement expenditures have been overstated, during the year the Defined Benefit MPERS UAAL had been paid into the retirement system with the bi-weekly payroll, in effect it was paid twice. Accordingly the School restated its financial statements for the year ended June 30, 2014. The effect of the restatement was to decrease the School's expenditures and increase the net position by \$44,939.

NOTE 3: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The School District is required under Public Act 621 to adopt a budget for the General and Special Revenue Funds. Annual budgets are adopted on a basis consistent with generally accepted accounting principles and State law for these funds. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. All annual appropriations lapse at year-end.

The presentation of budgetary information is required for the General Fund and all major Special Revenue Funds. The School District does not have any major Special Revenue Funds. In the required supplemental information section, the School District's actual and budgeted expenditures for the General Fund are presented.

NOTE 4: DEPOSITS AND INVESTMENTS

Cash Deposits

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan. The School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits and investments are in accordance with statutory authority.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned. The School District does not have a deposit policy for custodial credit risk. At year-end, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$ 656,906 and the bank balance was \$ 689,385. Of the bank balance, \$ 500,000 was covered by federal depository insurance. The remaining \$ 189,385 was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds.

Investments

Credit Risk – As of June 30, 2014, the School District's investments were with Michigan Liquid Asset Fund investment pool in the amount of \$431,351 rated AAAM by Standard & Poor's and \$ 3,339 invested in a money market with JPMorgan Chase, Michigan Government Money Market Fund rated Aaa by Moody's.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 5: PROPERTY TAXES

Property taxes are levied and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31.

Property taxes are recognized as revenue in the fiscal year they are levied. The Michigan School Accounting Manual requires property taxes receivable be written off in the current year if not received within 60 days of the end of the previous year. This applies to both the government-wide (full accrual) and the fund (modified accrual) financial statements. There is no significant departure from the full accrual basis of accounting using this method.

The 2013 State taxable valuation of non-homestead property for Posen Consolidated School District No. 9 totaled \$ 46,086,797, on which taxes levied consisted of 18.000 mills and \$716,240 for commercial personal property at 6.000 mills for operating purposes. The total taxable valuation of the School District as of April 29, 2014 was \$ 104,864,157, on which taxes levied consisted of 3.350 mills for debt retirement, and .500 mills for the Sinking Fund. These amounts are recognized in the respective General, Debt Service, and Capital Projects Funds.

Classification of assessed property between homestead vs. non-homestead is subject to change. In addition, Michigan Tax Tribunal and Board of Review changes throughout the year affect the total taxable valuation.

NOTE 6: INTERFUND RECEIVABLES AND PAYABLES

The inter-fund balances within the School are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ -	\$ 10,286
2012 Debt Service Fund	4,917	-
Technology /Bus Bond Fund	4,000	-
Food Service	<u>1,369</u>	<u>-</u>
	<u>\$ 10,286</u>	<u>\$ 10,286</u>

The inter-fund balances are for payments made by the capital projects funds for General Fund expenditures and retirement expenditures.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 7: CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Disposals	Balance June 30, 2014
Assets not being depreciated:				
Land	\$ 2,485	\$ -	\$ -	\$ 2,485
Capital assets being depreciated:				
Land improvements	696,000	-	-	696,000
Buildings and improvements	6,234,467	179,092	-	6,413,559
Furniture and equipment	760,054	46,819	(57,378)	749,495
Vehicles	276,587	153,239	-	429,826
Subtotal	<u>7,967,108</u>	<u>379,150</u>	<u>(57,378)</u>	<u>8,288,880</u>
Accumulated depreciation:				
Land improvements	(591,600)	(34,800)	-	(626,400)
Buildings and improvements	(3,240,782)	(115,454)	-	(3,356,236)
Furniture and equipment	(489,870)	(61,953)	57,378	(494,445)
Vehicles	(159,562)	(41,163)	-	(200,725)
Subtotal	<u>(4,481,814)</u>	<u>(253,370)</u>	<u>57,378</u>	<u>(4,677,806)</u>
Net capital assets being depreciated	<u>3,485,294</u>	<u>125,780</u>	<u>-</u>	<u>3,611,074</u>
Governmental activities net capital assets	<u>\$ 3,487,779</u>	<u>\$ 125,780</u>	<u>\$ -</u>	<u>\$ 3,613,559</u>

Governmental activities depreciation expense was charged as follows:

Unallocated	<u>\$ 253,370</u>
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NOTE 8: SHORT-TERM DEBT – STATE AID NOTES

The School issues State aid notes in advance of State aid receipts, depositing the proceeds in the General Fund. This note is necessary due to reduced funding and because a State aid payment is not received in September.

Short-term debt activity for the year ended June 30, 2014, excluding interest expense of \$ 6,030, and \$ 1,175 in issuance cost was as follows:

	Beginning Balance	Issued	Redeemed	Ending Balance
State aid note	<u>\$ 600,000</u>	<u>\$ 542,000</u>	<u>\$ 636,660</u>	<u>\$ 505,340</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: LONG-TERM DEBT

The following is a summary of the School District’s governmental activities long-term debt transactions for the year ended June 30, 2014:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bonds and notes payable:					
General obligation debt	\$ 2,845,000	\$ -	\$ (345,000)	\$ 2,500,000	\$ 390,000
Bond premium	15,692	-	(1,962)	13,730	1,962
Refunding deferral	(57,873)	-	7,235	(50,638)	(7,235)
Lawnmower	10,732	-	(7,005)	3,727	3,727
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total bonds and notes payable	2,813,551	-	(346,732)	2,466,819	388,454
Other liabilities:					
Retirement severance	7,200	-	(3,600)	3,600	3,600
Other severance	63,150	-	(63,150)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total governmental activities long-term liabilities	<u>\$ 2,883,901</u>	<u>\$ -</u>	<u>\$ (413,482)</u>	<u>\$ 2,470,419</u>	<u>\$ 392,054</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 9: LONG-TERM DEBT – CONTINUED

Long-term debt payable at June 30, 2014, is comprised of the following individual instruments:

General Obligation Bond:

2005 Refunding Bonds due in annual installments of \$175,000 to \$260,000 through May 1, 2022; interest at 3.00% to 4.35%, net of premium and deferred amount on refunding. \$ 1,978,092

General Obligation Bond:

2012 School Technology and Bus Bonds due in annual installments of \$35,000 to \$165,000 through May 1, 2017; interest at 1.77% 485,000

Notes Payable:

2014 Lawn mower note payable due in monthly installments of \$467 through May 26, 2015; interest at 0.0% 3,727

Total bonds and notes payable 2,466,819

Retirement Severance:

Upon retirement, the District's certified employees who have between fifteen and twenty-nine years of continuous service in the Posen Consolidated School District may be eligible for either a severance allowance or other retirement incentive. 3,600

Total governmental activities long-term liabilities \$ 2,470,419

The annual debt service requirements to maturity for all governmental bond and note payable obligations excluding premium and refunding deferrals are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 393,727	\$ 90,925	\$ 484,652
2016	400,000	78,893	478,893
2017	415,000	66,941	481,941
2018	255,000	54,270	309,270
2019	260,000	44,070	304,070
2019-2022	<u>780,000</u>	<u>67,210</u>	<u>847,210</u>
	<u>\$ 2,503,727</u>	<u>\$ 402,309</u>	<u>\$ 2,906,036</u>

Bond payments, including interest, are made from the Debt Service Funds. There are limitations and restrictions contained in the various bond indentures. The District is in compliance with all significant limitations and restrictions. The notes and retirement severance liability will be liquidated primarily by the General Fund.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 10: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS

Plan Description - Posen Consolidated School District No. 9 participates in the Michigan Public School Employees Retirement System (MPSERS), a statewide, cost sharing, multiple employer, defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The system also provides postemployment healthcare benefits to retirees and beneficiaries who elect to receive those benefits.

The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment healthcare plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or by writing to the Office of Retirement System at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909.

Pension Benefits - Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. For the period from July 1, 2013 through September 30, 2013, employees had the following plan options with the corresponding employer rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	15.21%	15.02%	15.02%	12.78%	12.78%	12.78%	15.21%
Health contributions	9.11%	9.11%	8.18%	8.18%	9.11%	8.18%	8.18%
Defined contribution plan employer contributions:							
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%

*First worked Sept. 4, 2012 or later

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 10: DEFINED BENEFIT PENSION PLAN AND POST EMPLOYMENT BENEFITS - CONTINUED

For the period from October 1, 2013 through June 30, 2014, employees had the following plan options with the corresponding employer contribution rates:

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
Pension contributions	18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health contributions	6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Defined contribution plan employer contributions:							
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%

*First worked Sept. 4, 2012 or later

Depending on the plan selected, plan member contributions range from 0 % up to 7.0% of gross wages. Plan members electing into the defined contribution plan are not required to make additional contributions.

Postemployment Benefits - Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost for Part B Medicare and 10% or 20% for those not Medicare eligible of the monthly premium amount for health, dental and vision coverage at the time of receiving the benefits. The MPSERS board of trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 8.18% to 9.11% of covered payroll for the period from July 1, 2013 through September 30, 2013 and from 5.52% to 6.45% of covered payroll for the period October 1, 2013 through June 30, 2014, dependent upon the employee's date of hire and plan election as noted above. Members can choose to contribute 3% of their covered payroll to the Retiree Healthcare Fund and keep this premium subsidy benefit, or they can elect not to pay the 3% contribution and instead choose the Personal Healthcare Fund, which can be used to pay healthcare expenses in retirement. Members electing the Personal Healthcare Fund will be automatically enrolled in a 2% employee contribution into their 457 account as of their transition date and create a 2% employer match into the employee's 401 (k) account.

The School District's required and actual pension and health contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were \$334,421, \$302,248, and \$263,908 respectively.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

NOTE 11: FUND BALANCE CLASSIFICATIONS

Amounts for specific purposes by fund and fund balance classifications for the year ended June 30, 2014, are as follows:

Classification/Fund	Purpose	Amount
Restricted		
2005 Refund Debt Service	Debt	\$ 360,555
2012 Debt Service	Debt	73,928
2012 Technology/Bus Bond	Capital Outlay	38,790
Sinking Fund	Capital Outlay	85,337
Assigned		
Food Service	Food Service	16,316
Unassigned		
General Fund		<u>18,884</u>
		<u>\$ 593,810</u>

NOTE 12: RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for general liability and employee medical benefit claims and participates in the SEG Self-insurers Workers' Disability Compensation Fund for claims relating to employee injuries. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 13: SUBSEQUENT EVENTS

Subsequent to the end of the year the board approved the refunding of the 2005 Refunding Debt Service, which is expected to result in a savings of \$130,592 over the future life of the bonds.

REQUIRED SUPPLEMENTAL INFORMATION

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Required Supplementary Information
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
Revenues				
Local sources	\$ 921,000	\$ 932,304	\$ 936,727	\$ 4,423
State sources	1,073,801	1,100,274	1,097,444	(2,830)
Federal sources	77,291	76,844	76,844	-
Interdistrict and other sources	40,257	36,581	38,751	2,170
Total revenues	<u>2,112,349</u>	<u>2,146,003</u>	<u>2,149,766</u>	<u>3,763</u>
Expenditures				
Current:				
Instruction:				
Basic programs	1,125,454	1,203,594	1,189,283	(14,311)
Added needs	220,222	195,999	200,181	4,182
Support services:				
Pupil	100	25	24	(1)
Instructional staff	535	921	819	(102)
General administration	167,101	175,062	174,547	(515)
School administration	101,009	101,535	103,538	2,003
Business services	84,520	77,817	75,458	(2,359)
Operation and maintenance	178,342	170,935	173,999	3,064
Pupil transportation services	143,839	144,695	143,878	(817)
Other support services-athletics	79,814	78,083	75,502	(2,581)
Capital Outlay	5,000	11,225	11,225	-
Debt payment	5,137	10,037	13,035	2,998
Total expenditures	<u>2,111,073</u>	<u>2,169,928</u>	<u>2,161,489</u>	<u>(8,439)</u>
Net change in fund balance	1,276	(23,925)	(11,723)	12,202
Fund balance - beginning of year	<u>17,548</u>	<u>30,607</u>	<u>30,607</u>	<u>-</u>
Fund balance - end of year	<u>\$ 18,824</u>	<u>\$ 6,682</u>	<u>\$ 18,884</u>	<u>\$ 12,202</u>

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

OTHER SUPPLEMENTAL INFORMATION

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2014

	Special Revenue Fund	Debt Service Fund 2012	Capital Projects Fund	
	Food Service	Debt Service	Sinking	Total
<u>Assets</u>				
Cash	\$ 16,195	\$ 73,928	\$ 80,420	\$ 170,543
Due from other funds	1,369	-	4,917	6,286
Due from other governmental units	987	-	-	987
Total assets	<u>\$ 18,551</u>	<u>\$ 73,928</u>	<u>\$ 85,337</u>	<u>\$ 177,816</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Due to other governmental units	\$ 2,235	\$ -	\$ -	\$ 2,235
Fund balances:				
Restricted for debt service	-	73,928	-	73,928
Restricted for capital outlay	-	-	85,337	85,337
Assigned for food service	16,316	-	-	16,316
Total fund balances	16,316	73,928	85,337	175,581
Total liabilities and fund balances	<u>\$ 18,551</u>	<u>\$ 73,928</u>	<u>\$ 85,337</u>	<u>\$ 177,816</u>

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2014

	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	
	<u>Food Service</u>	<u>Debt Service</u>	<u>Sinking</u>	<u>Total</u>
Revenues		2012		
Local sources	\$ 33,121	\$ 234,454	\$ 52,273	\$ 319,848
State sources	5,616	-	-	5,616
Federal sources	86,984	-	-	86,984
	<u>125,721</u>	<u>234,454</u>	<u>52,273</u>	<u>412,448</u>
Expenditures				
Current:				
Support services-repairs	-	-	8,972	8,972
Food Service	134,512	-	-	134,512
Capital outlay	-	-	9,308	9,308
Debt service:				
Principal	-	125,000	-	125,000
Interest/fees	-	11,417	-	11,417
	<u>134,512</u>	<u>136,417</u>	<u>18,280</u>	<u>289,209</u>
Net change in fund balances	(8,791)	98,037	33,993	123,239
Fund balances - beginning of year	<u>25,107</u>	<u>(24,109)</u>	<u>51,344</u>	<u>52,342</u>
Fund balances - end of year	<u>\$ 16,316</u>	<u>\$ 73,928</u>	<u>\$ 85,337</u>	<u>\$ 175,581</u>

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

POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9
Other Supplemental Information
Statement of Receipts and Disbursements
Fiduciary Fund
Year Ended June 30, 2014

	Balance <u>July 1, 2013</u>	<u>2013-2014</u>		Balance <u>June 30, 2014</u>
		<u>Receipts</u>	<u>Disbursements</u>	
Class of 2014	\$ 15,173	\$ 41,666	\$ 56,839	\$ -
Class of 2015	12,069	16,566	10,957	17,678
Class of 2016	2,999	12,513	7,511	8,001
Class of 2017	-	5,028	4,548	480
National Honor Society	112	506	491	127
Pep Club	1,895	10,040	10,701	1,234
Ski Club	365	1,724	1,560	529
Student Activities - Revolving	1,532	10,836	7,799	4,569
Student Council	1,462	7,310	7,573	1,199
Yearbook	3,386	5,168	4,662	3,892
	<u>38,993</u>	<u>111,357</u>	<u>112,641</u>	<u>37,709</u>
Total	<u>\$ 38,993</u>	<u>\$ 111,357</u>	<u>\$ 112,641</u>	<u>\$ 37,709</u>

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

INTERNAL CONTROL AND COMPLIANCE REPORTING

November 12, 2014

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

Superintendent and Board of Education
Posen Consolidated School District No. 9
Posen, 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 Posen Consolidated School District No. 9 as of and for the year-ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Posen Consolidated School District No. 9's basic financial statements and have issued our report thereon dated November 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Posen Consolidated School District No. 9's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Posen Consolidated School District No. 9's internal control. Accordingly, we do not express an opinion on the effectiveness of Posen Consolidated School District No. 9's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described below to be material weaknesses.

The School District does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to recently issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

The School District's bank accounts were not timely reconciled during the year ended June 30, 2014. Without timely bank reconciliations, errors could occur without detection.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Posen Consolidated School District No. 9's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Hill, Schroeder & Co.

CERTIFIED PUBLIC ACCOUNTANTS
Petoskey, Michigan

NO MANAGEMENT LETTER WAS ISSUED TO THE POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9 FOR THE YEAR ENDED JUNE 30, 2014.

November 12, 2014

Communication with Those Charged with Governance

To the Board of Education
Posen Consolidated School District No. 9

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Posen Consolidated School District No. 9 (School District) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 12, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the School District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ending June 30, 2014. We noted no transactions entered into by the school district during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

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

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered significant difficulties sorting out the transactions for the new debt and related capital projects funds. Rather than establishing separate bank accounts as provided in the resolution for the bonds and generally accepted accounting principles, the transactions were comingled within one bank account.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified payments of \$7,043 for May and June electric bills, \$1,868 in a prior period adjustment for the lawnmower debt payment and \$1,000 for grant revenue and expenditures recorded in the student activities fund that should have been record in the general fund.

Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 12, 2014.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Education and management of Posen Consolidated School District No. 9 and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Hill, Schroderus & Co., LLP

NO DATA COLLECTION FORM IS REQUIRED TO BE ISSUED TO THE POSEN CONSOLIDATED SCHOOL DISTRICT NO. 9 FOR THE YEAR ENDED JUNE 30, 2014.