

Athens Area Schools

Financial Report
With Supplemental Information

Year Ended June 30, 2014

Independent Auditors' Report i - ii

Management's Discussion and Analysis iii-viii

Basic Financial Statements

District-Wide Financial Statements:

 Statement of Net Position 1

 Statement of Activities 2

Fund Financial Statements:

 Governmental Funds:

 Balance Sheet 3

 Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
 To Net Position of Governmental Activities on the Statement of Net Position 4

 Statement of Revenues, Expenditures, and Changes in Fund Balances 5

 Reconciliation of the Statement of Revenues, Expenditures, and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities 6

 Fiduciary Funds – Statement of Fiduciary Net Position 7

 Notes to Financial Statements 8-18

Required Supplemental Information

 Budgetary Comparison Schedule - General Fund 19

**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*** 20-21



Independent Auditors' Report

Board of Education
Athens Area Schools
Athens, 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 Athens Area Schools, 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.

Auditors' 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 auditors' 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.

JACKSON

2545 Spring Arbor Road, Suite 200
Jackson, MI 49203-3690
Phone: (517) 788-8660 | Fax (517) 788-9872

WILLIS & JURASEK, P.C.

E-Mail: willis@willispc.com
Website: www.willispc.com

GRAND RAPIDS

2759 West River Drive, NW
Grand Rapids, MI 49544
Phone: (616) 361-0011 | Fax (616) 361-0154

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended, in conformity 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 4, 2014, on our consideration of Athens Area Schools' internal control over financial reporting and on our tests of 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 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 Athens Area Schools' internal control over financial reporting and compliance.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 4, 2014

Athens Area Schools

Management's Discussion and Analysis Year Ended June 30, 2014

Our discussion and analysis of Athens Area Schools' financial performance provides an overview of the School District's financial activities for the fiscal year ended June 30, 2014.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms, the current position of the School District's financial statements and other supplemental information that presents all the School District's revenues and expenditures by program for the General Fund, Food Service Fund, and Debt Retirement Funds.

FINANCIAL HIGHLIGHTS

The overall condition of all funds and instructional activities remains sound for the School District. All goals related to the financial activities have been met, and if revenue and expenditure patterns can be maintained, sufficient resources for next year will be available.

Total expenditures for all of our programs were \$5,416,740 for the year. Program revenues (charges for services, operating grants and contributions) totaled \$1,189,438, leaving a net unfunded cost for the year of \$4,227,302. The School District's property taxes, state aid, and other revenue sources were sufficient to cover this total unfunded cost.

USING THIS ANNUAL REPORT

The School District's annual report consists of a series of financial statements that show information for the School District as a whole, its funds, and its fiduciary responsibilities. The Statement of Net Position and the Statement of Activities (pages 1 - 2), provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Our fund financial statements start on page 3. Our governmental activities statements tell how we financed our services in the short-term, as well as what remains for future spending. Fund financial statements report the School District's operations in more detail than government-wide financial statements by providing information about the School District's most significant funds. The remaining statement provides information about activities for which the School District acts solely as an agent for the benefit of student groups.

Reporting the School District as a Whole

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Position and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. We prepared these statements to include all assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenue and expenses, regardless of when cash is received or paid.

These two statements report the School District's *net position* – the difference between assets and liabilities, as reported in the Statement of Net Position – as one way to measure the School District's financial health or *financial position*. Over time, *increases* or *decreases* in the School District's net position – as reported in the Statement of Activities – are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the school to assess the *overall health* of the School District.

Management's Discussion and Analysis Year Ended June 30, 2014

Reporting the School District's Most Significant Funds

The School District's Fund Financial Statements, which begin on page 3, provide detailed information about the School District's most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (like the Debt Service Fund).

Governmental fund reporting focuses on showing how money flows into and out of the funds and the balances left at year-end that are available for spending in future periods. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the School District's operations and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between *governmental activities* (reported in the Statement of Net Position and the Statement of Activities) and *governmental funds* in reconciliations on pages 4 and 6.

The School District as Trustee

The School District is the trustee, or agent, for its student activity funds. All of the School District's agent activities are reported in a separate Statement of Fiduciary Net Position – Agency Funds on page 7. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

The School District's net position was \$4,230,634 at June 30, 2014. Of this amount, \$222,912 was unrestricted. Restricted net position is reported separately to show legal constraints that limit the School District's ability to use those assets for day-to-day operations. On the following pages we focus our attention on the net position (TABLE 1) and changes in net position (TABLE 2) of the School District's governmental activities.

The School District as a Whole (Continued)

TABLE 1 – Net Position

June 30, 2014 and 2013

		2014	2013
Assets			
	Current Assets	\$1,784,350	\$1,998,918
	Noncurrent Assets	<u>5,477,554</u>	<u>5,772,042</u>
	Total Assets	<u>\$7,261,904</u>	<u>\$7,770,960</u>
Liabilities			
	Current Liabilities	\$1,356,955	\$1,635,010
	Noncurrent Liabilities	<u>1,657,625</u>	<u>2,282,105</u>
	Total Liabilities	<u>\$3,014,580</u>	<u>\$3,917,115</u>
Deferred Inflows		<u>\$16,690</u>	<u>\$25,035</u>
Net Position			
	Net investment in capital assets	\$3,887,744	\$3,556,192
	Restricted	119,978	230,731
	Unrestricted	<u>222,912</u>	<u>41,887</u>
	Total Net Position	<u>\$4,230,634</u>	<u>\$3,828,810</u>

The \$222,912 in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. It means that if we were to stop operating at June 30, 2014 and use our resources to pay off all of what we owed, including all of our non-capital liabilities (compensated absences and long-term debt); we would have an excess of \$222,912.

The School District as a Whole (Continued)

TABLE 2 – Changes in Net Position

Years ended June 30, 2014 and 2013

	2014	2013
Program Revenue		
Charges for Services	\$ 142,370	\$ 156,433
Operating Grants and Contributions	1,047,068	943,793
General Revenue		
Property Taxes-general purposes	484,337	414,176
Property Taxes-debt service	598,387	591,100
State and Federal School Aid	3,423,825	3,595,270
Gain on sale of asset	-	2,400
Miscellaneous	122,577	116,083
Total Revenue	<u>\$ 5,818,564</u>	<u>\$ 5,819,255</u>
Expenses		
Instruction	\$ 3,004,678	\$ 3,075,719
Support Services	1,708,893	1,684,511
Food Service	214,063	239,178
Community services	26,846	20,146
Payments to other districts	26,148	4,611
Impairment – Unallocated	-	426,784
Depreciation – Unallocated	376,835	327,214
Capital outlay	3,496	63,874
Interest on Long-Term Debt	55,781	73,776
Total Expenses	<u>\$ 5,416,740</u>	<u>\$ 5,915,813</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ 401,824</u>	<u>\$ (96,558)</u>

As reported in the Statement of Activities on page 2, the cost of all of our governmental activities this year was \$5,416,740.

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS

The School District's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund. During the fiscal year ended June 30, 2014, the School District amended the General Fund Budget two times.

Athens Area Schools

Management's Discussion and Analysis Year Ended June 30, 2014

MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS (CONTINUED)

General Fund

The actual revenue of the General Fund was \$4,995,148, below the original budget estimate of \$5,051,437, and the final amended budget of \$5,023,327. The decrease in revenue between the original and final budget was due to a larger loss of students than originally anticipated offset by a slightly larger increase in State Aid per pupil, as well as an increase in local tax revenue. Actual revenues were less due mainly to Federal Grants not being completely drawn down because of fewer expenses than anticipated.

The actual expenditures of the General Fund were \$4,832,035, below original budget estimates of \$5,040,446, and below the final amended budget of \$5,035,263. The differences between the actual expenditures and the original and final budgets were due to cost containment in all areas and grants not completely spent in the fiscal year. Even with inflation pressures and rising utility costs, we were still able to reduce our expenditures considerably from what was approved by the Board.

OTHER NON MAJOR FUNDS OPERATING HIGHLIGHTS

Debt Service Fund

The Debt Service Fund experienced a net decrease in fund balance of \$38,470 leaving a fund balance of \$73,312 as of June 30, 2014. Property tax revenue increased over the previous year by \$7,228 while expenditures increased over the previous year by \$19,195. The increase in expenditures can be attributed to greater principal being paid down, \$36,970, but offset by less interest being paid, \$17,775.

Food Service Fund

The Food Service Fund showed a decrease in fund balance of \$4,713 for the year and a fund balance of \$56,615 as of June 30, 2014. Revenues decreased over the previous year by \$13,376 and can be attributed to fewer meals served and less reimbursement from State and Federal sources. Expenditures decreased over the previous year by \$25,115 and the difference is not specific to any particular line item.

CAPITAL ASSET AND DEBT ADMINISTRATION

At the end of fiscal year 2014, the School District had \$9,679,733 invested in land and buildings, furniture and equipment, and vehicles. We have estimated that these assets have depreciated by \$4,202,179 through June 30, 2014; therefore, we currently have net book value of \$5,477,554. Capital assets at year-end were as follows:

Land	\$ 109,800
Equipment and Vehicles	963,788
Buildings	8,606,145
Less: Accumulated Depreciation	<u>(4,202,179)</u>
Total Capital Assets, Net of Depreciation	<u>\$ 5,477,554</u>

Athens Area Schools

Management's Discussion and Analysis Year Ended June 30, 2014

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

At June 30, 2014, the School District had \$1,589,810 in bonds and long-term notes outstanding, as shown below:

General Obligation Bonds		
2011 Building & Site Bonds		\$1,270,000
Other		
Energy Bond		300,000
Capital leases		<u>19,810</u>
Total		<u>\$1,589,810</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

One year ago, we were very pleased to report that our school district was off the state's deficit district list and had satisfied our Deficit Elimination Plan with the Michigan Department of Education. We are proud and grateful now to report that we have improved our financial position modestly over the last year, even while restoring employees who had taken pay cuts two years ago (administrators and administrative staff, bus drivers, and secretaries) to their previous wage and salary levels and giving one-time, off-schedule bonuses to teachers, paraprofessionals, and cooks.

We continue to guard against "creep," the tendency for spending to creep back into or creep up in the budget when times are good. The simple lesson we have learned, and are happy to share with other school districts is, "You can't spend more than you're taking in." Too many school districts and other local governmental bodies, not to mention non-profits and even businesses, seem to think one can conduct business as usual in the face of declining revenues and increasing costs. Sooner or later, fund equity runs out. The only responsible path is to keep expenditures under revenue.

We also continue to contract and share services with a number of other interests. Information technology (IT) services are contracted with Calhoun Intermediate School District's Department of Technology (CDOT), adding to the number of shared or contracted services which already include: financial services from Calhoun ISD, custodial services with Hi-Tec Building Services, special education out-of-district busing through a Calhoun Area Educators/Calhoun ISD consortium with Dean Transportation, substitute teacher services through PESG, one administrative position filled by Good Marks for Schools, boiler maintenance services contracted through Hunter-Prell, energy through the MISEC consortium, student and financial IT and fiber optic services through the Calhoun ISD consortia, study opportunities and curriculum materials as members of the Battle Creek Area Mathematics and Science Center and Calhoun Area Career Center, independently contracted with another local district's bus mechanic, and others.

The Board of Education has approved the placing of a bus bond proposal on the November 2014 ballot, which if passed by voters, will allow us to renew our fleet with six new buses over the next four years. Newer buses would decrease operational expenses for maintenance and fuel (due to increased efficiency). The Board is committed to keeping the total debt millage for taxpayers at or under the current 4.5 mills.

Athens Area Schools remains committed to providing the highest quality education to the children of our community, in the safest environment, with fidelity and accountability to our voters and taxpayers.

CONTACTING THE SCHOOL DISTRICT FINANCIAL MANAGEMENT

This report is designed to give an overview of the financial conditions of the Athens Area Schools. If you have any questions about this report or need further information, please contact the Central Office at 4320 K Drive S, East Leroy, MI 49051; telephone (269) 729-5427.

Athens Area Schools
Statement of Net Position
June 30, 2014

	Governmental Activities
Assets:	
Cash and investments	\$ 722,966
Due from other governmental units	1,032,084
Inventories	9,949
Prepaid expenses	19,351
Capital assets:	
Cost of capital assets	9,679,733
Less: accumulated depreciation	(4,202,179)
Net capital assets	5,477,554
Total assets	7,261,904
 Liabilities:	
State aid anticipation note	850,000
Accounts payable and accrued expenses	470,831
Unearned revenue	36,124
Long-term liabilities:	
Due within one year:	
Bonds, capital leases and contracts	669,764
Accrued interest	10,414
Due in more than one year:	
Bonds, capital leases and contracts	920,046
Compensated absences	57,401
Total liabilities	3,014,580
 Deferred Inflows of Resources:	
Bond premium	16,690
Total deferred inflows of resources	16,690
 Net Position:	
Net investment in capital assets	3,887,744
Restricted for:	
Food service	46,666
Debt service	73,312
Unrestricted	222,912
Total net position	\$ 4,230,634

Athens Area Schools
Statement of Activities
Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Program Revenue</u>			<u>Governmental</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
		<u>Services</u>	<u>Grants and</u>	<u>Net (Expenses)</u>
			<u>Contributions</u>	<u>Revenues and</u>
				<u>Change in</u>
				<u>Net Position</u>
Primary Government				
Governmental activities				
Instruction	\$ 3,004,678	\$ -	\$ 860,952	\$ (2,143,726)
Support services	1,708,893	71,246	33,443	(1,604,204)
Food service activities	214,063	71,124	152,673	9,734
Community services	26,846	-	-	(26,846)
Payments to other districts	26,148	-	-	(26,148)
Interest on long-term debt	55,781	-	-	(55,781)
Capital outlay	3,496	-	-	(3,496)
Depreciation (unallocated)	376,835	-	-	(376,835)
Total governmental activities	<u>\$ 5,416,740</u>	<u>\$ 142,370</u>	<u>\$ 1,047,068</u>	<u>(4,227,302)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				484,337
Property taxes, levied for debt service				598,387
State aid not restricted to specific purposes				3,423,825
Unrestricted investment earnings				1,484
Other				121,093
Total general revenues				<u>4,629,126</u>
Change in Net Position				401,824
Net Position - Beginning of Year				<u>3,828,810</u>
Net Position - End of Year				<u>\$ 4,230,634</u>

Athens Area Schools
Balance Sheet
Governmental Funds
June 30, 2014

<u>Assets</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Capital Projects Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental Funds</u>
Cash and investments	\$ 585,794	\$ 73,312	\$ -	\$ 63,860	\$ 722,966
Due from other funds	17,181	-	-	-	17,181
Receivable from other governments	1,030,790	-	-	1,294	1,032,084
Inventories	-	-	-	9,949	9,949
Prepaid expenditures	19,351	-	-	-	19,351
Total assets	<u>\$ 1,653,116</u>	<u>\$ 73,312</u>	<u>\$ -</u>	<u>\$ 75,103</u>	<u>\$ 1,801,531</u>
 <u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 25,997	\$ -	\$ -	\$ -	\$ 25,997
Due to other funds	-	-	-	17,181	17,181
State aid anticipation notes	850,000	-	-	-	850,000
Unearned revenue	34,817	-	-	1,307	36,124
Salaries payable	436,944	-	-	-	436,944
Accrued expenditures	7,890	-	-	-	7,890
Total liabilities	<u>1,355,648</u>	<u>-</u>	<u>-</u>	<u>18,488</u>	<u>1,374,136</u>
Fund Balances:					
Nonspendable:					
Inventories	-	-	-	9,949	9,949
Prepaid expenses	19,351	-	-	-	19,351
Restricted	-	73,312	-	46,666	119,978
Unassigned	278,117	-	-	-	278,117
Total fund balances	<u>297,468</u>	<u>73,312</u>	<u>-</u>	<u>56,615</u>	<u>427,395</u>
Total liabilities and fund balances	<u>\$ 1,653,116</u>	<u>\$ 73,312</u>	<u>\$ -</u>	<u>\$ 75,103</u>	<u>\$ 1,801,531</u>

Athens Area Schools

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Position of
Governmental Activities on the Statement of Net Position
June 30, 2014

Total Fund Balances - Governmental Funds	\$ 427,395
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	5,477,554
Long-term liabilities not due and payable in the current period and not reported in the funds:	
Long-term debt payable	(1,589,810)
Unamortized premium	(16,690)
Accrued interest	(10,414)
Compensated absences	(57,401)
Total Net Position - Governmental Activities	<u><u>\$ 4,230,634</u></u>

Athens Area Schools
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2014

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Capital Projects Fund</u>	<u>Nonmajor Food Service Fund</u>	<u>Total Governmental</u>
Revenues:					
Local sources	\$ 704,253	\$ 599,066	\$ -	\$ 71,677	\$ 1,374,996
State sources	3,882,286	-	-	7,969	3,890,255
Federal sources	148,515	-	-	144,704	293,219
Interdistrict and other	260,094	-	-	-	260,094
Total revenues	<u>4,995,148</u>	<u>599,066</u>	<u>-</u>	<u>224,350</u>	<u>5,818,564</u>
Expenditures:					
Instruction	2,999,708	-	-	-	2,999,708
Support services	1,708,893	-	-	-	1,708,893
Food service activities	-	-	-	214,063	214,063
Community services	26,846	-	-	-	26,846
Payments to other districts	26,148	-	-	-	26,148
Debt service:					
Principal	56,040	570,000	-	-	626,040
Interest and other charges	-	67,536	-	-	67,536
Capital outlay	14,400	-	71,443	-	85,843
Total expenditures	<u>4,832,035</u>	<u>637,536</u>	<u>71,443</u>	<u>214,063</u>	<u>5,755,077</u>
Revenues Over (Under) Expenditures	<u>163,113</u>	<u>(38,470)</u>	<u>(71,443)</u>	<u>10,287</u>	<u>63,487</u>
Other Financing Sources (Uses):					
Transfers in	15,000	-	-	-	15,000
Transfers out	-	-	-	(15,000)	(15,000)
Total other financing sources (uses)	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>	<u>-</u>
Net Changes in Fund Balance	178,113	(38,470)	(71,443)	(4,713)	63,487
Fund Balances - Beginning of Year	<u>119,355</u>	<u>111,782</u>	<u>71,443</u>	<u>61,328</u>	<u>363,908</u>
Fund Balances - End of Year	<u>\$ 297,468</u>	<u>\$ 73,312</u>	<u>\$ -</u>	<u>\$ 56,615</u>	<u>\$ 427,395</u>

See Notes to Financial Statements.

Athens Area Schools

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	\$ 63,487
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation.	
The amount by which depreciation \$376,835 was exceeded by capital expenditures \$82,347 in the current period.	(294,488)
Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure, In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments and amortized bond premium exceeded proceeds.	634,385
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
Accrued interest	3,410
Compensated absences	(4,970)
Change in Net Position of Governmental Activities	<u>\$ 401,824</u>

Athens Area Schools
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014

	<u>Agency Fund</u>
Assets:	
Cash and cash equivalents	\$ 109,375
Total assets	<u>\$ 109,375</u>
Liabilities:	
Due to student groups	\$ 109,375
	<u>\$ 109,375</u>

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The basic financial statements of Athens Area Schools (the “School District” or “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District’s accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School District’s reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the District does not contain any component units.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District’s government-wide activities are considered governmental activities.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

It is the District’s policy to allocate resource outlays first to restricted net position with the remainder allocated to unrestricted net position.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

District-Wide and Fund Financial Statements (Continued)

District-Wide Statements (Continued) - As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Fund-Based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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, severance pay, claims, and judgments, are recorded only when payment is due.

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

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental fund:

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

Debt Service Fund – Debt Funds are used to record tax, interest, and other revenue for payment of principal and other expenditures thereof related to bond issues. The District maintains one debt fund to record all activity related to the 2011 Building and Site Fund Bonds, and the Energy Conservation Improvement Bonds.

Additionally, the government reports the following fund types:

Capital Projects Fund – Capital Project Funds are used to record bond proceeds or other revenue and the disbursement of monies specifically designated for acquiring new school sites, buildings, equipment, and for remodeling. The District maintains one capital projects fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Special Revenue Fund maintained by the District is the Food Service Fund.

Fiduciary Funds – Fiduciary Funds are used to account for assets held by the District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the district-wide statements. The Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. The District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school-related purposes. The funds are segregated and held in trust for the students and parents.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity

State Revenue - The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a State-wide formula. The foundation allowance is funded from a combination of State and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of State funds to school districts based on information supplied by the districts. For the year ended June 30, 2014, the foundation allowance was based on pupil membership counts taken in February 2014 and September 2013.

The State portion of the foundation is provided primarily by a State education property tax millage of six mills and an allocated portion of State sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2013 to August 2014. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Property Taxes - Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

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

General Fund – Non-primary residence	18.0000
General Fund – Commercial personal property	6.0000
Debt Funds – All taxable values	4.1700

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the District intends to hold the investment until maturity. Accordingly, investments in bankers' acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds, and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration,

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Deposits and Investments (Continued) - respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.” Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The District has determined the uncollectible amounts are immaterial and no provision has been recorded.

Inventories and Prepaid Items – Inventories are valued at cost on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both district-wide and fund financial statements.

Capital Assets - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. The government defines capital assets as assets with an initial individual cost of \$5,000 or greater and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure type assets.

Fixed assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Buses and other vehicles	5-8 years
Furniture and equipment	5-20 years

Compensated Absences - In the district-wide financial statements, the District reports a liability for compensated absences which consists of unpaid, accumulated sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are reported as a deferred inflow or outflow, separate from liabilities, and are amortized over the life of the bond using the straight-line method. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Athens Area Schools
Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Revenues, Assets, Liabilities, and Net Position or Equity (Continued)

Fund Equity – The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In accordance with this guidance, fund balances of governmental funds are categorized according to five defined categories of fund balance. These categories consist of nonspendable amounts which are legally or contractually required to be maintained intact, restricted amounts that are constrained for specific purposes set by external parties or law, committed amounts that are constraints set by the highest decision making authority (Board of Education) and may only be removed by those individuals, assigned amounts that have an intended but no formal specific purpose, and unassigned amounts which are the residual of the other categories and have no specific purpose.

It is the District's policy to generally use fund balance in order according to the hierarchy of fund balance categories, from restricted down to unassigned.

Use of Estimates - The process of preparing 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.

Note 2 – Stewardship, Compliance, and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriations lapse at fiscal year-end.

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

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplemental information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the *Uniform Budgeting and Accounting Act* (P.A. 621 of 1978). 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 financing 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. Violations if any, for the General Fund, are noted in the required supplemental information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

Athens Area Schools
Notes to Financial Statements

Note 2 – Stewardship, Compliance, and Accountability (Continued)

6. The budget was amended during the year with supplemental appropriations, the last one approved prior to year-end.

Note 3 – Deposits and Investments

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

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ <u>722,966</u>	\$ <u>109,375</u>	\$ <u>832,341</u>

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

Deposits (checking and savings accounts, certificates of deposit)	\$ 198,011
Petty cash	100
Investments in MILAF investment fund and Fifth Third Bank	<u>634,230</u>
Total	\$ <u>832,341</u>

Investment and Deposit Risk

Interest Rate Risk – State law limits the allowable investments and the maturities of some of the allowable investments. The District's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment in the MILAF investment fund had an average maturity of less than one year.

Credit Risk – State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers' acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The District's investment policy does not have specific limits in excess of State law on investment credit risk. The District's investment in the MILAF investment fund was rated AAAM by Standard & Poor's.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District has not adopted and State law does not require a policy for deposit custodial credit risk. As of year-end, approximately \$55,000 of the District's bank balance of \$305,000 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 – Receivables

Receivables at year-end were approximately \$1,032,000 and consist mainly of amounts due from the State of Michigan and reimbursement for federal grants.

Athens Area Schools
Notes to Financial Statements

Note 5 – Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Year-End Balance</u>
Assets not being depreciated:				
Land	\$ 109,800	\$ -	\$ -	\$ 109,800
Capital assets being depreciated:				
Building and improvements	8,523,798	82,347	-	8,606,145
Buses and other vehicles	661,445	-	-	661,445
Furniture and equipment	302,343	-	-	302,343
Subtotal	<u>9,487,586</u>	<u>82,347</u>	<u>-</u>	<u>9,569,933</u>
Accumulated depreciation:				
Buildings and improvements	3,243,308	323,781	-	3,567,089
Buses and other vehicles	472,533	29,834	-	502,367
Furniture and equipment	109,503	23,220	-	132,723
Subtotal	<u>3,825,344</u>	<u>376,835</u>	<u>-</u>	<u>4,202,179</u>
Net capital assets being depreciated	<u>5,662,242</u>	<u>(294,488)</u>	<u>-</u>	<u>5,367,754</u>
Net capital assets	<u>\$ 5,772,042</u>	<u>\$ (294,488)</u>	<u>\$ -</u>	<u>\$ 5,477,554</u>

Depreciation expense, which totaled \$376,835 was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

Note 6 – Notes Payable

At June 30, 2014, the School District had State Aid anticipation notes outstanding of \$100,000, \$412,500 and \$337,500 that mature August 20, 2014 with respective interest rates of 0.430%, 1.050%, and 1.378%. The notes are secured by the full faith and credit of the District as well as pledged State Aid.

<u>Balance June 30, 2013</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2014</u>
\$ <u>999,000</u>	\$ <u>1,250,000</u>	\$ <u>1,399,000</u>	\$ <u>850,000</u>

The District has also approved the issuance of State Aid anticipation notes in the amount of \$500,000 and \$400,000 with respective interest rates of 0.687% and 1.303% and with a one-year maturity due August 20, 2015 for the 2014-2015 school year. Under the agreement, the District will begin making payments on the \$500,000 note in March 2015.

Athens Area Schools
Notes to Financial Statements

Note 7 – Interfund Receivables, Payables and Transfers

The District reports interfund balances between some of its funds. The sum of all balances presented in the table below agrees with the sum of interfund balances presented in the Statements of Net Position/Balance Sheet for governmental funds. These interfund balances resulted primarily 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.

Due To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ <u>17,181</u>

During the year, the Lunch Fund transferred \$15,000 to the General Fund for the payment of indirect costs.

Note 8 – Long-Term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment as well as to account for compensated absences payable. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Long-term obligations can be summarized as follows.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 2,185,000	\$ -	\$ 615,000	\$ 1,570,000	\$ 660,000
Installment purchases:					
School bus loans/leases	\$ 30,850	-	11,040	19,810	\$ 9,764
Compensated absences	52,431	4,970	-	57,401	-
Total governmental activities	<u>\$ 2,268,281</u>	<u>\$ 4,970</u>	<u>\$ 626,040</u>	<u>\$ 1,647,211</u>	<u>\$ 669,764</u>

Athens Area Schools
Notes to Financial Statements

Note 8 – Long-Term Debt (Continued)

Annual debt service requirements to maturity on the above governmental obligations (excluding compensated absences) are as follows:

	Governmental Activities		
	Principal	Interest	Total
2015	\$ 669,764	\$ 63,224	\$ 732,988
2016	708,578	38,509	747,087
2017	51,468	9,994	61,462
2018	50,000	7,685	57,685
2019	55,000	5,335	60,335
2020-2024	55,000	2,695	57,695
2025	-	-	-
	\$ 1,589,810	\$ 127,442	\$ 1,717,252

At June 30, 2014 long-term debt consisted of the following individual issues:

Capital lease obligation, US Bancorp Equipment Finance, secured by office photocopiers, payable in monthly installments of \$740 including interest at an imputed rate of 4.84% through August 25, 2016.	\$ 18,220
Capital lease obligation, Capital Advantage Leasing, secured by equipment, payable in monthly installments of \$322 including interest at a rate of 9.00% through November 16, 2014.	1,590
\$605,000 Energy Conservation Improvement Bonds, annual installments of \$45,000 to \$55,000 plus interest at a rate ranging from 3.50% to 4.90% through May 1, 2020.	300,000
2011 School Building and Site Bonds, annual installments of \$615,000 to \$655,000 plus interest at a rate ranging from 3.625% to 4.00% through May 1, 2016.	<u>1,270,000</u>
	<u>\$ 1,589,810</u>

Note 9 – Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injury as well as medical, life and workers' compensation benefits provided to employees. School Board liability, errors and omissions, student accident, and all health and life insurances have been purchased through a combination of self-insurance programs and commercial insurance policies.

The School District is a member of the School Employees Group (SEG), Self-Insured Workers Disability Compensation Fund (the "Fund"), established pursuant to the provisions of Act 138 of Michigan Public Acts of 1982, which authorizes contracts between school districts to form a self-insurance fund, and to prescribe conditions to the performance of these contracts.

Athens Area Schools
Notes to Financial Statements

Note 9 – Risk Management (Continued)

The School District pays quarterly premiums to the Fund for workers' disability compensation coverage. The agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will purchase both specific and aggregate insurance to the limits determined necessary by the Fund management.

At June 30, 2014, there were no claims which exceeded insurance coverage, nor have any settled claims during the past three years exceeded insurance coverage. The School District did not have any significant reduction in insurance coverage from previous years.

Note 10 – Defined Benefit Pension Plan and Post-Employment Benefits

Plan Description – The District participates in the Michigan Public School Employees' Retirement System (MPERS), a state-wide, cost-sharing, multiple-employer defined benefit public employee retirement plan governed by the State of Michigan and administered by the twelve-member board of the MPERS. The MPERS provides retirement, survivor and disability benefits and postretirement benefits options for health, dental and vision coverage for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, MI 48909-7671 or by calling (517) 322-5103. This information can also be accessed at <http://www.michigan.gov/orsschools>.

Funding Policy –Members contribute various rates, ranging from 0% to 7%, based primarily upon date of hire.

The District 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. The rates for the fiscal year varied, ranging from 18.34% to 25.86%, based upon employee hire dates and options selected. In addition, the District is required to match 50% up to 1% of the employee contributions 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 School District's contributions to the MPERS plan for the years ended June 30, 2014, 2013, and 2012 were approximately \$709,000, \$668,000, and \$705,000, respectively.

Included in the amounts paid above, the District received section 147(c) State Aid for the sole purpose of making supplemental payments to MPERS. These amounts were \$126,216, \$57,835, and \$0, respectively, and were recorded as State revenue and additional pension expenditures for the years then ended.

Athens Area Schools
Notes to Financial Statements

Note 10 – Pension Plan and Post-Employment Benefits (Continued)

Post-Employment Benefits – Retirees have the option of health coverage, which is currently funded on a cash disbursement basis. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premium is paid by the System with the balance deducted from the monthly pension of each retiree health care recipient. Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to contribute 3% (or 1.5%) of their compensation to offset employer contributions for health care benefits of current retirees. For the school fiscal year that began July 1, 2010, members who were employed by a reporting unit and were paid less than \$18,000 in the prior school fiscal year and members who were hired on or after July 1, 2010, with a starting salary less than \$18,000 are required to contribute 1.5% of the member's compensation. For each school fiscal year that begins on or after July 1, 2011, members shall contribute 3% of compensation into the health care funding account.

For District employees first employed under the System after September 3, 2012 or those electing to choose the benefit during a special election period ending February 1, 2013, a Personal Healthcare Fund (PHF) is set up. Automatic 2% employee contributions go to a 457 account, and a 2% employer match will be placed in a 401(k) account. This creates a portable, tax-deferred fund for the individual. No post-employment benefits are available for those employees.

Funding Responsibility -The District is not responsible for the payment of retirement benefits or other post-employment benefits which are the responsibility of the State of Michigan. However, for future reporting and recognition requirements see Note 13.

Note 11 – Federal and State Grants

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

Note 12 – Prior Period Adjustment

For the year ended June 30, 2013, the District incurred an asset impairment. The carrying value for this asset was incorrectly calculated resulting in a book value adjustment higher than actual. To correct the error, an increase in book value of \$439,541 is reflected in the Net Position – Beginning of Year figure on the Statement of Activities on page 2.

Note 13 – Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board has issued Statement 68, *Accounting and Financial Reporting for Pensions*, effective for the year end June 30, 2015. Statement 68 requires governments participating in public employee pension plans to recognize their portion of the long-term obligation for the pension benefits as a liability and to measure the annual costs of the pension benefits. A liability will be recorded in the government-wide financial statements, but not in the individual funds. The effect of these changes has not been determined, but all Michigan school districts are expected to see a large liability posted. The recorded liability will not change the actual cash expenditures for pension expense.

Required Supplemental Information

Athens Area Schools
 Budgetary Comparison Schedule - General Fund
 Year Ended June 30, 2014

	Budgeted Amounts		Actual
	Original	Final	
Revenues:			
Local sources	\$ 653,656	\$ 702,092	\$ 704,253
State sources	3,943,514	3,867,737	3,882,286
Federal sources	182,786	184,498	148,515
Interdistrict and other	271,481	269,000	260,094
Total revenues	<u>5,051,437</u>	<u>5,023,327</u>	<u>4,995,148</u>
Expenditures:			
Instruction:			
Basic programs	2,533,175	2,495,518	2,323,237
Added needs	654,350	665,588	676,471
Support services:			
Pupil	96,003	90,608	95,331
Instructional staff	107,444	134,446	98,280
General administration	188,194	197,122	188,816
School administration	187,069	185,362	194,430
Business	159,260	136,549	133,092
Operation & maintenance	446,672	431,674	450,427
Pupil transportation	368,722	370,360	362,370
Central services	58,630	64,500	57,628
Athletic activities	131,581	128,345	128,519
Community services:			
Community activities	43,131	43,132	26,146
Custody and care of children	-	-	-
Other	2,456	-	700
Payments to other public schools	3,600	20,000	26,148
Debt service:			
Principal and interest	57,659	57,659	56,040
Capital outlay	2,500	14,400	14,400
Total expenditures	<u>5,040,446</u>	<u>5,035,263</u>	<u>4,832,035</u>
Revenues Over (Under) Expenditures	<u>10,991</u>	<u>(11,936)</u>	<u>163,113</u>
Other Financing Sources (Uses):			
Transfers in	15,000	15,000	15,000
Transfers out	(2,380)	(2,380)	-
Total other financing sources (uses)	<u>12,620</u>	<u>12,620</u>	<u>15,000</u>
Net Changes in Fund Balances	23,611	684	178,113
Fund Balances - Beginning of Year	<u>119,355</u>	<u>119,355</u>	<u>119,355</u>
Fund Balances - End of Year	<u>\$ 142,966</u>	<u>\$ 120,039</u>	<u>\$ 297,468</u>

Other Supplemental Information



**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**

Board of Education
Athens Area Schools
Athens, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Athens Area Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Athens Area Schools' basic financial statements and have issued our report thereon dated September 4, 2014.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described below, that we consider to be a significant deficiency.

JACKSON

2545 Spring Arbor Road, Suite 200
Jackson, MI 49203-3690
Phone: (517) 788-8660 | Fax (517) 788-9872

WILLIS & JURASEK, P.C.

E-Mail: willis@willispc.com
Website: www.willispc.com

GRAND RAPIDS

2759 West River Drive, NW
Grand Rapids, MI 49544
Phone: (616) 361-0011 | Fax (616) 361-0154

Board of Education
Athens Area Schools
Athens, Michigan

2014-1 – Budget Overage

Criteria or Specific Requirement: It is management's responsibility to ensure that the District does not expend more than the budget adopted by the board.

Condition: As noted in the required supplemental budget information, expenditures for certain functions exceeded the final adopted budget.

Recommendation: We recommend the District consider reviewing the procedures for budget amendments to ensure the budgets are sufficient for anticipated expenditures.

Views of Responsible Officials and Planned Corrective Action: We are aware of the overages and will continue to monitor both the budget and the expenditures to account for potential variances.

Athens Area Schools' response to the findings identified in our audit and referred to as 2014-1 is described previously. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

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

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

September 4, 2014