

MORENCI AREA SCHOOLS

REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional
supplementary information)

YEAR ENDED JUNE 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Morenci Area Schools

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 Morenci Area Schools, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 Morenci Area Schools 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 identified 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 Morenci Area Schools' basic financial statements. The supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Such 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. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 September 24, 2014 in our consideration of Morenci Area Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Morenci Area Schools' internal control over financial reporting and compliance.

Maney Costeiran PC

September 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the District's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplementary and additional information that presents all the District's revenue and expenditures by program.

FINANCIAL HIGHLIGHTS

Reporting the School District as a Whole - District Wide Financial Statements

One of the most important questions asked about the District is, "As a whole, what is the District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the District's financial statements, report information about the District as a whole and its activities in a way that helps answer this question. We prepare 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. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position. In order to measure the District's financial health or net position, we examine the difference between assets and liabilities, as reported in the statement of net position. Over time, increases or decreases in the District's net position, as reported in the statement of activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the District's operating results.

It is important to remember that the School District's goal is to provide the best educational opportunities and services possible to Morenci students and not to generate profits as commercial entities do. In keeping, the District must account for the long term stability and continuation of the District by weighing expenditures against the ability to continue existence. The District must keep in check significant decreases in net position over time.

The statement of net position and statement of activities report the governmental activities for the School District, which encompass all of the District's services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

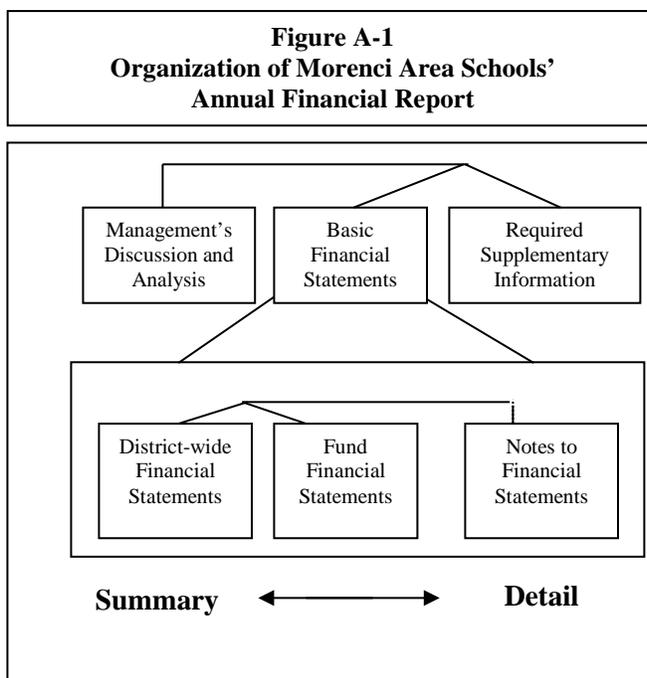
Our financial statements provide insights into the results of this year’s operations.

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$624,372 (*net position*). The reason for this is that the District owes less money than the value of assets in which the debt was issued. Of the total net position the District was able to obtain a positive unrestricted net position amount of \$390,302. This amount may be used to meet the District’s ongoing obligations for general district programs.
- The District’s total net position decreased by \$115,800.
- As of the close of the current fiscal year, the District’s governmental funds reported combined ending fund balances of \$3,399,468, an increase of \$2,598,301 in comparison with the prior year.
- At the end of the current fiscal year, the aggregated fund balances for the District’s operating fund (general fund) was \$368,360 or 6% of the total expenditures of this operating fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide notes to financial statements.
- The *governmental funds* statements tell how basic services like instruction and support services were financed in the short-term as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-2
Major Features of District-Wide and Fund Financial Statements**

	Fund Financial Statements		
	District-wide statements	Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Morenci's funds do not currently contain capital assets, although they can
Type of inflow-outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when good or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statements of net position include all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets and liabilities - are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying debt, and its capital projects fund) or to show that it is properly using certain revenues (like school lunch).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position - The District's combined net position was lower on June 30, 2014 than the year before, decreasing by \$115,800 to \$624,372.

Table A-3		
Morenci Area Schools		
	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 5,278,147	\$ 2,651,359
Capital assets	<u>10,645,010</u>	<u>10,891,305</u>
Total assets	<u>15,923,157</u>	<u>13,542,664</u>
Long-term liabilities	13,410,648	10,959,121
Other liabilities	<u>1,888,137</u>	<u>1,843,371</u>
Total liabilities	<u>15,298,785</u>	<u>12,802,492</u>
Net position:		
Net investment in capital assets	42,718	45,789
Restricted for debt service	58,336	194,792
Restricted for food service	133,016	127,542
Unrestricted	<u>390,302</u>	<u>372,049</u>
Total net position	<u>\$ 624,372</u>	<u>\$ 740,172</u>

**Table A-4
Changes in Morenci Area Schools' Net Position**

	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 138,383	\$ 163,994
Operating grants	964,297	782,642
General revenues:		
Property taxes	1,202,023	1,282,974
Investment	5,208	2,870
State aid - unrestricted	4,387,490	4,619,562
Intermediate sources	371,347	376,124
Other	55,457	120,756
Total revenues	<u>7,124,205</u>	<u>7,348,922</u>
Expenses:		
Instruction	3,971,299	4,059,134
Support services	2,269,624	2,130,727
Community services	549	645
Intergovernmental	98,867	82,774
Food services	362,985	379,538
Interest on long-term debt	536,681	484,679
Total expenses	<u>7,240,005</u>	<u>7,137,497</u>
Change in net position	<u>\$ (115,800)</u>	<u>\$ 211,425</u>

District Governmental Activities

The District's financial condition has come about through a number of areas.

- Proposal A established the student foundation grant concept. The foundation grant has increased from \$4,362 per student in 1995 to \$7,026 per student in 2014.
- Student growth in the District has decreased. In fiscal year 1999 state aid membership was 1,147 and in twelve years has decreased by 40% to 684. Morenci Area Schools does participate in School of Choice and Open Enrollment to attract new students to the District.
- Many of the District's employees have been part of a total compensation method of determining their wage and benefit package, which has allowed the District's total compensation to generally keep pace with the decrease in District revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District as a whole has a combined fund balance is \$3,399,468 compared to \$801,167 in 2013. The fund balance increased by \$2,598,301 during the year. The District was also able to control costs even with a decrease in revenue, primarily due to tight budgetary controls. There are debt service funds with a combined net fund balance of \$144,027, 2008 capital project's fund balance was drawn down to zero, 2013 capital projects had a net fund balance of \$2,746,994, and a special revenue fund with a net fund balance of \$140,087. The general fund increased its fund balance by \$32,308, debt service funds decreased its fund balance by \$126,368, 2008 capital projects fund decreased its fund balance by \$58,808, 2013 capital projects fund increased by \$2,746,994 and the special revenue fund increased by \$4,175.

The general fund's expenditures and operating transfers were about 1% less than yearly revenues.

General Fund and Budget Highlights

During the 2014 fiscal year the original budget was amended three times to reflect changes which affected the District.

The District's initial amendments took place in November. This amendment included the adjustments for the fall student count as well as teaching and administrative staffing changes that were implemented for the 2013-2014 school year. The changes with the November amendment left the district with a budget deficit of \$85,891.

A second amendment was made in April that restated expenditures and revenues closer to actual. This included actual salaries, benefits, and utilities costs through March as well as actual local revenues received. The largest variance in this amendment was for the increase in utilities from the unusually rough winter.

A third and final amended budget was made on June 30, 2014. The final amendment showed that the District made significant financial strides in eliminating the budget deficit. The amendments were from actual revenue and expenditures through June which showed savings in many functions of the general fund budget. The largest variance was to General Administration which included the adjustment for the correct accounting function for the additional retirement contribution. Additionally, the District recognized unexpected savings in the anticipated costs related to added needs.

The final amended budget was to have revenues exceed expenditures and outgoing transfers by \$13,586. The final results showed that revenues came in \$5,652 less than were anticipated. This was largely attributed to the decrease in local revenue. Expenditures came in \$1,854 more than budgeted in June. The change in expenditures was attributed to basic instruction and supporting services. The net result after other financing sources and (uses) was a change in fund balance of \$32,308 increasing the fund balance to \$368,360.

General fund expenditures came within .03% of final budgeted amounts. General fund revenues came within .10% of final budget. Once again this year, tight budgetary controls allowed the District to maintain the rising costs with the decrease in revenue sources. The staff continues to be effective in maintaining actual expenditures when compared to budget.

Overall, the difference between the District's final amended budget and end of the year figures amounted to a \$18,722 variance. The change from the Board adopted budget of June 2013 amounted to \$13,586 to the final budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's capital assets are as follows:

	2014			2013
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 351,668	\$ -	\$ 351,668	\$ 351,668
Buildings and improvements	14,526,356	4,976,356	9,550,000	9,830,106
Furniture and fixtures	3,712,466	3,089,736	622,730	574,724
Transportation equipment	610,815	490,203	120,612	134,807
Total	\$ 19,201,305	\$ 8,556,295	\$ 10,645,010	\$ 10,891,305

The change in the net book value is due mostly to current year depreciation outpacing the construction process.

LONG-TERM DEBT

At year end the District had \$13,410,648 long-term debt outstanding as shown in Table A-6. More detailed information is available in Note 6 to the financial statements.

During the year ended June 30, 2014, the District issued long-term debt in the amount of \$3,915,000, of which \$955,000 was used to refund the remaining amount due for the 2002 bonds. Additionally, the District made principal payments in the amount of \$535,000 during the year ended June 30, 2014.

An increase in compensated absences of \$6,565 was also recorded.

	2014	2013
General obligation bonds and other debt	\$ 13,227,731	\$ 10,812,187
School loan revolving fund	92,137	92,137
Installment note	29,418	-
Compensated absences	61,362	54,797
	\$ 13,410,648	\$ 10,959,121

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- \$175 per pupil increase in the foundation allowance for the 2014-2015 school year. With this increase, the district has anticipated a foundation allowance of \$7,251 per student.
- MPSERS cost offset at the 2013-2014 level.
- Best practice grant at \$50 per student.
- Technology infrastructure grant at \$6,800.
- Programming changes in the following programs for 2014-2015:
 - Great Start Readiness Program
 - Alternative Education
 - Virtual School
 - Head Start
 - Latchkey Program
 - State and Federal Program Changes
- The student count is projected to decline slowly over the next five years. Budget estimates are approximated at 680 full time equivalency for the 2014-2015 fiscal year. The school district is expecting student enrollment to increase with the number of programming changes for 2014-2015.
- Retirement rates have been estimated based upon the FY 2014-2015 employer contribution rate which is effective October 1, 2014. The district estimates that the increase in employer retirement rates will be approximated at \$60 per student.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Morenci Area Schools, 788 E Coomer St, Morenci, MI 49256.

BASIC FINANCIAL STATEMENTS

**MORENCI AREA SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2014**

	<u>Governmental activities</u>
ASSETS:	
Cash and cash equivalents	\$ 1,358,212
Receivables:	
Accounts receivable	23,554
Taxes receivable	35,196
Intergovernmental	995,661
Inventories	2,316
Restricted cash and cash equivalents - capital projects	2,863,208
Capital assets not being depreciated	351,668
Capital assets, net of accumulated depreciation	<u>10,293,342</u>
TOTAL ASSETS	<u>15,923,157</u>
LIABILITIES:	
Accounts payable	135,913
Note payable	756,015
Accrued interest	100,575
Accrued salaries and related items	663,480
Unearned revenue	232,154
Noncurrent liabilities:	
Due within one year	682,175
Due in more than one year	<u>12,728,473</u>
TOTAL LIABILITIES	<u>15,298,785</u>
NET POSITION:	
Net investment in capital assets	42,718
Restricted for debt service	58,336
Restricted for food service	133,016
Unrestricted	<u>390,302</u>
TOTAL NET POSITION	<u><u>\$ 624,372</u></u>

**MORENCI AREA SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net position
Governmental activities:				
Instruction	\$ 3,971,299	\$ -	\$ 623,617	\$ (3,347,682)
Support services	2,269,624	39,911	31,712	(2,198,001)
Community services	549	667	-	118
Intergovernmental	98,867	-	-	(98,867)
Food services	362,985	97,805	308,968	43,788
Interest on long-term debt	536,681	-	-	(536,681)
Total governmental activities	<u>\$ 7,240,005</u>	<u>\$ 138,383</u>	<u>\$ 964,297</u>	<u>(6,137,325)</u>
General revenues:				
Property taxes, levied for general purposes				404,709
Property taxes, levied for debt service				797,314
State sources				4,387,490
Intermediate sources				371,347
Investment earnings				5,208
Other				55,457
Total general revenues				<u>6,021,525</u>
CHANGE IN NET POSITION				(115,800)
NET POSITION, beginning of year				<u>740,172</u>
NET POSITION, end of year				<u>\$ 624,372</u>

**MORENCI AREA SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	<u>General Fund</u>	<u>2013 Capital Projects Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
ASSETS:				
Cash and cash equivalents	\$ 1,189,989	\$ -	\$ 168,223	\$ 1,358,212
Receivables:				
Accounts receivable	23,554	-	-	23,554
Taxes receivable	28,458	-	6,738	35,196
Due from other funds	-	-	177,203	177,203
Intergovernmental	975,097	-	20,564	995,661
Inventories	-	-	2,316	2,316
Restricted cash and cash equivalents - capital projects	-	2,863,208	-	2,863,208
TOTAL ASSETS	<u>\$ 2,217,098</u>	<u>\$ 2,863,208</u>	<u>\$ 375,044</u>	<u>\$ 5,455,350</u>
LIABILITIES:				
Payables:				
Accounts payable	\$ 117,753	\$ 16,612	\$ 1,548	\$ 135,913
Due to other funds	17,601	99,602	60,000	177,203
Note payable	756,015	-	-	756,015
Accrued interest	9,532	-	-	9,532
Accrued salaries and related items	644,253	-	19,227	663,480
Unearned revenue	228,737	-	3,417	232,154
TOTAL LIABILITIES	<u>1,773,891</u>	<u>116,214</u>	<u>84,192</u>	<u>1,974,297</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	74,847	-	6,738	81,585

See notes to financial statements.

	<u>General Fund</u>	<u>2013 Capital Projects Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
FUND BALANCES:				
Nonspendable:				
Inventories	\$ -	\$ -	\$ 2,316	\$ 2,316
Restricted for:				
Capital projects	-	2,746,994	-	2,746,994
Debt service	-	-	144,027	144,027
Food service	-	-	133,016	133,016
Assigned for subsequent year expenditures	-	-	4,755	4,755
Unassigned	368,360	-	-	368,360
TOTAL FUND BALANCES	<u>368,360</u>	<u>2,746,994</u>	<u>284,114</u>	<u>3,399,468</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,217,098</u>	<u>\$ 2,863,208</u>	<u>\$ 375,044</u>	<u>\$ 5,455,350</u>
Total governmental fund balances				\$ 3,399,468
Amounts reported for governmental activities in the statement of net position are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds:				
The cost of the capital assets is			\$ 19,201,305	
Accumulated depreciation is			<u>(8,556,295)</u>	10,645,010
Revenue not recorded in the funds due to not being collected until after September 1st:				
Unavailable revenue - property taxes and special education claims				81,585
Long-term liabilities are not due and payable in the current period and are not reported in the funds:				
Bonds and loans payable				(13,349,286)
Compensated absences				(61,362)
Accrued interest is not included as a liability in governmental funds, it is recorded when paid				(91,043)
Net position of governmental activities				<u>\$ 624,372</u>

See notes to financial statements.

MORENCI AREA SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2014

	<u>General Fund</u>	<u>2013 Capital Projects Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
REVENUES:				
Local sources:				
Property taxes	\$ 402,932	\$ -	\$ 797,418	\$ 1,200,350
Food sales	-	-	97,535	97,535
Investment earnings	2,278	2,456	748	5,482
Other	95,986	-	45	96,031
Total local sources	501,196	2,456	895,746	1,399,398
State sources	4,871,506	-	19,451	4,890,957
Federal sources	171,313	-	289,517	460,830
Intermediate school districts	375,886	-	-	375,886
Total revenues	5,919,901	2,456	1,204,714	7,127,071
EXPENDITURES:				
Current:				
Instruction	3,626,687	-	-	3,626,687
Supporting services	2,200,180	-	-	2,200,180
Food service activities	-	-	380,788	380,788
Intergovernmental	98,867	-	-	98,867

See notes to financial statements.

	<u>General Fund</u>	<u>2013 Capital Projects Fund</u>	<u>Total nonmajor funds</u>	<u>Total governmental funds</u>
EXPENDITURES (Concluded):				
Debt service:				
Principal repayment	\$ -	\$ -	\$ 535,000	\$ 535,000
Interest	13,087	-	488,398	501,485
Bond issuance costs	-	40,894	15,954	56,848
Other	-	-	450	450
Capital outlay	-	22,924	58,871	81,795
Total expenditures	<u>5,938,821</u>	<u>63,818</u>	<u>1,479,461</u>	<u>7,482,100</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>(18,920)</u>	<u>(61,362)</u>	<u>(274,747)</u>	<u>(355,029)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	25,000	-	102,792	127,792
Transfers out	(3,190)	(99,602)	(25,000)	(127,792)
Proceeds from issuance of bonds	-	2,960,000	-	2,960,000
Discount on issuance of bonds	-	(52,042)	-	(52,042)
Proceeds from issuance of refunding bonds	-	-	955,000	955,000
Premium on refunding bonds issued	-	-	12,737	12,737
Payment to refunded bond escrow agent	-	-	(951,783)	(951,783)
Proceeds from van loan	29,418	-	-	29,418
Total other financing sources (uses)	<u>51,228</u>	<u>2,808,356</u>	<u>93,746</u>	<u>2,953,330</u>
NET CHANGE IN FUND BALANCES	32,308	2,746,994	(181,001)	2,598,301
FUND BALANCES:				
Beginning of year	336,052	-	465,115	801,167
End of year	<u>\$ 368,360</u>	<u>\$ 2,746,994</u>	<u>\$ 284,114</u>	<u>\$ 3,399,468</u>

See notes to financial statements.

**MORENCI 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 \$ 2,598,301

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.

Depreciation expense	(444,836)
Capital outlay	198,541

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	77,630
Accrued interest payable, end of the year	(91,043)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Proceeds from issuance of bonds	(3,915,000)
Proceeds from van loan	(29,418)
Payments on debt	1,465,000
Premium on bonds	39,150
Amortization of bond discounts	(4,694)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Unavailable revenue, beginning of year	(84,451)
Unavailable revenue, end of year	81,585

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences, beginning of the year	54,797
Accrued compensated absences, end of the year	(61,362)

Change in net position of governmental activities \$ (115,800)

**MORENCI AREA SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2014**

	<u>Agency fund</u>
ASSETS:	
Cash and cash equivalents	\$ 80,405
Accounts receivable	<u>12</u>
TOTAL ASSETS	<u><u>\$ 80,417</u></u>
LIABILITIES:	
Due to student and other groups	<u><u>\$ 80,417</u></u>

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

B. Reporting Entity

The Morenci Area Schools (the “District”) is governed by the Morenci Area Schools Board of Education (the “Board”), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District’s reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements.

C. Basis of Presentation - Government-wide Financial Statements

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

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

D. Basis of Presentation - Fund Financial Statements

The fund financial statements provide information about the District’s funds, including its fiduciary funds. Separate statements for each fund category - governmental and fiduciary - are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Continued)

The District reports the following major governmental funds:

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

The 2013 *capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The capital projects fund includes capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with the applicable provisions of §1351a of the Revised School Code.

Beginning with the year of bond issuance, the District has reported the annual construction activity in the capital projects fund. The projects for which the 2008 Serial Bonds were issued were complete as of June 30, 2014. In the year ended June 30, 2014, 2013 Serial Bonds were issued. The cumulative expenditures recognized for the construction period for both bonds were as follows.

The following is a summary of the revenue and expenditures for the capital projects bond activity since inception:

	2008 Capital Projects	2013 Capital Projects
Revenue and other financing sources	\$ 1,429,082	\$ 2,962,456
Expenditures and other financing uses	\$ 1,429,082	\$ 215,462

Revenue and other financing sources for the 2008 capital projects include the net bond proceeds of \$1,400,000. Revenue and other financing sources for the 2013 capital projects include the net bond proceeds of \$2,960,000.

Other Non-major Funds

The *special revenue fund* accounts for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service activities in the special revenue fund.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation - Fund Financial Statements (Concluded)

Other Non-major Funds (concluded)

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *2008 capital projects fund* accounts for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, they are eliminated in the preparation of the government-wide financial statements.

E. Measurement Focus and Basis of Accounting

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

The 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 expenses. 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.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Continued)

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are 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 revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from 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 current year ended, the foundation allowance was based on pupil membership counts.

The state portion of the Foundation is provided primarily by a state education property tax millage of 6 mills on Principal Residence Exemption (PRE) property and an allocated portion of state sales and other taxes. The local portion of the Foundation is funded primarily by Non-PRE property taxes which may be levied at a rate of up to 18 mills as well as 6 mills for Commercial Personal Property Tax. The state revenue is recognized during the foundation period and is funded through payments from October to August. Thus, the unpaid portion at June 30 is reported as an intergovernmental receivable.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Measurement Focus and Basis of Accounting (Concluded)

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

All other revenue items are generally considered to be measurable and available only when cash is received by the District.

F. Budgetary Information

Budgetary basis of accounting:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund and special revenue fund. Other funds do not have appropriated budgets.

Appropriations in all budgeted funds lapse at the end of the fiscal year even if they have related encumbrances. Encumbrances are commitments related to unperformed (executor) contracts for goods or services (i.e., purchase orders, contracts, and commitments). The District does not utilize encumbrance accounting.

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 supplementary 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 (1968 PA 2). 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, in the general fund are noted in the required supplementary information section.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Information (Concluded)

4. Transfers may be made for 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. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2014. The District does not consider these amendments to be significant.

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

1. Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

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. 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.

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, 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. District or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

3. Inventories and prepaid items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

4. Capital assets

Capital assets, which include property, plant, equipment, and transportation vehicles, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Group purchases are evaluated on a case by case basis. Donated capital assets are recorded at their estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Land and construction in progress, if any, are not depreciated. The other property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

	Years
Building and additions	20 - 50
Equipment and furniture	5 - 10
Transportation equipment	5 - 10

5. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Deferred outflows/inflows of resources (Concluded)

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues primarily from two sources: property taxes and receipts that exceeded 60 days of year end. These amounts are unavailable and recognized as an inflow of resources in the period that the amounts become available.

6. Net position flow assumption

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

In the computation of net invested in capital assets, school bond revolving fund principal proceeds of \$92,137 are considered capital-related debt. Accrued interest on the school bond loan fund of \$5,352 has been included in the calculation of unrestricted net position.

7. Fund balance flow assumptions

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Fund balance policies

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

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

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

H. Revenues and Expenditures/Expenses

1. Program revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, unrestricted state aid, interest, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Revenues and Expenditures/Expenses (Continued)

2. 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 valuation:

Fund	Mills
General fund:	
Non-Principal Residence Exemption (PRE)	18.00
Commercial Personal Property	6.00
Debt service fund:	
PRE, Non-PRE, Commercial Personal Property	7.00

3. Compensated absences

The District's contracts generally provide for granting vacation and sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations, or retirements.

4. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method over the term of the related debt. Bond issuance costs are reported as expenditures in the year in which they are incurred.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

H. Revenues and Expenditures/Expenses (Concluded)

4. Long-term obligations (Concluded)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 2 - DEPOSITS AND INVESTMENTS

As of June 30, 2014, the District had no investments.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2014, \$4,104,222 of the District's bank balance of \$4,354,222 was exposed to custodial credit risk because it was uninsured. The carrying balance was \$4,301,825.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - DEPOSITS AND INVESTMENTS (Concluded)

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

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

The above amounts as previously reported in Note 2:

Deposits - including fiduciary funds of \$80,405	<u>\$ 4,301,825</u>
--	---------------------

Deposits are reported in the financial statements as follows:

Fiduciary fund:	
Cash and cash equivalents	\$ 80,405
District wide:	
Current assets:	
Cash and cash equivalents	1,358,212
Restricted cash and cash equivalents - capital projects	<u>2,863,208</u>
	<u>\$ 4,301,825</u>

NOTE 3 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at June 30, 2014 consist of the following:

	<u>Government wide</u>
State aid	\$ 892,516
Federal revenue	56,756
Intermediate school district	<u>46,389</u>
	<u>\$ 995,661</u>

Intergovernmental receivables include amounts due from federal, state and local sources for various projects and programs.

Because of the District's favorable collection experience, no allowance for doubtful accounts has been recorded.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Assets not being depreciated:				
Land	\$ 351,668	\$ -	\$ -	\$ 351,668
Other capital assets:				
Building and additions	14,524,592	1,764	-	14,526,356
Equipment and furniture	4,150,039	167,367	604,940	3,712,466
Transportation equipment	739,954	29,410	158,549	610,815
Subtotal	<u>19,414,585</u>	<u>198,541</u>	<u>763,489</u>	<u>18,849,637</u>
Accumulated depreciation:				
Building and additions	4,694,486	281,870	-	4,976,356
Equipment and furniture	3,575,315	119,361	604,940	3,089,736
Transportation equipment	605,147	43,605	158,549	490,203
Total accumulated depreciation	<u>8,874,948</u>	<u>444,836</u>	<u>763,489</u>	<u>8,556,295</u>
Net capital assets being depreciated	<u>10,539,637</u>	<u>(246,295)</u>	<u>-</u>	<u>10,293,342</u>
Net governmental capital assets	<u>\$ 10,891,305</u>	<u>\$ (246,295)</u>	<u>\$ -</u>	<u>\$ 10,645,010</u>

Depreciation for the fiscal year ended June 30, 2014 amounted to \$444,836 which was allocated in the following manner:

Instruction	\$ 379,806
Support services	65,030
	<u>\$ 444,836</u>

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - NOTE PAYABLE

At June 30, 2014, the District has notes payable outstanding of \$400,000 (Note 2013 B-1) and \$700,000 (Note 2013 B-2, B-3). The notes bear interest rates between 0.43% and 1.378%, and mature July 21, 2014 and August 20, 2014, respectively. Note 2013 B-1 required payments to an irrevocable set-aside account of \$343,985 at June 30, 2014. At year end the balance of these payments are considered defeased debt and are not included in the year-end balance. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
\$ 755,771	\$ 1,100,000	\$ 1,099,756	\$ 756,015

NOTE 6 - LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Long-term obligations currently outstanding are as follows:

	General obligation bonds (including deferred charges and discounts)	School loan revolving fund	Van Loan	Compensated absences	Total
Balance July 1, 2013	\$ 10,812,187	\$ 92,137	\$ -	\$ 54,797	\$ 10,959,121
Additions	3,875,850	-	29,418	6,565	3,911,833
Deletions	(1,460,306)	-	-	-	(1,460,306)
Balance June 30, 2014	13,227,731	92,137	29,418	61,362	13,410,648
Due within one year	(665,000)	-	(4,903)	(12,272)	(682,175)
Due in more than one year	\$ 12,562,731	\$ 92,137	\$ 24,515	\$ 49,090	\$ 12,728,473

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Continued)

Long-term obligation debt at June 30, 2014 is comprised of the following:

2005 refunding bonds due in annual installments of \$30,000 to \$830,000 through May 1, 2028 with interest from 3.75% to 4.25%.	\$ 8,265,000
2008 serial bonds due in annual installments of \$75,000 to \$100,000 through May 1, 2028 with interest from 3.00% to 4.50%.	1,125,000
2013 serial bonds due in annual installments of \$800,000 to \$250,000 through May 1, 2033 with interest from 3.00% to 4.50%.	2,960,000
2013 refunding bonds due in annual installments of \$455,000 to \$500,000 through May 1, 2016 with interest at 3.00%.	955,000
Less: issuance discounts	<u>(77,269)</u>
Total bonded debt and other long-term obligations	13,227,731
Borrowings from the State of Michigan under the School Loan Revolving Fund. Interest at June 30, 2014 was 3.52%.	92,137
2013 van loan due in annual installments of \$5,038 to \$5,712 through October 22, 2019 with interest of 2.75%.	29,418
Compensated absences	<u>61,362</u>
Total general long-term debt	<u><u>\$ 13,410,648</u></u>

Interest expense (all funds) for the year ended June 30, 2014 was approximately \$537,000.

Borrowing from the State of Michigan - The school loan revolving fund payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates of 3.52% for the School Loan Revolving Fund notes have been assessed for the year ended June 30, 2014. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.00 mills. The school district is required to levy 7.00 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. The District currently levies 7.00 debt mills. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the following amortization schedule.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

On December 2, 2013, the District issued general obligation bonds of \$3,915,000 with interest rates ranging from 3.00% to 4.50%. Of the \$3,915,000 bonds issued, \$955,000 was used to advance refund the remaining portion of the District's outstanding 2002 bonds with an interest rate of 3.25% to 5.25%. The bonds mature at various times through May 1, 2033. The general obligation bonds were issued at a discount after paying issuance costs of \$57,849, the net proceeds were \$3,875,850. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are paid in full. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$11,897, which resulted in an economic gain (difference between the present value of the debt service payment on the old and new debt) of \$11,109.

In prior years, the District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2014, \$9,185,000 of bonds outstanding are considered defeased.

The annual requirements to amortize long-term debt outstanding as of June 30, 2014, including interest of \$4,885,841 are as follows:

Year ending June 30,	Principal	Interest	Total
2015	\$ 669,903	\$ 527,117	\$ 1,197,020
2016	694,903	505,596	1,200,499
2017	719,903	483,673	1,203,576
2018	744,903	455,938	1,200,841
2019	769,903	427,204	1,197,107
2020 - 2024	4,334,903	1,664,851	5,999,754
2025 - 2029	4,425,000	707,758	5,132,758
2030 - 2033	975,000	108,352	1,083,352
	13,334,418	4,880,489	18,214,907
Issuance discounts	(77,269)	-	(77,269)
School Loan Revolving Fund	92,137	5,352	97,489
Compensated absences	61,362	-	61,362
	<u>\$ 13,410,648</u>	<u>\$ 4,885,841</u>	<u>\$ 18,296,489</u>

At June 30, 2014, fund balance of \$144,027 is available in the debt service funds to service the general obligation debt.

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at June 30, 2014 are as follows:

Receivable fund		Payable fund	
Food service	\$ 2,899	General fund	\$ 17,601
Debt service	174,304	Debt service	60,000
	\$ 177,203	Building & Site	99,602
	\$ 177,203		\$ 177,203

The outstanding balances between funds result mainly 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 systems, and (3) payments between funds are made.

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS

Plan Description - The District participates in the statewide Michigan Public School Employees' Retirement System (MPSERS) which is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State) originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the board's authority to promulgate or amend the provisions of the System. The System's pension plan was established by the State to provide retirement, survivor, and disability benefits to public school employees. In addition, the System's health plan provides all retirees with the option of receiving health, dental and vision coverage under the Michigan Public School Employees' Retirement Act.

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

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Benefit Provisions - Pension

Introduction

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

Funding Policy

Member Contributions

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

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

Funding Policy (Continued)

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

Employer Contributions

Each school district or reporting entity is required to contribute the full actuarial funding contribution amount to fund pension benefits on a prefunded basis. The School District pays an amount equal to a percentage of its employees' wages to the Michigan Public School Employees Retirement System ("MPERS"), which is administered by the State of Michigan. These contributions are required by law and are calculated by using the contribution rates and periods provided in the following table. The District contributions to MPERS were equal to the required contribution for those years.

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

Fiscal Year Ending June 30,	Contributions to MPERS
2014	\$ 905,515
2013	846,073
2012	801,572

Included in the amounts paid above, the District received \$160,518 and \$64,381 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the years ended June 30, 2014 and 2013.

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Continued)

		Fiscal Year 2014						
		Effective October 1, 2013						
Public School Employee Pension Rates (FYE Sept. 30th)		Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/2/13	Pension Plus to DC with PHF First worked after 9/2/13	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
				DB Contributions				
Pension Normal Cost		2.90%	2.67%	2.67%	0.00%	0.00%	0.00%	2.90%
Pension UAL		14.08%	14.08%	14.08%	14.08%	14.08%	14.08%	14.08%
Pension Early Retirement Incentive		1.36%	1.36%	1.36%	1.36%	1.36%	1.36%	1.36%
Pension Contributions - Total Rate		18.34%	18.11%	18.11%	15.44%	15.44%	15.44%	18.34%
Health Normal Cost		0.93%	0.93%	0.00%	0.00%	0.93%	0.00%	0.00%
Health UAL		5.52%	5.52%	5.52%	5.52%	5.52%	5.52%	5.52%
Health Contributions - Total Rate		6.45%	6.45%	5.52%	5.52%	6.45%	5.52%	5.52%
Total		24.79%	24.56%	23.63%	20.96%	21.89%	20.96%	23.86%
		DC 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%
Total		0.00%	1.00%	3.00%	5.00%	4.00%	6.00%	2.00%
Grand Total		24.79%	25.56%	26.63%	25.96%	25.89%	26.96%	25.86%

		Fiscal Year 2013						
		Effective February 1, 2013						
Public School Employee Pension Rates (FYE Sept. 30th)		Basic MIP	Pension Plus	Pension Plus PHF - First worked after 9/3/12	Pension Plus to DC with PHF First worked after 9/3/12	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
		Grand Total		24.32%	24.13%	26.20%	25.96%	25.89%

		Fiscal Year 2013			
		4 months ended 1/31/2013			
Public School Employee Pension Rates (FYE Sept. 30th)		First worked before 7/1/10	First worked between 6/30/10 and 9/3/12	Pension Plus and First worked after 9/3/12	Elected DC and First worked after 9/3/12
		Total		25.36%	24.13%

		Fiscal Year 2012			
		FY 2011 - 2012		11 months ended 9/30/11	
Public School Employee Pension Rates (FYE Sept. 30th)		First worked before 7/1/10	First worked after 6/30/10	First worked before 7/1/10	First worked after 6/30/10
		Total		24.46%	23.23%

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - DEFINED BENEFIT PLAN AND POST RETIREMENT BENEFITS (Concluded)

Benefit Provisions - Other Postemployment

Introduction

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

Public Act 75 of 2010 requires each actively employed member of MPSERS after June 30, 2010 to annually contribute 3% of their compensation to offset employer contributions for health care benefits of current retirees.

Retiree Healthcare Reform of 2012

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

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

**MORENCI AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including property and casualty errors and omissions, fleet and employee health and accident insurance.

NOTE 10 - TRANSFERS

The food service fund transferred a net amount of \$21,810 to the general fund. The transfer from the food service fund was made to allocate indirect costs between the funds. The 2013 capital projects fund transferred \$99,602 to the debt service funds for current year debt service expenses.

NOTE 11 - SUBSEQUENT EVENTS

The District has approved borrowing \$800,000 for fiscal year 2015 to replace the note payable as described in Note 5.

NOTE 12 - UPCOMING ACCOUNTING PRONOUNCEMENT

Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued by the GASB in June 2012 and will be effective for the District's 2015 fiscal year. The Statement requires governments that participate in defined benefit pension plans to report in their statement of net position an actuarial calculation. The net pension liability is the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. Statement 68 requires cost-sharing employers to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement also will improve the comparability and consistency of how governments calculate the pension liabilities and expense. The District is in the process of evaluating the financial statement impact of this statement and believes the impact of this statement will be significant.

REQUIRED SUPPLEMENTARY INFORMATION

**MORENCI AREA SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014**

	<u>Original budget</u>	<u>Final budget</u>	<u>Actual</u>	<u>Variance with final budget</u>
REVENUES:				
Local sources	\$ 669,530	544,575	\$ 501,196	\$ (43,379)
State sources	5,282,205	4,879,447	4,871,506	(7,941)
Federal sources	183,000	141,821	171,313	29,492
Intermediate school districts	-	359,710	375,886	16,176
Total revenues	<u>6,134,735</u>	<u>5,925,553</u>	<u>5,919,901</u>	<u>(5,652)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	3,055,396	2,869,255	2,870,710	(1,455)
Added needs	1,024,889	733,851	755,977	(22,126)
Total instruction	<u>4,080,285</u>	<u>3,603,106</u>	<u>3,626,687</u>	<u>(23,581)</u>
Supporting services:				
Pupil	180,558	103,580	103,575	5
Instructional staff	-	54,350	47,824	6,526
General administration	147,225	175,237	168,552	6,685
School administration	365,196	457,318	457,303	15
Business	174,513	185,347	186,746	(1,399)
Operation/maintenance	624,241	701,469	704,134	(2,665)
Pupil transportation	230,062	282,984	278,061	4,923
Central	28,935	41,028	41,605	(577)
Athletics	198,087	211,854	211,831	23
Other	-	3,739	549	3,190
Total supporting services	<u>1,948,817</u>	<u>2,216,906</u>	<u>2,200,180</u>	<u>16,726</u>
Intergovernmental expenditures	<u>83,633</u>	<u>103,868</u>	<u>98,867</u>	<u>5,001</u>
Debt service:				
Interest	47,000	13,087	13,087	-
Total expenditures	<u>6,159,735</u>	<u>5,936,967</u>	<u>5,938,821</u>	<u>(1,854)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(25,000)</u>	<u>(11,414)</u>	<u>(18,920)</u>	<u>(7,506)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	25,000	25,000	25,000	-
Proceeds from van loan	-	-	29,418	29,418
Transfers out	-	-	(3,190)	(3,190)
Total other financing sources (uses)	<u>25,000</u>	<u>25,000</u>	<u>51,228</u>	<u>26,228</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 13,586</u>	<u>32,308</u>	<u>\$ 18,722</u>
FUND BALANCE:				
Beginning of year			<u>336,052</u>	
End of year			<u>\$ 368,360</u>	

ADDITIONAL SUPPLEMENTARY INFORMATION

**MORENCI AREA SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2014**

	Special revenue fund - Food Service	Debt service funds	2008 Capital Projects	Total nonmajor funds
ASSETS:				
Cash and cash equivalents	\$ 138,500	\$ 29,723	\$ -	\$ 168,223
Receivables:				
Taxes receivable	-	6,738	-	6,738
Due from other funds	2,899	174,304	-	177,203
Due from other governmental units	20,564	-	-	20,564
Inventories	2,316	-	-	2,316
TOTAL ASSETS	\$ 164,279	\$210,765	-	\$ 375,044
LIABILITIES:				
Accounts payable	\$ 1,548	\$ -	-	\$ 1,548
Accrued salaries and related items	19,227	-	-	19,227
Due to other funds	-	60,000	-	60,000
Unearned revenue	3,417	-	-	3,417
TOTAL LIABILITIES	24,192	60,000	-	84,192
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue	-	6,738	-	6,738
FUND BALANCES:				
Nonspendable for inventories	2,316	-	-	2,316
Restricted for debt service	-	144,027	-	144,027
Restricted for food service	133,016	-	-	133,016
Assigned for subsequent years expenditures	4,755	-	-	4,755
TOTAL FUND BALANCES	140,087	144,027	-	284,114
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 164,279	\$210,765	\$ -	\$ 375,044

**MORENCI AREA SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2014**

	Special revenue fund - Food Service	Debt service funds	2008 Capital Projects	Total nonmajor funds
REVENUES:				
Local sources:				
Property taxes	\$ -	\$ 797,418	\$ -	\$ 797,418
Food sales	97,535	-	-	97,535
Investment earnings	225	460	63	748
Other	45	-	-	45
State sources	19,451	-	-	19,451
Federal sources	289,517	-	-	289,517
Total revenues	<u>406,773</u>	<u>797,878</u>	<u>63</u>	<u>1,204,714</u>
EXPENDITURES:				
Current:				
Food service activities:				
Salaries	100,611	-	-	100,611
Benefits	39,313	-	-	39,313
Purchased services	15,555	-	-	15,555
Supplies and materials	211,446	-	-	211,446
Capital outlay	9,661	-	-	9,661
Other expenses	4,202	-	-	4,202
Capital outlay	-	-	58,871	58,871
Debt service:				-
Principal repayment	-	535,000	-	535,000
Interest	-	488,398	-	488,398
Bond issuance costs	-	15,954	-	15,954
Other expenses	-	450	-	450
Total expenditures	<u>380,788</u>	<u>1,039,802</u>	<u>58,871</u>	<u>1,479,461</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>25,985</u>	<u>(241,924)</u>	<u>(58,808)</u>	<u>(274,747)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	3,190	99,602	-	102,792
Transfers out	(25,000)	-	-	(25,000)
Proceeds from issuance of refunding bonds	-	955,000	-	955,000
Premium on refunding bonds issued	-	12,737	-	12,737
Payment to refunded bond escrow agent	-	(951,783)	-	(951,783)
Total other financing sources (uses)	<u>(21,810)</u>	<u>115,556</u>	<u>-</u>	<u>93,746</u>
NET CHANGE IN FUND BALANCES	4,175	(126,368)	(58,808)	(181,001)
FUND BALANCES:				
Beginning of year	135,912	270,395	58,808	465,115
End of year	<u>\$ 140,087</u>	<u>\$ 144,027</u>	<u>\$ -</u>	<u>\$ 284,114</u>

**MORENCI AREA SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2014**

	2002 Building and Site Bonds	2005 Refunding	2008 Building and Site Bonds	2013 Building and Site Bonds	2013 Refunding	Totals
ASSETS:						
Cash and cash equivalents	\$ 5,061	\$ 16,112	\$ 5,270	\$ 3,280	\$ -	\$ 29,723
Taxes receivable	6,738	-	-	-	-	6,738
Due from other funds	44,702	30,000	-	99,602	-	174,304
TOTAL ASSETS	\$ 56,501	\$ 46,112	\$ 5,270	\$ 102,882	\$ -	\$ 210,765
LIABILITIES:						
Due to other funds	\$ -	\$ -	\$ -	\$ 60,000	\$ -	\$ 60,000
DEFERRED INFLOWS OF RESOURCES:						
Unavailable revenue	6,738	-	-	-	-	6,738
FUND BALANCES:						
Restricted for debt service	49,763	46,112	5,270	42,882	-	144,027
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 56,501	\$ 46,112	\$ 5,270	\$ 102,882	\$ -	\$ 210,765

**MORENCI AREA SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES
YEAR ENDED JUNE 30, 2014**

	2002 Building and Site Bonds	2005 Refunding	2008 Building and Site Bonds	2013 Building and Site Bonds	2013 Refunding	Totals
REVENUES:						
Property taxes	\$ 364,202	\$ 330,562	\$ 102,654	\$ -	\$ -	\$ 797,418
Investment earnings	460	-	-	-	-	460
Total revenues	<u>364,662</u>	<u>330,562</u>	<u>102,654</u>	<u>-</u>	<u>-</u>	<u>797,878</u>
EXPENDITURES:						
Principal repayment	395,000	65,000	75,000	-	-	535,000
Interest	37,738	342,902	51,038	56,720	-	488,398
Bond issuance costs	-	-	-	-	15,954	15,954
Other expenses	450	-	-	-	-	450
Total expenditures	<u>433,188</u>	<u>407,902</u>	<u>126,038</u>	<u>56,720</u>	<u>15,954</u>	<u>1,039,802</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(68,526)</u>	<u>(77,340)</u>	<u>(23,384)</u>	<u>(56,720)</u>	<u>(15,954)</u>	<u>(241,924)</u>
OTHER FINANCING SOURCES:						
Transfers in	-	-	-	99,602	-	99,602
Proceeds from issuance of refunding bonds	-	-	-	-	955,000	955,000
Premium on issuance of refunding bonds	-	-	-	-	12,737	12,737
Payment to refunded bond escrow agent	-	-	-	-	(951,783)	(951,783)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,602</u>	<u>15,954</u>	<u>115,556</u>
NET CHANGE IN FUND BALANCES	<u>(68,526)</u>	<u>(77,340)</u>	<u>(23,384)</u>	<u>42,882</u>	<u>-</u>	<u>(126,368)</u>
FUND BALANCES:						
Beginning of year	118,289	123,452	28,654	-	-	270,395
End of year	<u>\$ 49,763</u>	<u>\$ 46,112</u>	<u>\$ 5,270</u>	<u>\$ 42,882</u>	<u>\$ -</u>	<u>\$ 144,027</u>

**MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2014**

\$8,900,000 Refunding bonds issued in 2005:

Bonded debt

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 55,000	\$ 170,151	\$ 170,151	2015	\$ 395,302
30,000	168,983	168,983	2016	367,966
540,000	168,364	168,364	2017	876,728
565,000	157,564	157,564	2018	880,128
585,000	146,264	146,264	2019	877,528
610,000	134,564	134,564	2020	879,128
635,000	122,364	122,364	2021	879,728
660,000	109,664	109,664	2022	879,328
690,000	96,464	96,464	2023	882,928
720,000	82,319	82,319	2024	884,638
750,000	67,469	67,469	2025	884,938
780,000	51,530	51,530	2026	883,060
815,000	34,955	34,955	2027	884,910
830,000	17,637	17,637	2028	865,274
<u>\$ 8,265,000</u>	<u>\$ 1,528,292</u>	<u>\$ 1,528,292</u>		<u>\$ 11,321,584</u>

The bonds were approved by the board of education for refunding a portion of the 2002 School Building and Site bond issuance. The portion of the prior bonds being refunded are the bonds which mature or are subject to mandatory redemption beginning May 1, 2017 and ending May 1, 2028. The bonds will carry interest rates from 3.75% to 4.25%.

**MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2014**

\$1,400,000 2008 School Building and Site Bonds:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 75,000	\$ 24,019	\$ 24,019	2015	\$ 123,038
75,000	22,519	22,519	2016	120,038
75,000	21,019	21,019	2017	117,038
75,000	19,519	19,519	2018	114,038
75,000	18,019	18,019	2019	111,038
75,000	16,519	16,519	2020	108,038
75,000	15,019	15,019	2021	105,038
75,000	13,444	13,444	2022	101,888
75,000	11,775	11,775	2023	98,550
75,000	10,106	10,106	2024	95,212
75,000	8,438	8,438	2025	91,876
100,000	6,750	6,750	2026	113,500
100,000	4,500	4,500	2027	109,000
100,000	2,250	2,250	2028	104,500
<u>\$ 1,125,000</u>	<u>\$ 193,896</u>	<u>\$ 193,896</u>		<u>\$ 1,512,792</u>

The bonds were approved by the board of education to be used for the purpose of partially remodeling, furnishing and refurnishing, equipping and re-equipping school facilities; acquiring, installing and equipping educational technology; constructing a new running track; and developing and improving sites. The bonds will carry interest rates from 3.00% to 4.50%.

**MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2014**

\$2,960,000 2013 School Building and Site Bonds:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 80,000	\$ 54,659	\$ 54,659	2015	\$ 189,318
85,000	53,459	53,459	2016	191,918
100,000	52,184	52,184	2017	204,368
100,000	50,684	50,684	2018	201,368
105,000	49,184	49,184	2019	203,368
110,000	47,609	47,609	2020	205,218
120,000	45,959	45,959	2021	211,918
130,000	44,159	44,159	2022	218,318
135,000	42,209	42,209	2023	219,418
145,000	40,184	40,184	2024	225,368
155,000	37,828	37,828	2025	230,656
155,000	35,213	35,213	2026	225,426
155,000	32,403	32,403	2027	219,806
185,000	29,303	29,303	2028	243,606
225,000	25,603	25,603	2029	276,206
225,000	21,047	21,047	2030	267,094
250,000	16,406	16,406	2031	282,812
250,000	11,093	11,093	2032	272,186
250,000	5,630	5,630	2033	261,260
<u>\$ 2,960,000</u>	<u>\$ 694,816</u>	<u>\$ 694,816</u>		<u>\$ 4,349,632</u>

The bonds were approved by the board of education to be used for the purpose of partially remodeling, furnishing and refurbishing, equipping and re-equipping school facilities; acquiring, installing and equipping educational technology; purchasing school buses; constructing, equipping, developing and improving athletic facilities and play fields; and developing and improving sites. The bonds will carry interest rates from 3.00% to 4.50%.

**MORENCI AREA SCHOOLS
SCHEDULE OF BONDED DEBT SERVICE REQUIREMENTS
JUNE 30, 2014**

\$955,000 2013 Refunding Bonds:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	May 1,	November 1,	June 30,	Amount
\$ 455,000	\$ 14,325	\$ 14,325	2015	\$ 483,650
500,000	7,500	7,500	2016	515,000
<u>\$ 955,000</u>	<u>\$ 21,825</u>	<u>\$ 21,825</u>		<u>\$ 998,650</u>

The bonds were approved by the board of education for refunding a portion of the 2002 School Building and Site bond issuance. The portion of the prior bonds being refunded are the bonds which mature or are subject to mandatory redemption beginning May 1, 2015 and ending May 1, 2016. The bonds will carry an interest rate of 3.00%.

**MORENCI AREA SCHOOLS
SCHEDULE OF BORROWINGS - STATE OF MICHIGAN
SCHOOL LOAN REVOLVING FUND
JUNE 30, 2014**

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Loan Revolving Program. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State under this program have been summarized as follows:

<u>Year ended June 30,</u>	<u>Loan proceeds</u>	<u>Interest expense</u>	<u>Loan balance (net change)</u>
2013	\$ 92,137	\$ 2,027	\$ 94,164
2014	-	3,325	3,325
Totals	<u>\$ 92,137</u>	<u>\$ 5,352</u>	<u>\$ 97,489</u>

**MORENCI AREA SCHOOLS
SCHEDULE OF INSTALLMENT NOTE PAYABLE
JUNE 30, 2014**

\$29,418 note payable issued in 2013:

Principal due October 22,	Interest due October 22,	Debt service requirement for fiscal year	
		October 22,	Amount
\$ 4,903	\$ 809	2015	\$ 5,712
4,903	674	2016	5,577
4,903	539	2017	5,442
4,903	404	2018	5,307
4,903	270	2019	5,173
4,903	135	2020	5,038
<u>\$ 29,418</u>	<u>\$ 2,831</u>		<u>\$ 32,249</u>

This loan was obtained in 2013 in order to purchase a new van for the District. The note carries an interest rate of 2.75% and has a maturity date of October 22, 2019.

**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**

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Morenci Area Schools

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 Morenci Area Schools as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Morenci Area Schools' basic financial statements and have issued our report thereon dated September 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Morenci 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 Morenci Area Schools' internal control. Accordingly, we do not express an opinion on the effectiveness of the Morenci Area Schools' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morenci Area Schools' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maney Costeiran PC

September 24, 2014