

**NEWAYGO PUBLIC SCHOOLS**  
**REPORT ON FINANCIAL STATEMENTS**  
**JUNE 30, 2014**



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

CERTIFIED PUBLIC ACCOUNTANTS  
134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749  
[www.bcbcpa.com](http://www.bcbcpa.com)



NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2014

TABLE OF CONTENTS

	<u>PAGES</u>
<b>Independent Auditor's Report</b>	i-ii
<b>Management's Discussion and Analysis</b>	iii-ix
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet - Governmental Funds	3
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	5-6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	7
Fiduciary Funds	
Statement of Fiduciary Net Position	8
Statement of Changes in Fiduciary Net Position	9
Notes to Financial Statements	10-32
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedules - Major Funds	33
<b>Other Supplementary Information</b>	
2005 General Obligation Refunding Bonds	34
2012 School Improvement Bonds	35
2014 School Improvement Bonds	36





# Baird, Cotter & Bishop, P.C.

SERVING YOUR PAST, PRESENT & FUTURE

CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 PHONE: (231) 775-9789 FAX: (231) 775-9749

www.bcbcpa.com

September 9, 2014

## INDEPENDENT AUDITOR'S REPORT

To the Board of Education  
Newaygo Public Schools  
Newaygo, Michigan

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

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

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

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

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

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages iii through ix and 33 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 Newaygo Public Schools' basic financial statements. The other supplementary information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2014, on our consideration of Newaygo Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Newaygo Public Schools' internal control over financial reporting and compliance.

BAIRD, COTTER AND BISHOP, P.C.

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

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

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

**A. Government-Wide Financial Statements**

The government-wide statements provide short-term and long-term financial information about the District's overall financial status. These statements are required by generally accepted accounting principles (GAAP) as described in the Government Accounting Standards Board (GASB) Statement No. 34. The district-wide financial statements are compiled using full accrual basis of accounting and more closely represent financial statements presented by business and industry. The Statement of Net Position includes all of the District's assets and liabilities. All of the year's revenue 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 and 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 requires consideration of additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are all shown in one category titled "Governmental Activities". These activities, including regular and special education, transportation, administration, food services, athletic activities, and community services, are primarily financed with state and federal aids and property taxes.

**B. Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, rather than the District as a whole. Funds that do not meet the threshold to be classified as major funds are called "non-major" funds. Detailed financial information for non-major funds can be found in the combining and individual fund statements section.

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

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 may establish other funds to control and manage money for particular purposes.

The District maintains the following kinds of funds:

**Governmental Funds** – The District's basic services are included in governmental funds, which generally focus on 1) how cash and other financial assets that can be 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 to determine whether there are more or less 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 government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

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

**C. Summary of Net Position**

The following schedule summarizes the net position at fiscal years ended June 30:

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current Assets	\$ 6,057,059	\$ 5,220,714
Non Current Assets		
Capital Assets	35,429,667	36,347,662
Less Accumulated Depreciation	<u>(12,325,312)</u>	<u>(12,692,190)</u>
Total Non Current Assets	<u>23,104,355</u>	<u>23,655,472</u>
Total Assets	<u>29,161,414</u>	<u>28,876,186</u>



NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

	<u>2014</u>	<u>2013</u>
<b>Liabilities</b>		
Current Liabilities	4,012,083	3,579,355
Non Current Liabilities	<u>15,523,500</u>	<u>16,103,748</u>
Total Liabilities	<u>19,535,583</u>	<u>19,683,103</u>
<b>Net Position</b>		
Net Investment in Capital Assets	7,106,110	7,010,673
Restricted for Debt Service	879,312	1,104,198
Restricted for Food Service	128,484	146,476
Unrestricted	<u>1,511,925</u>	<u>931,736</u>
Total Net Position	<u>\$ 9,625,831</u>	<u>\$ 9,193,083</u>

**D. Analysis of Financial Position**

During the fiscal year ended June 30, 2014, the District's net position increased by \$432,748. A few of the more significant factors affecting net position during the year are discussed below:

**1. Depreciation Expense**

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net position.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2014, \$551,117 was recorded for depreciation expense.

**2. Capital Outlay Acquisitions**

For the year ended June 30, 2014, none of the expenditures were capitalized.

The net effect of the disposal of capital assets and the current year's depreciation is a decrease in capital assets in the amount of \$551,117 for the year ended June 30, 2014.

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

**E. Change in Net Position**

For the fiscal years ended June 30, 2014, and 2013, the results of operations, on a district-wide basis, were:

	<u>2014</u>	<u>2013</u>
<b>General Revenues</b>		
Property Taxes	\$ 4,865,867	\$ 4,905,720
Investment Earnings	1,553	4,882
State Sources	9,105,421	9,170,931
Other	49,201	43,377
Total General Revenues	<u>14,022,042</u>	<u>14,124,910</u>
<b>Program Revenues</b>		
Charges for Services	197,550	199,432
Operating Grants	3,261,249	3,131,215
Total Program Revenues	<u>3,458,799</u>	<u>3,330,647</u>
Total Revenues	<u>17,480,841</u>	<u>17,455,557</u>
<b>Expenses</b>		
Instruction	9,493,852	9,311,558
Supporting Services	4,033,986	4,185,992
Athletic Activities	250,264	259,662
Community Services	4,294	102,573
Custody and Care of Children	97,612	0
Capital Outlay	1,115,221	652,779
Food Service Activities	730,504	801,783
Prior Period Adjustment	3,286	0
Interest on Long-Term Debt	767,957	783,541
Unallocated Depreciation	551,117	650,077
Total Expenses	<u>17,048,093</u>	<u>16,747,965</u>
Change in Net Position	<u>\$ 432,748</u>	<u>\$ 707,592</u>

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

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

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

	<u>2014</u>	<u>2013</u>	<u>Increase (Decrease)</u>
<b>Major Funds</b>			
General Fund	\$ 1,858,876	\$ 1,366,367	\$ 492,509
Food Service Fund	154,552	146,476	8,076
2012 Capital Projects Fund	137,867	812,318	(674,451)
2014 Capital Projects Fund	1,024,369	0	1,024,369
2000 Debt Retirement Fund	763,261	1,180,114	(416,853)
2012 Debt Retirement Fund	238,948	56,501	182,447
	<u>\$ 4,177,873</u>	<u>\$ 3,561,776</u>	<u>\$ 616,097</u>

In 2013/2014 fiscal year, the General Fund balance increased primarily due to the reduction in costs of operations.

The Food Service Fund balance increased primarily due to an increase in local revenue received and a decrease in expenditures.

The 2012 Capital Projects fund balance decreased because of capital assets acquired during the year.

The 2014 Capital Projects fund balance increased because of proceeds received from the issuance of debt.

The 2000 Debt Retirement Funds decreased its fund balance because debt service payments were greater than receipts.

The 2012 Debt Retirement Funds increased fund balance due to tax revenue outstripping debt payments in the current year.

**G. General Fund Budgetary Highlights**

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

For the 2013-2014 fiscal year, the District amended the general fund budget throughout the year, with the Board adopting the final changes in June 2014. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>
Total Revenues and Other Sources	<u>\$ 14,442,679</u>	<u>\$ 14,407,370</u>	<u>\$ 14,440,015</u>
<b><u>EXPENDITURES</u></b>			
Instruction	\$ 9,699,406	\$ 9,683,498	\$ 9,552,219
Supporting Services	4,646,272	4,522,889	4,287,495
Community Activities	5,800	5,800	4,294
Custody and Care of Children	93,000	93,000	97,612
Capital Outlay	15,200	5,000	2,600
Prior Period Adjustment	0	0	3,286
Total Expenditures and Other Uses	<u>\$ 14,459,678</u>	<u>\$ 14,310,187</u>	<u>\$ 13,947,506</u>

The difference between the original and final budgeted revenue amounts is minimal, as well as the final budget compared to actual. The difference between the original and final budget expenditure amounts is also minimal. The reduced spending in continuing education and operation of maintenance of plant makes up the majority of the difference in the final budget compared to actual.

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

### ***1. Capital Assets***

At June 30, 2014, the District has \$23,104,355 net of accumulated depreciation, in a broad range of capital assets, including school buildings and facilities, school buses and other vehicles, and various types of equipment. Depreciation expense for the year amounted to \$551,117 bringing the accumulated depreciation to \$12,325,312 as of June 30, 2014.

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

At June 30, 2014, the District had \$16,495,000 in bonded debt outstanding. This represents an increase of \$240,000 over the amount outstanding at the close of the prior fiscal year.

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2014

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

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

- Lawmakers continue to work to determine the amount of per pupil funding that each District would receive, leaving uncertainty surrounding the largest revenue stream of the District.
- The District, like many in the State, continues to suffer losses in student counts. The District has seen the losses slowly decline in the past year, but still expects to suffer additional losses for the 2014-2015 fiscal year, causing a decrease in State funding.
- As with other employers, the District continues to face a rapid increase in rates paid for employee benefits, particularly health insurance and retirement.

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

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact the Business Department, Newaygo Public Schools, 360 S. Mill Street, Newaygo, Michigan 49337.

THIS PAGE INTENTIONALLY LEFT BLANK

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

STATEMENT OF NET POSITION

JUNE 30, 2014

	<u>GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 2,181,671
Restricted Cash	1,614,496
Accounts Receivable	6,931
Due from External Parties (Fiduciary Fund)	3,497
Due from Other Governmental Units	2,209,612
Prepaid Expenses	8,754
Inventory	32,009
Investments	89
	6,057,059
<u>NON CURRENT ASSETS</u>	
Capital Assets	35,429,667
Less Accumulated Depreciation	(12,325,312)
	23,104,355
	29,161,414
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	503,662
Due to Other Governmental Units	58,209
Salaries Payable	545,394
Accrued Expenses	539,895
Unearned Revenue	232,026
Accrued Interest Payable	122,897
Current Portion of Non Current Liabilities	2,010,000
	4,012,083
<u>NON CURRENT LIABILITIES</u>	
Bonds Payable (Net)	17,160,481
Compensated Absences	373,019
Less Current Portion of Non Current Liabilities	(2,010,000)
	15,523,500
	19,535,583
<u>NET POSITION</u>	
Net Investment in Capital Assets	7,106,110
Restricted for Debt Service	879,312
Restricted for Food Service	128,484
Unrestricted	1,511,925
	\$ 9,625,831

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2014

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			GOVERNMENTAL
		CHARGES FOR	OPERATING	CAPITAL	ACTIVITIES
		SERVICES	GRANTS	GRANTS	NET (EXPENSES)
					REVENUES AND
					CHANGE IN
					NET POSITION
<u>GOVERNMENTAL ACTIVITIES</u>					
Instruction	\$ 9,493,852	\$ 675	\$ 2,193,410	\$ 0	\$ (7,299,767)
Supporting Services	4,033,986	65,351	415,741	0	(3,552,894)
Athletic Activities	250,264	0	0	0	(250,264)
Community Services	4,294	0	0	0	(4,294)
Custody and Care of Children	97,612	0	0	0	(97,612)
Capital Outlay	1,115,221	0	0	0	(1,115,221)
Food Service	730,504	131,524	652,098	0	53,118
Prior Period Adjustment	3,286	0	0	0	(3,286)
Interest on Long Term Debt	767,957	0	0	0	(767,957)
Unallocated Depreciation	551,117	0	0	0	(551,117)
Total Governmental Activities	<u>\$ 17,048,093</u>	<u>\$ 197,550</u>	<u>\$ 3,261,249</u>	<u>\$ 0</u>	<u>(13,589,294)</u>
<u>GENERAL REVENUES</u>					
Property Taxes - General Purposes					2,566,959
Property Taxes - Debt Service					2,298,908
Investment Earnings					1,553
State Sources					9,105,421
Other					49,201
Total General Revenues					<u>14,022,042</u>
Change in Net Position					432,748
<u>NET POSITION</u> - Beginning of Year (as restated)					<u>9,193,083</u>
<u>NET POSITION</u> - End of Year					<u>\$ 9,625,831</u>

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



NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

BALANCE SHEET  
GOVERNMENTAL FUNDS

JUNE 30, 2014

	GENERAL FUND	FOOD SERVICE FUND	2012 CAPITAL PROJECTS FUND	2014 CAPITAL PROJECTS FUND	2000 ISSUE DEBT RETIREMENT FUND	2012 ISSUE DEBT RETIREMENT FUND	TOTAL GOVERNMENTAL FUNDS
<b><u>ASSETS</u></b>							
Cash	\$ 1,126,664	\$ 50,541	\$ 0	\$ 0	\$ 765,049	\$ 239,417	\$ 2,181,671
Restricted Cash	0	0	137,867	1,476,629	0	0	1,614,496
Accounts Receivable	2,954	3,977	0	0	0	0	6,931
Due from Other Funds	58,452	56,198	0	0	0	0	114,650
Due from Other Governmental Units	2,095,966	113,646	0	0	0	0	2,209,612
Prepaid Expenditures	8,754	0	0	0	0	0	8,754
Inventory	5,941	26,068	0	0	0	0	32,009
Investments	89	0	0	0	0	0	89
<b>TOTAL ASSETS</b>	<b>\$ 3,298,820</b>	<b>\$ 250,430</b>	<b>\$ 137,867</b>	<b>\$ 1,476,629</b>	<b>\$ 765,049</b>	<b>\$ 239,417</b>	<b>\$ 6,168,212</b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>							
<b><u>LIABILITIES</u></b>							
Accounts Payable	\$ 25,189	\$ 26,213	\$ 0	\$ 452,260	\$ 0	\$ 0	\$ 503,662
Due to Other Funds	56,480	52,416	0	0	1,788	469	111,153
Due to Other Governmental Units	58,209	0	0	0	0	0	58,209
Salaries Payable	540,516	4,878	0	0	0	0	545,394
Accrued Expenses	536,116	3,779	0	0	0	0	539,895
Unearned Revenue	223,434	8,592	0	0	0	0	232,026
<b>Total Liabilities</b>	<b>1,439,944</b>	<b>95,878</b>	<b>0</b>	<b>452,260</b>	<b>1,788</b>	<b>469</b>	<b>1,990,339</b>
<b><u>FUND BALANCES</u></b>							
Nonspendable:							
Inventory	5,941	26,068	0	0	0	0	32,009
Prepaid Expenditures	8,754	0	0	0	0	0	8,754
Restricted for:							
Capital Projects	0	0	137,867	1,024,369	0	0	1,162,236
Debt Service	0	0	0	0	763,261	238,948	1,002,209
Food Service	0	128,484	0	0	0	0	128,484
Assigned for Subsequent Year Budget	157,919	0	0	0	0	0	157,919
Unassigned	1,686,262	0	0	0	0	0	1,686,262
<b>Total Fund Balances</b>	<b>1,858,876</b>	<b>154,552</b>	<b>137,867</b>	<b>1,024,369</b>	<b>763,261</b>	<b>238,948</b>	<b>4,177,873</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,298,820</b>	<b>\$ 250,430</b>	<b>\$ 137,867</b>	<b>\$ 1,476,629</b>	<b>\$ 765,049</b>	<b>\$ 239,417</b>	<b>\$ 6,168,212</b>

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

THIS PAGE INTENTIONALLY LEFT BLANK

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

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

JUNE 30, 2014

Total Governmental Fund Balances \$ 4,177,873

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	\$ 35,429,667	
Accumulated depreciation is	<u>(12,325,312)</u>	23,104,355

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

Bonds Payable	(16,495,000)
Compensated Absences	(373,019)

Accrued interest is not included as a liability in governmental funds, it is recorded when paid. (122,897)

Governmental funds expense 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. (665,481)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 9,625,831

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

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

YEAR ENDED JUNE 30, 2014

	GENERAL FUND	FOOD SERVICE FUND	2012 CAPITAL PROJECTS FUND	2014 CAPITAL PROJECTS FUND	2000 ISSUE DEBT RETIREMENT FUND	2012 ISSUE DEBT RETIREMENT FUND	TOTAL GOVERNMENTAL FUNDS
<b><u>REVENUES</u></b>							
Local Sources	\$ 2,809,296	\$ 131,568	\$ 1,046	\$ 164	\$ 1,610,689	\$ 690,347	\$ 5,243,110
State Sources	10,510,928	35,182	0	0	0	0	10,546,110
Federal Sources	898,286	616,916	0	0	0	0	1,515,202
Other Transactions	176,419	0	0	0	0	0	176,419
<b>Total Revenues</b>	<b>14,394,929</b>	<b>783,666</b>	<b>1,046</b>	<b>164</b>	<b>1,610,689</b>	<b>690,347</b>	<b>17,480,841</b>
<b><u>EXPENDITURES</u></b>							
Instruction							
Basic Programs	7,661,191	0	0	0	0	0	7,661,191
Added Needs	1,801,494	0	0	0	0	0	1,801,494
Continuing Education	89,534	0	0	0	0	0	89,534
Supporting Services							
Pupil	305,937	0	0	0	0	0	305,937
Instructional Staff	138,046	0	0	0	0	0	138,046
General Administration	216,459	0	0	0	0	0	216,459
School Administration	807,613	0	0	0	0	0	807,613
Business	291,604	0	0	0	0	0	291,604
Operation and Maintenance of Plant	1,264,995	0	0	0	0	0	1,264,995
Pupil Transportation Services	808,269	0	0	0	0	0	808,269
Other Central Support Services	204,308	0	0	0	0	0	204,308
Athletic Activities	250,264	0	0	0	0	0	250,264
Community Activities	4,294	0	0	0	0	0	4,294
Custody and Care of Children	97,612	0	0	0	0	0	97,612

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

Capital Outlay	2,600	0	675,497	437,124	0	0	1,115,221
Prior Period Adjustments	3,286	0	0	0	0	0	3,286
Food Service	0	730,504	0	0	0	0	730,504
Debt Service							
Principal	0	0	0	0	1,240,000	500,000	1,740,000
Interest and Other	0	0	0	38,671	787,542	7,900	834,113
<b>Total Expenditures</b>	<b>13,947,506</b>	<b>730,504</b>	<b>675,497</b>	<b>475,795</b>	<b>2,027,542</b>	<b>507,900</b>	<b>18,364,744</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>447,423</b>	<b>53,162</b>	<b>(674,451)</b>	<b>(475,631)</b>	<b>(416,853)</b>	<b>182,447</b>	<b>(883,903)</b>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>							
Face Value of Debt	0	0	0	1,500,000	0	0	1,500,000
Transfers In (Out)	45,086	(45,086)	0	0	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>45,086</b>	<b>(45,086)</b>	<b>0</b>	<b>1,500,000</b>	<b>0</b>	<b>0</b>	<b>1,500,000</b>
<b>Net Change in Fund Balance</b>	<b>492,509</b>	<b>8,076</b>	<b>(674,451)</b>	<b>1,024,369</b>	<b>(416,853)</b>	<b>182,447</b>	<b>616,097</b>
<b><u>FUND BALANCE</u> - Beginning of Year</b>	<b>1,366,367</b>	<b>146,476</b>	<b>812,318</b>	<b>0</b>	<b>1,180,114</b>	<b>56,501</b>	<b>3,561,776</b>
<b><u>FUND BALANCE</u> - End of Year</b>	<b>\$ 1,858,876</b>	<b>\$ 154,552</b>	<b>\$ 137,867</b>	<b>\$ 1,024,369</b>	<b>\$ 763,261</b>	<b>\$ 238,948</b>	<b>\$ 4,177,873</b>

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

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

YEAR ENDED JUNE 30, 2014

Net Change in Fund Balances Total Governmental Funds \$ 616,097

Amounts reported for governmental activities are different because:

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

Capital Outlay	0
Depreciation Expense	(551,117)

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 Year	132,417
Accrued Interest Payable - End of Year	(122,897)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis of accounting, expenses, and liabilities are reported regardless of when financial resources are available.

Repayment of Bond Principal	1,740,000
Bond Premium Amortization	56,636
Issuance of Debt	(1,500,000)

Accumulated Sick Pay and Early Retirement Incentives are reported on the accrual method in the statement of activities, and recorded as expenditures when financial resources are used in the governmental funds:

Early Retirement Incentives - Beginning of Year	48,000
Early Retirement Incentives - End of Year	0
Accumulated Sick Pay - Beginning of Year	386,631
Accumulated Sick Pay - End of Year	(373,019)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 432,748</u>
---	-------------------

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

JUNE 30, 2014

	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
<u>ASSETS</u>		
Cash	\$ 85,208	\$ 154,385
Due from Other Funds	0	2,072
 TOTAL ASSETS	 85,208	 156,457
<u>LIABILITIES</u>		
Due to Groups and Organizations	0	150,888
Due to Other Funds	0	5,569
 TOTAL LIABILITIES	 0	 156,457
<u>NET POSITION</u>		
Restricted for Scholarships	\$ 85,208	\$ 0

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

JUNE 30, 2014

	<u>PRIVATE PURPOSE TRUST FUNDS</u>
<u>ADDITIONS</u>	
Earnings on Investments and Deposits	\$ 1,874
Donations	<u>19,368</u>
Total Additions	21,242
<u>DEDUCTIONS</u>	
Scholarships Awarded	<u>20,866</u>
CHANGE IN NET POSITION	376
<u>NET POSITION</u> - Beginning of Year	<u>84,832</u>
<u>NET POSITION</u> - End of Year	<u><u>\$ 85,208</u></u>

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



NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

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

**A. Reporting Entity**

The School District (the "District") is located in Newaygo County with its administrative offices located in Newaygo, Michigan. The District operates under an elected 7-member board of education and provides services to its 1,655 students in (blended count) in elementary, middle school, high school, special education instruction, guidance, health, transportation, food service, athletics and recreation. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

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

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

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

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

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

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

The District reports the following major governmental funds:

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

The *Food Service Fund* accounts for revenue sources that are legally restricted to expenditures for Food Service.

The *2012 and 2014 Capital Projects Funds* accounts for the acquisition of capital assets or construction of major capital projects.

The *2000 Issue Debt Retirement Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *2012 Issue Debt Retirement Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following fund type:

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

The District reports the following fiduciary funds:

The *Agency Funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the District holds for others in an agency capacity (primarily internal activity funds).

The *Private-Purpose Trust Fund* is used to account for resources legally held in trust to provide scholarships to post-secondary education students.

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

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

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment.

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

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

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

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

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

The private-purpose trust funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. The agency fund has no measurement focus but utilizes the *accrual basis of accounting* for reporting its assets and liabilities.

**F. Budgetary Information**

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

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

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

- (a) In June, the superintendent submits to the school board a proposed operating budget for the fiscal year commencing on July 1.
- (b) A public hearing is conducted during June to obtain taxpayer comments.
- (c) Prior to June 30, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year, when necessary, to adjust appropriations if it appears that revenues and other financial sources will be less than anticipated, or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated.
- (d) The superintendent is charged with general supervision of the budgets and shall hold the department heads responsible for performance of their responsibilities.
- (e) For purposes of meeting emergency needs of the District, transfer of appropriations may be made by the authorization of the superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- (f) During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
- (g) Budgeted amounts are as originally adopted on June 17, 2013, or as amended by the School Board of Education throughout the year.
- (h) Appropriations lapse at year end and therefore cancel all encumbrances. These appropriations are re-established at the beginning of the following year.

**2. *Excess of Expenditures Over Appropriations***

Expenditures exceeded appropriations as follows:

	<u>APPROPRIATIONS</u>	<u>EXPENDITURES</u>
General Fund		
Insruction		
Added Needs	\$ 1,776,760	\$ 1,801,494
Supporting Services		
Instructional Staff	110,201	138,046
School Administration	807,491	807,613
Athletic Activities	248,900	250,264
Custody and Care of Children	93,000	97,612
Prior Period Adjustments	0	3,286
Food Service Fund	680,000	730,504

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

This overage was funded by available fund balance.

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

***1. Cash and Investments***

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

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

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (e) Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a school district.
- (f) Bankers' acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation (FDIC).

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

***2. Restricted Assets***

Certain resources of the capital projects fund which are set aside for capital outlay are classified as restricted cash on the balance sheet because their use is limited by applicable bond covenants.

***3. Inventory and Prepaid Items***

Inventory is valued at cost. Inventory consists of expendable supplies held for consumption, which are recorded as expenditures when consumed rather than when purchased.

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

Certain payments made 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.

The nonspendable fund balance at the governmental fund level is equal to the amount of inventories and prepaid items at year end to indicate the portion of the governmental fund balances that are nonspendable.

**4. Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

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.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and Improvements	25-50 years
Buses and Other Vehicles	8 years
Furniture and Equipment	5-20 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

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

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

**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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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.

**7. *Fund Balance Flow Assumption***

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

**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 governing board is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

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

**9. *Use of Estimates***

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



NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**H. Revenues and Expenditures/Expenses**

**1. State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The 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 year ended June 30, 2014 the foundation allowance was based on pupil membership counts taken in October 2013 and February 2014. For fiscal year ended June 30, 2014, the per pupil foundation allowance was \$7,026 for Newaygo Public Schools.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2013 to August 2014. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

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

**2. Program Revenues**

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

**3. Property Taxes**

Property taxes levied by the District are collected by various municipalities and periodically submitted to the District. Properties are assessed as of January 1. The District has elected to have a portion of the taxes billed and due July 1<sup>st</sup>, and the remaining portion billed and due December 1<sup>st</sup>. The summer levy becomes delinquent as of September 14<sup>th</sup>, and the winter levy becomes delinquent as of February 14<sup>th</sup> for taxpayers. After these dates, unpaid taxes are subject to penalties and interest.

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

<u>Fund</u>	<u>Mills</u>
General Fund - Non-Principal Residence Exemption (PRE)	18.00
General Fund - Commercial Personal Property	6.00
2000 Issue Debt Service Fund - PRE and Non-PRE	4.55
2012 Issue Debt Service Fund - PRE and Non-PRE	1.95

**4. *Compensated Absences***

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

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

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The District has opted to apply the provisions of GASB 34 paragraph 146 which allows the amortization of premiums, discounts and bond issuance costs to be applied prospectively for all bonds issued after July 1, 2003.

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

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

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

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

**A. *Deposits and Investments***

*Custodial Credit Risk – Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2014, the District's bank

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

balance was \$4,339,034 and \$3,075,805 of that amount was exposed to custodial credit risk because it was uninsured and uncollateralized. Of the \$3,075,805 of uninsured funds, \$2,907,866 was in the governmental funds and \$167,939 was in the fiduciary funds. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the deposits.

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

*Custodial Credit Risk – Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name. Although the District's investment policy does not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments or by controlling who holds the investments.

Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

At June 30, 2014, the District had investments of \$89 in the MILAF External Investment Pool – MAX Class.

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2014, the fair value of the District's investments is the same as the value of the pool shares. Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash and Restricted Cash	\$ 3,796,167	\$ 0	\$ 239,593	\$ 4,035,760
Investments	0	89	0	89
	<u>\$ 3,796,167</u>	<u>\$ 89</u>	<u>\$ 239,593</u>	<u>\$ 4,035,849</u>

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

**B. Receivables**

Receivables as of year end for the government's individual major funds are as follows:

	General	Food Service	Total
Receivables			
Accounts	\$ 2,954	\$ 3,977	\$ 6,931
Due from Other Governments	2,095,966	113,646	2,209,612
 Total Receivables	 \$ 2,098,920	 \$ 117,623	 \$ 2,216,543

Amounts due from other governments 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.

**C. Capital Assets**

Capital assets activity for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Assets Not Being Depreciated:				
Land	\$ 514,975	\$ 0	\$ 0	\$ 514,975
Other Capital Assets:				
Buildings and Improvements	31,015,136	0	0	31,015,136
Buses and Other Vehicles	1,851,546	0	0	1,851,546
Furniture and Equipment	2,966,005	0	917,995	2,048,010
Subtotal	35,832,687	0	917,995	34,914,692
Accumulated Depreciation				
Buildings and Improvements	8,231,577	480,775	0	8,712,352
Buses and Other Vehicles	1,648,970	51,168	0	1,700,138
Furniture and Equipment	2,811,643	19,174	(917,995)	1,912,822
Total Accumulated Depreciation	12,692,190	551,117	(917,995)	12,325,312
Net Other Capital Assets	23,140,497	(551,117)	0	22,589,380
Net Capital Assets	\$ 23,655,472	\$ (551,117)	\$ 0	\$ 23,104,355

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

Depreciation for the fiscal year ended June 30, 2014, amounted to \$551,117. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**D. Defined Benefit Plan and Post Retirement Benefits**

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

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

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

**Benefit Provisions – Pension**

***Introduction***

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

***Pension Reform 2010***

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

***Pension Reform 2012***

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

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

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

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

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

Option 4 – members voluntarily elected to no longer contribute to the pension fund and therefore are switched to the Defined Contribution plan for future services as of their transition date. As a DC

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

participant they receive a 4% employer contribution to a tax-deferred 401(k) account and can choose to contribute up to the maximum amounts permitted by the IRS to a 457 account. They vest in employer contributions and related earnings in their 401(k) account based on the following schedule: 50% at 2 years, 75% at 3 years, and 100% at 4 years of service. They are 100% vested in any personal contributions and related earnings in their 457 account. Upon retirement, if they meet age and service requirements (including their *total* years of service), they would also receive a pension (calculated based on years of service and Final Average Compensation as of the day before their transition date and a 1.5% pension factor).

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

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

## **Funding Policy**

### ***Member Contributions***

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

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

leaves public school service and no pension is payable, the member's accumulated contributions plus interest, if any, are refundable.

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

***Employer Contributions***

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

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

<u>Fiscal Year Ending</u> <u>June 30,</u>	<u>Contributions</u> <u>to MPERS</u>
2014	\$ 2,337,226
2013	1,920,272
2012	2,112,944

Included in the amounts paid above, the District received \$400,279 of section 147(c) State Aid for the sole purpose of making supplemental payments to MPERS. The District has recorded this amount as state revenue and additional pension expenditures/expenses for the year ended June 30, 2014.

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

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



NEWAYGO PUBLIC SCHOOLS  
NEWAYGO MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

## **Benefit Provisions – Other Postemployment**

### ***Introduction***

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

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

### ***Retiree Healthcare Reform of 2012***

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

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

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

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

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

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

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

eligibility for a duty death benefit, the 2% employer matching contributions and related earnings in the PHF 401(k) are forfeited and the state will pay for the subsidy payments. The beneficiaries receive the member's personal contributions and related earnings in the PHF 457 account.

**Other Information**

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

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

**E. Risk Management**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for all such risks of loss. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**F. Long-Term Liabilities**

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.

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

The following is a summary of the governmental long-term liability transactions for the District for the year ended June 30, 2014:

	BONDS PAYABLE	EARLY RETIREMENT INCENTIVES	COMPENSATED ABSENCES	TOTAL
Balance, July 1, 2013	\$ 16,735,000	\$ 48,000	\$ 386,631	\$ 17,169,631
Additions	1,500,000	0	0	1,500,000
Deletions	1,740,000	48,000	13,612	1,801,612
Balance, June 30, 2014	<u>\$ 16,495,000</u>	<u>\$ 0</u>	<u>\$ 373,019</u>	<u>\$ 16,868,019</u>
Total due within one year	<u>\$ 2,010,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,010,000</u>

The District's debt obligations at June 30, 2014, are comprised of the following issues:

\$19,230,000 2005 general obligations refunding bonds due in annual installments of \$1,175,000 to \$1,235,000 through May 1, 2026; interest at 5.00%	\$ 14,495,000
\$1,500,000 2012 school improvement bonds due in annual installments of \$500,000 through May 1, 2015; interest at .85%	500,000
\$1,500,000 2014 school improvement bonds due in annual installments of \$275,000 to \$325,000 through May 1, 2019; interest at .85%	<u>1,500,000</u>
Total bonded debt	<u>\$ 16,495,000</u>

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

The annual requirements to amortize all long-term liability outstanding as of June 30, 2014, including interest payments of \$4,721,591 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Amounts Payable</u>
2015	\$ 2,010,000	\$ 738,541	\$ 2,748,541
2016	1,530,000	673,150	2,203,150
2017	1,520,000	610,150	2,130,150
2018	1,515,000	546,750	2,061,750
2019	1,530,000	483,000	2,013,000
2020-2024	6,030,000	1,493,250	7,523,250
2025-2026	2,360,000	176,750	2,536,750
	<u>\$ 16,495,000</u>	<u>\$ 4,721,591</u>	<u>\$ 21,216,591</u>

Compensated absences will be paid by the fund in which the employee worked, including the general fund and other governmental funds.

**G. Interfund Receivables and Payables**

	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 58,452	\$ 56,480
Food Service Fund	56,198	52,416
2000 Issue Debt Retirement Fund	0	1,788
2012 Issue Debt Retirement Fund	0	469
Agency Funds	2,072	5,569
	<u>\$ 116,722</u>	<u>\$ 116,722</u>

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 system, and (3) payments between funds are made. All Interfund balances outstanding at June 30, 2014, are expected to be repaid within one year.

**H. Interfund Transfers**

	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
General Fund	\$ 45,086	\$ 0
Food Service Fund	0	45,086
	<u>\$ 45,086</u>	<u>\$ 45,086</u>

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014

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

**I. Capital Projects Fund**

The 2012 and 2014 Capital Projects Funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the District has complied with the applicable provisions of §1351a of the Revised School Code.

**J. Other Information**

*1. Commitments and Contingencies*

Under the terms of various federal and state grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the district.

The District signed a contract for a new phone system in the amount of \$112,391.23 as of June 30, 2014. No adjustment was made to the financial statements for the year ending June 30, 2014 related to signing this contract.

**NOTE 4 – UPCOMING ACCOUNTING PRONOUCEMENTS**

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

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

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULES  
MAJOR FUNDS

YEAR ENDED JUNE 30, 2014

	GENERAL FUND			FOOD SERVICE FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<b>REVENUES</b>						
Local Sources	\$ 2,741,900	\$ 2,793,450	\$ 2,809,296	\$ 135,000	\$ 125,000	\$ 131,568
State Sources	10,519,587	10,491,314	10,510,928	40,000	34,300	35,182
Federal Sources	905,442	913,106	898,286	600,000	495,000	616,916
Other Transactions	275,750	209,500	176,419	0	0	0
<b>Total Revenues</b>	<b>14,442,679</b>	<b>14,407,370</b>	<b>14,394,929</b>	<b>775,000</b>	<b>654,300</b>	<b>783,666</b>
<b>EXPENDITURES</b>						
Instruction						
Basic Programs	7,655,524	7,786,028	7,661,191	0	0	0
Added Needs	1,950,709	1,776,760	1,801,494	0	0	0
Continuing Education	93,173	120,710	89,534	0	0	0
Supporting Services						
Pupil	312,139	318,959	305,937	0	0	0
Instructional Staff	115,381	110,201	138,046	0	0	0
General Administration	237,420	234,486	216,459	0	0	0
School Administration	839,103	807,491	807,613	0	0	0
Business	291,563	297,625	291,604	0	0	0
Operation and Maintenance of Plant	1,336,316	1,370,615	1,264,995	0	0	0
Pupil Transportation Services	977,057	888,503	808,269	0	0	0
Other Central Support Services	288,393	246,109	204,308	0	0	0
Athletic Activities	248,900	248,900	250,264	0	0	0
Community Activities	5,800	5,800	4,294	0	0	0
Custody and Care of Children	93,000	93,000	97,612	0	0	0
Capital Outlay	15,200	5,000	2,600	0	0	0
Prior Period Adjustments	0	0	3,286	0	0	0
Food Service	0	0	0	775,000	680,000	730,504
<b>Total Expenditures</b>	<b>14,459,678</b>	<b>14,310,187</b>	<b>13,947,506</b>	<b>775,000</b>	<b>680,000</b>	<b>730,504</b>
Excess (Deficiency) of Revenues Over Expenditures	(16,999)	97,183	447,423	0	(25,700)	53,162
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer In (Out)	0	0	45,086	0	0	(45,086)
<b>Net Change in Fund Balance</b>	<b>(16,999)</b>	<b>97,183</b>	<b>492,509</b>	<b>0</b>	<b>(25,700)</b>	<b>8,076</b>
<b>FUND BALANCE - Beginning of Year</b>	<b>875,355</b>	<b>1,338,100</b>	<b>1,366,367</b>	<b>146,476</b>	<b>146,476</b>	<b>146,476</b>
<b>FUND BALANCE - End of Year</b>	<b>\$ 858,356</b>	<b>\$ 1,435,283</b>	<b>\$ 1,858,876</b>	<b>\$ 146,476</b>	<b>\$ 120,776</b>	<b>\$ 154,552</b>



NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

SCHEDULE OF BONDS PAYABLE  
JUNE 30, 2014

2005 GENERAL OBLIGATION REFUNDING BONDS

<u>TITLE OF ISSUE</u>	2005 Refunding Bonds	
<u>PURPOSE</u>	Advance refunding of the 2000 School Building and Site Bonds	
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year	
<u>AMOUNT OF ISSUE</u>		\$ 19,230,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>			
		<u>TOTAL FISCAL YEAR</u>	<u>SEMI-ANNUAL INTEREST PAYMENTS</u>		<u>PRINCIPAL MAY 1</u>
			<u>NOV 1</u>	<u>MAY 1</u>	
2015	5.00 %	\$ 1,959,750	\$ 362,375	\$ 362,375	\$ 1,235,000
2016	5.00 %	1,893,000	331,500	331,500	1,230,000
2017	5.00 %	1,821,500	300,750	300,750	1,220,000
2018	5.00 %	1,755,500	270,250	270,250	1,215,000
2019	5.00 %	1,684,750	239,875	239,875	1,205,000
2020	5.00 %	1,619,500	209,750	209,750	1,200,000
2021	5.00 %	1,579,500	179,750	179,750	1,220,000
2022	5.00 %	1,508,500	149,250	149,250	1,210,000
2023	5.00 %	1,443,000	119,000	119,000	1,205,000
2024	5.00 %	1,372,750	88,875	88,875	1,195,000
2025	5.00 %	1,303,000	59,000	59,000	1,185,000
2026	5.00 %	1,233,750	29,375	29,375	1,175,000
		<u>\$ 19,174,500</u>	<u>\$ 2,339,750</u>	<u>\$ 2,339,750</u>	<u>\$ 14,495,000</u>

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

SCHEDULE OF BONDS PAYABLE  
JUNE 30, 2014

2012 SCHOOL IMPROVEMENT BONDS

<u>TITLE OF ISSUE</u>	2012 School Improvement Bonds	
<u>PURPOSE</u>	Equipping and re-equipping school buildings and acquiring and educational technology in school buildings.	
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year	
<u>AMOUNT OF ISSUE</u>		\$ 1,500,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>			
		<u>TOTAL FISCAL YEAR</u>	<u>SEMI-ANNUAL INTEREST PAYMENTS</u>		<u>PRINCIPAL MAY 1</u>
			<u>NOV 1</u>	<u>MAY 1</u>	
2015	0.85 %	\$ 504,250	\$ 2,125	\$ 2,125	\$ 500,000

NEWAYGO PUBLIC SCHOOLS  
NEWAYGO, MICHIGAN

SCHEDULE OF BONDS PAYABLE  
JUNE 30, 2014

2014 SCHOOL IMPROVEMENT BONDS

<u>TITLE OF ISSUE</u>	2014 School Improvement Bonds	
<u>PURPOSE</u>	Equipping and re-equipping school buildings and acquiring and educational technology in school buildings.	
<u>INTEREST PAYABLE</u>	May 1, and November 1, of each year	
<u>AMOUNT OF ISSUE</u>		\$ 1,500,000

<u>DUE DATES</u>	<u>INTEREST RATES</u>	<u>REQUIREMENTS</u>			
		<u>TOTAL FISCAL YEAR</u>	<u>SEMI-ANNUAL INTEREST PAYMENTS</u>		<u>PRINCIPAL MAY 1</u>
			<u>NOV 1</u>	<u>MAY 1</u>	
2015	0.85 %	\$ 284,541	\$ 4,191	\$ 5,350	\$ 275,000
2016	0.85	310,150	5,075	5,075	300,000
2017	0.85	308,650	4,325	4,325	300,000
2018	0.85	306,250	3,125	3,125	300,000
2019	0.85	328,250	1,625	1,625	325,000
		<u>\$ 1,537,841</u>	<u>\$ 18,341</u>	<u>\$ 19,500</u>	<u>\$ 1,500,000</u>



