

# **Parchment School District**

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**Financial Report  
with Supplemental Information  
June 30, 2014**

# Parchment School District

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## Independent Auditor's Report

To the Board of Education  
Parchment School District

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

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Parchment School District (the "School District") as of and for the year ended June 30, 2014 and the related notes to the financial statements, which collectively comprise Parchment School District's basic financial statements as listed in the table of contents.

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

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

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

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

To the Board of Education  
Parchment School District

### ***Opinions***

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

### ***Required Supplemental Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule 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, which 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 supplemental 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 Parchment School District's basic financial statements. The other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

The nonmajor governmental funds combining balance sheet, combining statement of revenue, expenditures, and changes in fund balance, and the schedule of bonded indebtedness are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the nonmajor governmental funds combining balance sheet, combining statement of revenue, expenditures, and changes in fund balances, and the schedule of bonded indebtedness are fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Board of Education  
Parchment School District

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014 on our consideration of Parchment School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Parchment School District's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

November 6, 2014

# **Parchment School District**

## **Management's Discussion and Analysis**

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

### **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Parchment School District financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund - the General Fund - with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net position, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)  
(Required Supplemental Information)

#### **Basic Financial Statements**

District-wide Financial Statements      Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary Information for General Fund

Other Supplemental Information

### ***Reporting the School District as a Whole - District-wide Financial Statements***

One of the most important questions asked about the School District is "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net position and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

# **Parchment School District**

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## **Management's Discussion and Analysis (Continued)**

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

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

### ***Reporting the School District's Most Significant Funds - Fund Financial Statements***

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service Fund is an example) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

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

### ***The School District as Trustee - Reporting the School District's Fiduciary Responsibilities***

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

# Parchment School District

## Management's Discussion and Analysis (Continued)

### The School District as a Whole

Recall that the statement of net position provides the perspective of the School District as a whole. Table I provides a summary of the School District's net position as of June 30, 2014 and 2013:

Table I

	Governmental Activities	
	June 30	
	2014	2013
	(in millions)	
<b>Assets</b>		
Current and other assets	\$ 5.2	\$ 5.6
Capital assets	33.1	34.0
Total assets	38.3	39.6
<b>Deferred Outflows of Resources</b>	0.2	0.2
Total assets and deferred outflows of resources	38.5	39.8
<b>Liabilities</b>		
Current liabilities	4.8	5.5
Long-term liabilities	33.6	33.5
Total liabilities	38.4	39.0
<b>Net Position</b>		
Net investment in capital assets	3.2	3.5
Restricted	0.1	0.1
Unrestricted	(3.2)	(2.8)
Total net position	<u>\$ 0.1</u>	<u>\$ 0.8</u>

The above analysis focuses on the net position (see Table I). The change in net position of the School District's governmental activities is discussed below (see Table 2). The School District's net position was \$0.1 million at June 30, 2014. Capital assets net of related debt, totaling \$3.2 million, compares the original cost less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limits the School District's ability to use that net position for day-to-day operations.

The \$0.1 million in net position represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net position from year to year.

# Parchment School District

## Management's Discussion and Analysis (Continued)

The results of this year's operations for the School District as a whole are reported in the statement of activities, which shows the changes in net position for fiscal years 2014 and 2013 (see Table 2).

Table 2

	Governmental Activities	
	Year Ended June 30	
	2014	2013
	(in millions)	
<b>Revenue</b>		
Program revenue:		
Charges for services	\$ 0.7	\$ 0.7
Operating grants and contributions	4.2	4.0
General revenue:		
Property taxes	2.3	2.5
State foundation allowance	11.0	11.3
Other	-	0.1
Total revenue	18.2	18.6
<b>Functions/Program Expenses</b>		
Instruction	8.9	9.6
Support services	6.0	5.8
Athletics	0.3	0.3
Food services	0.8	0.8
Community services	0.3	0.4
Interest on long-term debt	1.5	1.6
Depreciation (unallocated)	1.1	1.1
Total functions/program expenses	18.9	19.6
<b>Decrease in Net Position</b>	(0.7)	(1.0)
<b>Net Position - Beginning of year</b>	0.8	1.8
<b>Net Position - End of year</b>	<u>\$ 0.1</u>	<u>\$ 0.8</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$18.9 million. Certain activities were fully funded from those who benefited from the programs (\$0.7 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4.2 million). We paid for the remaining "public benefit" portion of our governmental activities with \$2.3 million in taxes, \$11.0 million in state foundation allowance, and with our other revenue (i.e., interest and general entitlements).

# **Parchment School District**

## **Management's Discussion and Analysis (Continued)**

The School District experienced a decrease in net position. Key reasons for the decrease in net position were caused by the School District's desire to maintain current educational programming levels as well as increasing some programming in an ongoing effort to improve student achievement, which also meant an increase in expenses, while the revenue sources remained relatively stable.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

### **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, the governmental funds reported a combined fund balance of \$1.8 million, which is an increase of approximately \$240,000 from last year. The primary reasons for the increase are as follows:

- In the General Fund, our principal operating fund, the fund balance increased \$240,000 to approximately \$1.6 million. The change is mainly due to reducing educational costs while revenues have remained relatively flat.
- The General Fund fund balance is available to fund costs related to allowable school operating purposes.
- In our Special Revenue Fund, the fund balance decreased \$3,227 to \$71,782. The change is mainly due to an increase in the program costs charge to those funds.

Combined, the debt service funds showed a fund balance decrease of \$13,489 from the prior year. Millage rates were held flat in order to adjust the debt service funds balances and utilize the School Loan Revolving Fund. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt service funds fund balances are reserved since they can only be used to pay debt service obligations.

The Capital Projects Fund fund balance increased \$17,235 as the School District's capital improvement plan was implemented to maintain present facilities needs and planned projects.

# Parchment School District

## Management's Discussion and Analysis (Continued)

### General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the School District's original and final budget amounts, compared with amounts actually paid and received, is provided in required supplemental information in these financial statements.

Revisions made to the 2013-2014 General Fund original budget included an decrease in budgeted state revenue of \$454,000 due to an decrease in student count. Budgeted expenditures were increased primarily due to planned facility operations and management.

### Capital Assets and Debt Administration

#### *Capital Assets*

As of June 30, 2014, the School District had \$33.1 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment, net of depreciation. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$0.9 million, or 2.7 percent, from last year.

	<u>2014</u>	<u>2013</u>
Land	\$ 166,778	\$ 166,778
Buildings and building improvements	43,107,754	43,107,754
Buses and other vehicles	1,191,626	1,191,626
Furniture and equipment	<u>6,595,619</u>	<u>6,557,389</u>
Total capital assets	51,061,777	51,023,547
Less accumulated depreciation	<u>17,976,742</u>	<u>17,032,268</u>
Net capital assets	<u><b>\$ 33,085,035</b></u>	<u><b>\$ 33,991,279</b></u>

We anticipate capital additions for the 2014-2015 fiscal year will be higher than the 2013-2014 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

# Parchment School District

## Management's Discussion and Analysis (Continued)

### Debt

At the end of this year, the School District had \$29.6 million in bonds outstanding versus \$30.5 million in the previous year - a change of 2.9 percent. These bonds and other long-term liabilities consisted of the following:

	2014	2013
General obligation bonds	\$ 29,555,000	\$ 30,465,000
Premium on bonds and deferred amount on refunding	159,224	157,564
School loan revolving fund	3,986,531	3,104,774
Other obligations	508,554	626,306
	<u>\$ 34,209,309</u>	<u>\$ 34,353,644</u>

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt is significantly below this statutorily imposed limit.

Other obligations include notes payable, capital lease, and vacation pay and sick leave. We present more detailed information about our long-term liabilities in the notes to the financial statements.

### Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2014-2015 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2015 fiscal year is 10 percent and 90 percent of the February 2015 and September 2014 student counts, respectively. The 2014-2015 budget was adopted in June 2014, based on an estimate of students that will be enrolled in September 2014. Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, School District funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2014-2015 school year, we anticipate that the fall student count will be stable compared to the estimates used in creating the 2014-2015 budget. Once the final student count and related per-pupil funding are validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts.

# **Parchment School District**

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## **Management's Discussion and Analysis (Continued)**

During 2014, the School District settled labor contracts with all of the school bargaining units. The financial impact on 2014-2015 operations is estimated by the School District to be increased expenditures of approximately \$150,000 at this time.

# Parchment School District

## Statement of Net Position June 30, 2014

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 2,500,721
Receivables (Note 4)	2,535,876
Inventories	35,367
Prepaid costs and other assets	97,390
Restricted assets - Cash and investments (Note 3)	66,029
Capital assets - Net (Note 5)	<u>33,085,035</u>
Total assets	38,320,418
<b>Deferred Outflows of Resources -</b>	
Deferred charges on bond refunding (Note 7)	<u>166,118</u>
Total assets and deferred outflows of resources	38,486,536
<b>Liabilities</b>	
Accounts payable	222,450
Accrued payroll and other liabilities	1,373,554
State aid anticipation notes (Note 10)	1,629,282
Accrued interest	232,408
Due to other governmental units	112,001
Unearned revenue (Note 4)	11,849
Long-term liabilities (Note 7):	
Due within one year	1,135,429
Due in more than one year	<u>33,625,710</u>
Total liabilities	<u>38,342,683</u>
<b>Net Position</b>	
Net investment in capital assets	3,237,257
Restricted	71,782
Unrestricted	<u>(3,165,186)</u>
Total net position	<u><u>\$ 143,853</u></u>

# Parchment School District

## Statement of Activities Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenue		Governmental
		Charges for Services	Operating Grants and Contributions	Activities
				Net (Expense) Revenue and Changes in Net Position
Primary government - Governmental activities:				
Instruction	\$ 8,870,332	\$ -	\$ 3,608,244	\$ (5,262,088)
Support services	6,055,335	96,735	20,090	(5,938,510)
Athletics	249,657	60,260	361	(189,036)
Food services	757,200	195,673	571,872	10,345
Community services	348,147	324,635	-	(23,512)
Payments to other public schools	40,753	-	-	(40,753)
Interest	1,544,040	-	-	(1,544,040)
Depreciation expense (unallocated) (Note 5)	1,067,615	-	-	(1,067,615)
Total primary government	<u>\$ 18,933,079</u>	<u>\$ 677,303</u>	<u>\$ 4,200,567</u>	(14,055,209)
General revenue:				
Taxes:				
Property taxes, levied for general purposes				943,666
Property taxes, levied for debt service				1,431,685
State aid not restricted to specific purposes				11,009,720
Other				38,996
Total general revenue				<u>13,424,067</u>
<b>Change in Net Position</b>				(631,142)
<b>Net Position - Beginning of year</b>				<u>774,995</u>
<b>Net Position - End of year</b>				<u><b>\$ 143,853</b></u>

# Parchment School District

## Governmental Funds Balance Sheet June 30, 2014

	General Fund	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 2,461,408	\$ 39,313	\$ 2,500,721
Receivables (Note 4)	2,511,960	23,916	2,535,876
Due from other funds (Note 6)	94,879	144,191	239,070
Inventories	19,406	15,961	35,367
Prepaid costs and other assets	32,906	64,484	97,390
Restricted assets - Cash and investments (Note 3)	66,029	-	66,029
Total assets	<u>\$ 5,186,588</u>	<u>\$ 287,865</u>	<u>\$ 5,474,453</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 245,437	\$ 34,581	\$ 280,018
Accrued payroll and other liabilities	1,373,554	-	1,373,554
State aid anticipation note (Note 10)	1,629,282	-	1,629,282
Due to other governmental units	112,001	-	112,001
Due to other funds (Note 6)	144,191	37,311	181,502
Unearned revenue (Note 4)	11,849	-	11,849
Total liabilities	3,516,314	71,892	3,588,206
<b>Deferred Inflows of Resources -</b>			
Unavailable revenue (Note 4)	57,160	-	57,160
Total liabilities and deferred inflows of resources	3,573,474	71,892	3,645,366
<b>Fund Balances</b>			
Nonspendable:			
Inventory	19,406	15,961	35,367
Prepaid costs and other assets	32,906	64,484	97,390
Restricted - Debt service	-	66,029	66,029
Assigned:			
Capital projects (nonbonded)	-	78,162	78,162
Budgeted use of fund balance in subsequent year	297,650	-	297,650
Unassigned	1,263,152	(8,663)	1,254,489
Total fund balances	<u>1,613,114</u>	<u>215,973</u>	<u>1,829,087</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,186,588</u>	<u>\$ 287,865</u>	<u>\$ 5,474,453</u>

# Parchment School District

## Governmental Funds Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position June 30, 2014

<b>Fund Balance Reported in Governmental Funds</b>	\$	1,829,087
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:		
Cost of capital assets	\$ 51,061,777	
Accumulated depreciation	<u>(17,976,742)</u>	33,085,035
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		57,160
Deferred charges not capitalized in governmental funds		166,118
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:		
Bonds and notes payable including premium/discount and deferred charges	(34,000,427)	
Compensated absences and other termination benefits	<u>(375,000)</u>	(34,375,427)
Accrued interest payable is not included as a liability in governmental funds		<u>(618,120)</u>
<b>Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>143,853</u></b>

# Parchment School District

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2014

	General Fund	Nonmajor Funds	Total Governmental Funds
<b>Revenue</b>			
Local sources	\$ 1,486,843	\$ 1,627,358	\$ 3,114,201
State sources	12,568,873	33,311	12,602,184
Federal sources	372,405	538,561	910,966
Intergovernmental	1,665,717	-	1,665,717
Total revenue	16,093,838	2,199,230	18,293,068
<b>Expenditures</b>			
Current:			
Instruction	8,862,733	-	8,862,733
Support services	6,033,138	-	6,033,138
Athletics	249,657	-	249,657
Food services	-	751,812	751,812
Community services	348,147	-	348,147
Debt service:			
Principal	88,884	910,000	998,884
Interest	10,020	1,416,931	1,426,951
Capital outlay	63,698	161,725	225,423
Payments to other public schools	40,753	-	40,753
Total expenditures	15,697,030	3,240,468	18,937,498
<b>Excess of Revenue Over (Under) Expenditures</b>	396,808	(1,041,238)	(644,430)
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	160,000	160,000
Transfers out	(160,000)	-	(160,000)
School Loan Revolving Fund proceeds	-	881,757	881,757
Total other financing (uses) sources	(160,000)	1,041,757	881,757
<b>Net Change in Fund Balances</b>	236,808	519	237,327
<b>Fund Balances - Beginning of year</b>	1,376,306	215,454	1,591,760
<b>Fund Balances - End of year</b>	<b>\$ 1,613,114</b>	<b>\$ 215,973</b>	<b>\$ 1,829,087</b>

# Parchment School District

## Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2014

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	237,327
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	\$ (1,067,615)	
Capitalized capital outlay	<u>161,371</u>	(906,244)
Revenue is reported in the statement of activities when earned; it is not reported in the funds until collected or collectible within 60 days of year end		8,869
School Loan Revolving Fund proceeds provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of activities		(881,757)
Underwriter's premium net of deferred charges reported as expenditures in the funds and amortized in the statement of activities		(1,660)
Repayment of bond principal and installment notes is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		1,012,752
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid		(115,429)
Compensated absences are recorded when earned in the statement of activities. In the current year, less was earned than paid out		<u>15,000</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(631,142)</u></b>

# Parchment School District

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## Fiduciary Funds Statement of Fiduciary Net Position June 30, 2014

	<u>Agency Funds</u>
<b>Assets - Cash and investments (Note 3)</b>	<b><u>\$ 146,321</u></b>
<b>Liabilities</b>	
Due to student activities	\$ 88,753
Due to other funds (Note 6)	<u>57,568</u>
Total liabilities	<b><u>\$ 146,321</u></b>

# Parchment School District

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## Notes to Financial Statements June 30, 2014

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of Parchment School District (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

#### **Reporting Entity**

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

#### **District-wide and Fund Financial Statements**

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. All of the School District's government-wide activities are considered governmental activities.

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

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

# Parchment School District

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## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the School District's policy is to first apply restricted resources. When an expense is incurred for purposes which amounts in any of the unrestricted fund balance classifications could be used, it is the School District's policy to spend funds in this order: committed, assigned, and unassigned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

**Fund Financial Statements** - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Revenue not meeting this definition is classified as a deferred inflow of resources. For this purpose, the School District considers revenue to be available if it is 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.

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

# Parchment School District

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## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary fund statements are also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental fund:

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

Additionally, the School District reports the following fund types:

**Capital Improvement Fund** - The Capital Improvement Fund is used to account for proceeds of specifically designated resources for construction of major capital projects extending beyond one year. The fund is retained until the purpose for which the fund was created has been accomplished.

**Special Revenue Fund** - The special revenue fund is used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's special revenue fund includes the Food Service Fund. Revenue sources for the Food Service Fund include sales to customers and dedicated grants from state and federal sources. Any operating deficit generated by this fund's activities is the responsibility of the General Fund.

**Debt Service Funds** - The 1998 Series Debt Service Fund, the 2005 Series Debt Service Fund, and the 2007 Series Debt Service Fund are used to record tax, interest, and other revenue for payment of interest, principal, and other expenditures on the respective bond issues.

**Agency Fund** - The School District presently maintains an agency fund to record the transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students. The fund is custodial in nature and does not involve measurement of results of operations.

#### **Assets, Liabilities, and Net Position or Equity**

**Cash** - Cash include cash on hand, demand deposits, and cash management funds.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds."

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note I - Summary of Significant Accounting Policies (Continued)

All accounts and property tax receivables are shown net of an allowance for uncollectible amounts. The School District considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

**Inventories and Prepaid Costs** - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed. United States Department of Agriculture Commodities inventory received by the Food Service Fund is recorded as inventory until used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

**Restricted Assets** - The unspent property tax revenue and related interest of the debt service funds require amounts to be set aside for future bond payments. These amounts have been classified as restricted assets.

**Capital Assets** - Capital assets, which include land, buildings, equipment, and vehicles, are reported in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$10,000, or the State of Michigan's bid threshold for related items purchased in a group, and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and building additions	20 to 50 years
Land improvements	10 to 20 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 10 years

### Note I - Summary of Significant Accounting Policies (Continued)

**Compensated Absences (Vacation and Sick Leave) and Early Termination Benefits** - The liability for compensated absences reported in the district-wide statements consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments at normal retirement age and other employees who are expected to become eligible in the future to receive such payments upon normal retirement are included.

**Long-term Obligations** - In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as debt service expenditures. In addition, related to a previous year debt defeasance, the difference between amounts transferred to the bond escrow agent and the principal balance of debt defeased is reported as deferred charges, netted against bonds payable in the district-wide financial statements, and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Balance** - Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are comprised of the following - nonspendable, restricted, committed, assigned, and unassigned.

In the fund financial statements, governmental funds report the following components of fund balance:

- Nonspendable - Amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- Restricted - Amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- Committed - Amounts that have been formally set aside by the Board of Education for use for specific purposes. Commitments are made and can be rescinded only via resolution of the Board of Education.

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note 1 - Summary of Significant Accounting Policies (Continued)

- Assigned - Intent to spend resources on specific purposes expressed by the Board of Education, superintendent, or assistant superintendent, who are authorized by resolution approved by the Board of Education to make assignments
- Unassigned: Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

**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 future periods and so will not be recognized as an outflow of resources (expenditure) until then. The School District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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

**Comparative Data/Reclassifications** - Comparative data is not included in the School District's financial statements.

### Note 2 - Stewardship, Compliance, and Accountability

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund, special revenue funds, and debt retirement funds. All annual appropriations lapse at fiscal year end.

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

The budget document presents information by fund and function. The budget categories are different from the basic financial statements due to capital outlay being budgeted functionally. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the functional level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The School District changed budgeted amounts during the year in response to more accurate state aid information.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the School District incurred expenditures in the General Fund which were in excess of the amounts budgeted, as follows

	<u>Budget</u>	<u>Actual</u>
Added Needs	\$ 1,538,996	\$ 1,573,557
Business Services	342,650	395,313
Operations and maintenance	1,617,886	1,641,588
Payments to other public schools	25,000	40,753
Community Services	335,438	348,147

### Note 3 - Deposits and Investments

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

The School District has designated up to four banks for the deposit of its funds.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note 3 - Deposits and Investments (Continued)

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. At year end, the School District's deposit balance of \$2,902,272 had \$2,652,272 of bank deposits (checking accounts) that were uninsured and uncollateralized. The School District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**Custodial Credit Risk of Investments** - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District does not have an investment policy for custodial credit risk. At June 30, 2014, the School District had no U.S. agency notes which were uninsured and unregistered and held by a counterparty.

**Interest Rate Risk** - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. The School District's policy does not address ways to minimize interest rate risk. The School District currently holds no investments subject to interest rate risk.

**Credit Risk** - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

### Note 4 - Receivables and Unavailable/Unearned Revenue

Receivables as of year end for the School District's individual major fund and the nonmajor funds consist of the following:

	General Fund	Nonmajor Funds	Total
Receivables:			
Due from other governmental units	\$ 2,474,335	\$ 23,916	\$ 2,498,251
Other receivables	37,625	-	37,625
Total receivables	<u>\$ 2,511,960</u>	<u>\$ 23,916</u>	<u>\$ 2,535,876</u>

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note 4 - Receivables and Unavailable/Unearned Revenue (Continued)

Governmental funds report unavailable revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also report unearned revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of unearned and unavailable revenue are as follows:

	<u>Governmental Funds</u>	
	<u>Deferred Inflow - Unavailable</u>	<u>Liability - Unearned</u>
Grant and categorical aid payments and other unearned revenue received prior to meeting all eligibility requirements	\$ -	\$ 11,849
Grant funds earned but not received within 60 days after year end	57,160	-

### Note 5 - Capital Assets

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

	<u>Balance July 1, 2013</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Transfers</u>	<u>Balance June 30, 2014</u>
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 166,778	\$ -	\$ -	\$ 166,778
Capital assets being depreciated:				
Buildings and improvements	43,107,754	-	-	43,107,754
Furniture and equipment	6,557,389	161,371	123,141	6,595,619
Buses and other vehicles	1,191,626	-	-	1,191,626
Subtotal	<u>50,856,769</u>	<u>161,371</u>	<u>123,141</u>	<u>50,894,999</u>
Accumulated depreciation:				
Buildings and improvements	11,328,136	709,380	-	12,037,516
Furniture and equipment	4,978,746	147,357	123,141	5,002,962
Buses and other vehicles	725,386	210,878	-	936,264
Subtotal	<u>17,032,268</u>	<u>1,067,615</u>	<u>123,141</u>	<u>17,976,742</u>
Net capital assets being depreciated	<u>33,824,501</u>	<u>(906,244)</u>	<u>-</u>	<u>32,918,257</u>
Net capital assets	<u>\$ 33,991,279</u>	<u>\$ (906,244)</u>	<u>\$ -</u>	<u>\$ 33,085,035</u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Due To	Fund Due From			Total
	General Fund	Agency Fund	Nonmajor Governmental Funds	
General Fund	\$ -	\$ 57,568	\$ 37,311	\$ 94,879
Nonmajor governmental funds	144,191	-	-	144,191
Total	<u>\$ 144,191</u>	<u>\$ 57,568</u>	<u>\$ 37,311</u>	<u>\$ 239,070</u>

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Transferred To	Fund Transferred From General Fund
Capital Improvement Fund	<u>\$ 160,000</u>

Interfund transfers from the General Fund are to provide support to the Capital Improvement Fund.

In addition, interfund reimbursement transfers were made from the Food Service Fund to the General Fund in the amount of \$26,071 to reimburse the General Fund for indirect costs related to the food service activities.

### Note 7 - Long-term Debt

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences and other termination benefits.

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>					
Bonds	\$ 30,465,000	\$ -	\$ 910,000	\$ 29,555,000	\$ 1,030,000
Issuance premiums	367,017	-	41,675	325,342	41,675
Deferred outflow of resources - Refunding deferred charges	(209,453)	-	(43,335)	(166,118)	(43,335)
Total bonds payable	30,622,564	-	908,340	29,714,224	1,028,340
Notes payable	181,254	-	88,884	92,370	92,370
Capital lease payable	55,052	-	13,868	41,184	14,719
School Loan Revolving Fund	3,104,774	881,757	-	3,986,531	-
School Loan Revolving Fund accrued interest	259,621	126,091	-	385,712	-
Compensated absences and other termination benefits	390,000	-	15,000	375,000	-
Total governmental activities	\$ 34,613,265	\$ 1,007,848	\$ 1,026,092	\$ 34,595,021	\$ 1,135,429

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

Years Ending June 30	Principal	Interest	Total
2015	\$ 1,122,370	\$ 1,375,802	\$ 2,498,172
2016	1,155,000	1,321,831	2,476,831
2017	1,260,000	1,275,631	2,535,631
2018	1,335,000	1,225,231	2,560,231
2019	1,405,000	1,171,831	2,576,831
2020-2024	8,095,000	4,782,824	12,877,824
2025-2029	5,665,000	3,005,794	8,670,794
2030-2034	6,650,000	1,687,437	8,337,437
2035-2036	2,960,000	211,850	3,171,850
Total	\$ 29,647,370	\$ 16,058,231	\$ 45,705,601

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note 7 - Long-term Debt (Continued)

#### Governmental Activities

General obligation bonds consist of the following:

\$7,715,000 serial bonds due in annual installments of \$915,000 to \$1,085,000 through May 1, 2018; interest ranging from 4.0 percent to 5.0 percent	\$ 4,060,000
\$19,130,000 serial bonds due in annual installments of \$1,130,000 from May 1, 2019 through May 1, 2025; interest ranging from 5.0 percent to 5.1 percent	7,910,000
\$17,770,000 serial bonds due in annual installments of \$115,000 to \$1,500,000 through May 1, 2036; interest ranging from 4.0 percent to 4.75 percent	<u>17,585,000</u>
Total bonded debt	<u>\$ 29,555,000</u>
\$428,290 installment purchase due in annual installments of \$92,370, including interest, through July 9, 2015; interest at 3.92 percent	<u>\$ 92,370</u>

**Capital Leases** - The School District has entered into a lease agreement as lessee for financing the purchase of copier equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Years Ending <u>June 30</u>	<u>Amount</u>
2015	\$ 16,783
2016	16,783
2017	<u>11,189</u>
Total	44,755
Less amount representing interest	<u>3,571</u>
Present value of net minimum lease payments	<u>\$ 41,184</u>

# Parchment School District

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## Notes to Financial Statements June 30, 2014

### Note 7 - Long-term Debt (Continued)

**School Loan Revolving Fund** - The School Loan Revolving Fund payable represents notes payable to the State of Michigan for loans made to the School District, as authorized by the 1963 State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the School District issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board in accordance with Section 9 of Act No. 92 of the Public Acts of 2005, as amended. Interest rates went into effect beginning October 1, 2005 pursuant to Public Act 92. Interest, at a rate ranging from 3.522 percent to 3.534 percent, has been assessed for the year ended June 30, 2013. Repayment is required when the millage rate necessary to cover the annual bonded debt service falls below 7 mills. The School District is required to levy mills and repay to the State any excess of the amount levied over the bonded debt service requirements. The balance of the School Loan Revolving Fund as of June 30, 2014 was \$3,986,531, with an interest rate of 3.522 percent and a mandatory repayment date of May 1, 2042. The total amount of accrued interest at June 30, 2014 is \$385,712.

### Note 8 - Risk Management

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The School District has purchased commercial insurance for health, general liability, and automobile and property damage claims and participates in the Michigan Association of School Boards - School Employers' Trust/School Employers' Group (risk pool) for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

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

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits

**Plan Description** - The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides postemployment health care benefits to retirees and beneficiaries who elect to receive those benefits.

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

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

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

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PPHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
<b>Pension Contributions</b>	15.21 %	15.02 %	15.02 %	12.78 %	12.78 %	12.78 %	15.21 %
<b>Health Contributions</b>	9.11 %	9.11 %	8.18 %	8.18 %	9.11 %	8.18 %	8.18 %
<b>Defined Contribution Plan Employer 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 %

\* First worked September 4, 2012 or later

# Parchment School District

## Notes to Financial Statements June 30, 2014

### Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)

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

	Basic MIP with Premium Subsidy	Pension Plus with Premium Subsidy	Pension Plus PHF*	Pension Plus to DC with PHF*	Basic MIP DB to DC with DB Health	Basic MIP DB to DC with PHF	Basic MIP with PHF
<b>Pension Contributions</b>	18.34 %	18.11 %	18.11 %	15.44 %	15.44 %	15.44 %	18.34 %
<b>Health Contributions</b>	6.45 %	6.45 %	5.52 %	5.52 %	6.45 %	5.52 %	5.52 %
<b>Defined Contribution Plan Employer 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 %

\* First worked September 4, 2012 or later

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

The School District's required and actual contributions to the plan for the years ended June 30, 2014, 2013, and 2012 were \$1,640,000, \$1,342,000, and \$1,299,000, respectively.

### **Note 9 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

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

The School District's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2014, 2013, and 2012 were \$665,000, \$763,000, and \$735,000, respectively.

### **Note 10 - State Aid Anticipation Notes**

On August 20, 2013, the School District borrowed \$885,500 at 1.050 percent interest and \$724,500 at 1.378 percent interest on state aid anticipation notes. The notes, plus interest, are due August 20, 2014. At June 30, 2014, the School District had accrued interest payable of \$19,282 on these notes, making the total liability \$1,629,282 at June 30, 2014. The notes were repaid in full subsequent to June 30, 2014.

### **Note 11 - Subsequent Events**

On August 20, 2014, the School District borrowed \$802,450 at 1.05 percent interest and \$656,550 at 1.235 percent on state aid anticipation notes. The notes, plus interest, are due in August 2015.

# Parchment School District

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## Notes to Financial Statements June 30, 2014

### **Note 12 - Contingent Liabilities**

The School District has been notified of possible property tax receipts received in excess of the proper amounts over a period of time from 1995 to 2006. While it is possible that the School District could be required to repay amounts up to approximately \$315,000, the actual amount it will be required to pay is not known and could be less than the maximum amount in the notification.

### **Note 13 - Upcoming Accounting Pronouncements**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the district-wide statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The School District is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

## **Required Supplemental Information**

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# Parchment School District

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
<b>Revenue</b>				
Local sources	\$ 1,512,500	\$ 1,508,000	\$ 1,486,843	\$ (21,157)
State sources	13,033,783	12,579,724	12,568,873	(10,851)
Federal sources	337,000	361,100	372,405	11,305
Intergovernmental	<u>1,346,500</u>	<u>1,695,596</u>	<u>1,665,717</u>	<u>(29,879)</u>
Total revenue	16,229,783	16,144,420	16,093,838	(50,582)
<b>Expenditures</b>				
Current:				
Instruction:				
Basic program	7,585,536	7,672,865	7,352,874	(319,991)
Added needs	1,610,636	1,538,996	1,573,557	34,561
Support services:				
Pupil	924,635	939,307	912,245	(27,062)
Instructional staff	580,110	645,282	575,691	(69,591)
General administration	402,350	494,150	400,611	(93,539)
Building administration	1,394,550	1,377,950	1,339,483	(38,467)
Business services	416,350	342,650	395,313	52,663
Operations and maintenance	1,494,831	1,617,886	1,641,588	23,702
Pupil transportation	696,135	733,375	680,368	(53,007)
Information management	72,800	89,115	87,839	(1,276)
Athletics	279,829	274,554	249,657	(24,897)
Food services	22,000	22,000	-	(22,000)
Community services	403,238	335,438	348,147	12,709
Interfund reimbursement	(22,000)	(22,000)	-	22,000
Debt service	100,650	96,050	98,904	2,854
Payments to other public schools	<u>20,000</u>	<u>25,000</u>	<u>40,753</u>	<u>15,753</u>
Total expenditures	15,981,650	16,182,618	15,697,030	(485,588)
<b>Other Financing Uses -</b>				
Transfers out	<u>(300,000)</u>	<u>(160,000)</u>	<u>(160,000)</u>	<u>-</u>
<b>Net Change in Fund Balance</b>	(51,867)	(198,198)	236,808	435,006
<b>Fund Balance - Beginning of year</b>	<u>1,376,306</u>	<u>1,376,306</u>	<u>1,376,306</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><u>\$ 1,324,439</u></u>	<u><u>\$ 1,178,108</u></u>	<u><u>\$ 1,613,114</u></u>	<u><u>\$ 435,006</u></u>

## **Other Supplemental Information**

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# Parchment School District

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2014

	Special Revenue Fund	Debt Service Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	1998 Debt	2005 Debt	2007 Debt	Capital Improvement	
<b>Assets</b>						
Cash and cash equivalents	\$ 39,313	\$ -	\$ -	\$ -	\$ -	\$ 39,313
Receivables	23,916	-	-	-	-	23,916
Due from other funds	-	11,417	29,092	25,520	78,162	144,191
Inventories	15,961	-	-	-	-	15,961
Prepaid costs and other assets	64,484	-	-	-	-	64,484
	<u>\$ 143,674</u>	<u>\$ 11,417</u>	<u>\$ 29,092</u>	<u>\$ 25,520</u>	<u>\$ 78,162</u>	<u>\$ 287,865</u>
Total assets						
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 34,581	\$ -	\$ -	\$ -	\$ -	\$ 34,581
Due to other funds	37,311	-	-	-	-	37,311
	<u>71,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71,892</u>
Total liabilities						
<b>Fund Balances</b>						
Nonspendable:						
Inventory	15,961	-	-	-	-	15,961
Prepaid costs and other assets	64,484	-	-	-	-	64,484
Restricted - Debt service	-	11,417	29,092	25,520	-	66,029
Assigned - Capital projects (nonbonded)	-	-	-	-	78,162	78,162
Unassigned	(8,663)	-	-	-	-	(8,663)
	<u>71,782</u>	<u>11,417</u>	<u>29,092</u>	<u>25,520</u>	<u>78,162</u>	<u>215,973</u>
Total fund balances						
Total liabilities and fund balances	<u>\$ 143,674</u>	<u>\$ 11,417</u>	<u>\$ 29,092</u>	<u>\$ 25,520</u>	<u>\$ 78,162</u>	<u>\$ 287,865</u>

# Parchment School District

## Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2014

	Special Revenue Fund	Debt Service Funds			Capital Projects Fund	Total Nonmajor Governmental Funds
	Food Service	1998 Debt	2005 Debt	2007 Debt	Capital Improvement	
<b>Revenue</b>						
Local sources	\$ 195,673	\$ 317,315	\$ 533,717	\$ 580,653	\$ -	\$ 1,627,358
State sources	33,311	-	-	-	-	33,311
Federal sources	538,561	-	-	-	-	538,561
Total revenue	767,545	317,315	533,717	580,653	-	2,199,230
<b>Expenditures</b>						
Current - Food services	751,812	-	-	-	-	751,812
Debt service:						
Principal	-	-	835,000	75,000	-	910,000
Interest	-	395,500	213,300	808,131	-	1,416,931
Capital outlay	18,960	-	-	-	142,765	161,725
Total expenditures	770,772	395,500	1,048,300	883,131	142,765	3,240,468
<b>Excess of Revenue Under Expenditures</b>	(3,227)	(78,185)	(514,583)	(302,478)	(142,765)	(1,041,238)
<b>Other Financing Sources</b>						
Transfers in	-	-	-	-	160,000	160,000
School Loan Revolving Fund proceeds	-	71,642	511,827	298,288	-	881,757
Total other financing sources	-	71,642	511,827	298,288	160,000	1,041,757
<b>Net Change in Fund Balances</b>	(3,227)	(6,543)	(2,756)	(4,190)	17,235	519
<b>Fund Balances - Beginning of year</b>	75,009	17,960	31,848	29,710	60,927	215,454
<b>Fund Balances - End of year</b>	<u>\$ 71,782</u>	<u>\$ 11,417</u>	<u>\$ 29,092</u>	<u>\$ 25,520</u>	<u>\$ 78,162</u>	<u>\$ 215,973</u>

# Parchment School District

## Other Supplemental Information Schedule of Bonded Indebtedness Year Ended June 30, 2014

<u>June 30</u>	<u>1998 Debt</u> <u>Principal</u>	<u>2005 Debt</u> <u>Principal</u>	<u>2007 Debt</u> <u>Principal</u>
2015	\$ -	\$ 915,000	\$ 115,000
2016	-	1,000,000	155,000
2017	-	1,060,000	200,000
2018	-	1,085,000	250,000
2019	1,130,000	-	275,000
2020	1,130,000	-	350,000
2021	1,130,000	-	425,000
2022	1,130,000	-	475,000
2023	1,130,000	-	555,000
2024	1,130,000	-	640,000
2025	1,130,000	-	730,000
2026	-	-	825,000
2027	-	-	915,000
2028	-	-	1,005,000
2029	-	-	1,060,000
2030	-	-	1,160,000
2031	-	-	1,260,000
2032	-	-	1,335,000
2033	-	-	1,435,000
2034	-	-	1,460,000
2035	-	-	1,460,000
2036	-	-	1,500,000
Total principal	<b><u>\$ 7,910,000</u></b>	<b><u>\$ 4,060,000</u></b>	<b><u>\$ 17,585,000</u></b>
Principal payments due	May 15	May 1	May 1
Interest payments due	May 1 and November 1	May 1 and November 1	May 1 and November 1
Interest rate	5.0% to 5.1%	4.0% to 5.0%	4.0% to 4.75%
Original issue	<b><u>\$ 19,130,000</u></b>	<b><u>\$ 7,715,000</u></b>	<b><u>\$ 17,770,000</u></b>